



Everything Jersey

Essex County couple should reconsider retirement date

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Karin Price Mueller/The Star-Ledger

Landry and Claudette have raised three children, and now retirement is their biggest concern. At 58, Landry is nine years older than Claudette, and they're not sure what kind of an impact that may have on their long-range plans.

Landry would like to stop working in two years, and Claudette in only two years behind him.

"We would like to sell our large townhome in New Jersey in 2012 when he retires," says Claudette, 49. "We are currently looking for a small two-bedroom condo in Florida to purchase now and would also like to purchase a 55-plus small home or condo in South Jersey in two years."

They'd like to have the small townhome in South Jersey for the summers.

The couple, whose names have been changed, have saved \$350,000 in Landry's employer-sponsored annuity, \$150,000 in Claudette's 401(k), \$20,000 in a brokerage account, \$11,000 in a money market fund and \$6,000 in checking. Landry expects a \$4,200 monthly pension benefit when he retires, and the couple is already thinking ahead: They took a 20-year term policy on Landry's life so he could take the full pension without worrying about survivor benefits for Claudette.

The Star-Ledger asked Andrew Novick, a certified financial planner with Condor Capital Investment Management in Martinsville, to help Landry and Claudette assess their retirement readiness.

THE SITUATION

Landry, 58, and Claudette, 49, are moving quickly from their empty nest to retirement. They'd like Landry to stop work in two years, and Claudette two years after that. They want to sell their current home, purchase a place in Florida and have a smaller townhome at the ready for New Jersey summers.

NET WORTH

ASSETS

Checking: \$6,000
Money market: \$11,000
401(k): \$150,000
Annuity: \$350,000
Brokerage account: \$20,000
Home: \$550,000
Personal property: \$35,000
Autos: \$20,000
Total assets: \$1,142,000

LIABILITIES

Mortgage: \$350,000
College loans: \$5,000
Car loans: \$7,500

Total liabilities: \$362,500

Total net worth: \$779,500

BUDGET

ANNUAL INCOME

Landry: \$115,000

Claudette: \$135,000

MONTHLY EXPENSES

Income taxes: \$5,500

Housing \$3,358

Utilities: \$880

Food: \$1,150

Personal care: \$320

Transportation: \$655

Entertainment: \$30

Vacations: \$700

Gifts: \$100

Misc.: \$500

THE WAY OUT

The Essex County couple may think they're ready, but they had better not move too soon. While they have Landry's healthy pension to count on, plus Social Security, an early retirement may not give them enough monthly income from their investments to support their lifestyle. Waiting a few extra years and making some changes in their budget would change their outlook considerably.

"My recommendation is for them to give serious thought to altering their retirement plans," says Novick. "The results would certainly be enhanced if they delayed their retirement."

He ran some numbers, first assuming they retired at Landry's age 61 and Claudette's 53. Based on their current portfolio, continued savings until retirement and a 7 percent rate of return (which corresponds to the couple's 50 percent equity and 50 percent fixed-income asset allocation), there's lots of question as to whether or not they'd have enough to support their lifestyle.

They'd have income of \$54,000 from Landry's pension and a \$110,000 one-time investment to make from Claudette's pension plan. They'd also have \$17,000 a year from Landry's Social Security benefits and \$17,000 from Claudette's.

The couple also want to gift \$10,000 to each of their three children at age 30.

Put it all together and the results indicate their portfolio, combined with their pensions and Social Security, should provide a maximum gross income of \$96,041 (in today's dollars) during retirement up to Claudette's age 100.

"We recommend spending less than the maximum since some income taxes will have to be paid out of this amount," Novick says. "This is especially important in their case, as most of their portfolio's assets are tax-deferred."

Assuming a combined average federal/state tax rate of 20 percent on the entire maximum recommended amount, they're left with a net income \$76,832.

"Whether this amount will be sufficient to maintain their desired standard of living is highly questionable as it is substantially below their current budget of \$93,816 excluding taxes," he says.

While their mortgage expense may decline in retirement, Landry's and Claudette's overall housing costs will probably stay at about the same level because it is more costly to maintain two homes.

To illustrate the effects of delaying retirement by a few years, Novick ran the numbers assuming they both retire in 2016.

The assumptions are the same, except Landry's pension would be higher at \$59,000 per year, and his Social Security

would rise to \$20,000 per year.

Novick says this scenario indicates their resources will likely provide a maximum gross annual income of \$106,978 in today's dollars.

"Despite this improvement, their retirement income may still be less than their current standard of living and leaves me wondering if they really have enough financial resources to maintain two homes," he says. "Of course, they should sharpen their pencils and evaluate their budget to see if they feel that this amount of income will be enough."

These are only projections, and the couple should re-evaluate the numbers as they get closer to retirement.

Claudette's asset allocation is invested 80 percent in equities, which corresponds to her "high risk" investor profile.

While this type of allocation provides strong growth opportunities, Novick says, it also comes with a lot of volatility. Since she is only a few years from retirement, he suggests she move to a more balanced 50 percent equity-50 percent fixed-income allocation.

The couple's brokerage account is invested in one stock, and while it's been a stellar performer, Novick feels they don't have enough capital to own individual stocks and they should diversify this account. Considering the relatively small size of this account, they may prefer a single balanced fund or exchange-traded fund, he says.

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