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This couple's big plans call for some savings

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Sam, 42, and Rebecca, 41, are hard-working, self-employed New Jerseyans. They command an income that's probably the envy of many, and they're looking for ways to maximize their assets today.

"We want to pay for college and have enough money for college," says Sam. "We want to live life without pressures."

The couple, whose names have been changed, have also been good savers. They've accumulated \$320,597 in IRAs, \$160,138 in a SEP IRA, \$60,200 in a SIMPLE IRA, \$113,000 in a brokerage account and \$5,000 in checking. They've also set aside \$42,000 in 529 plans for their two children, ages 6 and 3, and they save \$600 a month to those accounts. Additionally, they own an income-producing property in South Carolina.

The Star-Ledger asked Andrew Novick, a certified financial planner with Condor Capital Investment Management in Martinsville, to help the couple review their overall financial plan.

"Based on their expense listing and estimated taxes, it appears they should have about \$100,000 left over for savings," Novick says. "The couple should first maximize contributions into tax-deferred retirement accounts."

And they may need to save that much, Novick says.

Novick assumed Sam and Rebecca want to retire when he's 65 and she's 64, living to age 100, with their portfolio earning a pre-retirement investment of 8.5 percent and a post-retirement return of 7.5 percent. He also assumed 3 percent inflation, Social Security benefits for both of them and a desired retirement income of \$313,000, just like they have today.

"The results indicate that to produce an annual income of \$313,000 from their portfolio, combined with Social Security, they will need to save \$81,693 each year, increased for inflation, until retirement," Novick says.

Because the budget shows they have about \$100,000 available for savings each year based on their current income and expenses, so they can get there.

They should maximize their retirement plans. Sam should save the max to his SEP-IRA, which for 2008 is \$46,000. Also, Rebecca should max out her SIMPLE IRA plan. That limit is \$10,500 for 2008, but Rebecca will only be able to contribute 100 percent of her income, which is \$6,000.

Based on their income, the couple can't contribute to Roth IRAs. Their income and the fact both participate in employer-sponsored retirement plans also means they couldn't deduct contributions to a traditional IRA, but Novick says contributions still may be worthwhile because it's another opportunity to invest with tax-deferred growth.

For college, Sam and Rebecca are saving \$600 a month in 529 plans.

"These college savings accounts are excellent ways to save for college, because all of the earnings grow federal tax-free and usually state tax-free when used for higher education," Novick says.

Despite their high savings rate, Novick says they may need to set aside even more if they want to cover the entire cost, citing data from The College Board's 2006-2007 college costs survey, which says tuition, books, and room and board at a private school averaged \$35,374. Assuming college costs will increase 5 percent per year, Novick says they could need nearly \$300,000 per child for a four-year college education.

Sam and Rebecca are using the Utah plan, but Novick says he usually recommends people use their own state 529 plans to maximize benefits offered to in-state participants. He says they should consider a change to the New Jersey plan, specifically the no-commission NJBest 529 Plan.

They also should consider some mortgage changes. Their Jersey home has two outstanding mortgages at 6 and 6.54 percent, so Novick suggests they refinance, borrowing an additional \$100,000 to help finance a big remodeling job the couple are planning. Novick says they should be able to get a 30-year loan at about 5.75 percent, or a 15-year loan at about 5 percent.

And, finally, considering the value of their current estate and their high savings rate, Novick suggests they make sure they have a will with a credit shelter trust provision to minimize potential state and federal estate taxes.

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