

Thrifty couple plans retirement full of Zumba

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By **Karin Price Mueller/The Star-Ledger**

Nils, 66, and Molly, 61, are halfway there.

Nils stopped working a few years back and now receives Social Security. Molly is hoping to soon join him for retirement. If they have their way, the couple won't be riding matching rocking chairs into their golden years.

"Our retirement will be keeping busy and doing a lot of volunteering work, including preaching work — 50 hours a month — and traveling, gardening and taking some excellent flower pictures," Molly said. "We want to join the YMCA for Zumba class and line-dancing class."

They'd also like to leave an inheritance to their only child.

The couple, whose names have been changed, have saved \$500,000 in 401(k) plans, \$150,000 in a Keogh plan, \$189,000 in annuities, \$25,000 in IRAs, \$26,800 in a brokerage account, \$5,000 in mutual funds, \$50,000 in a money market and \$5,000 in checking.

They also own three properties mortgage-free: their primary home, a rental that pays for itself and a vacation home.

Molly is also expecting a generous pension. If she retires at 62, she will receive \$3,013 per month, plus an additional \$1,045 so-called annuity gap until age 65.

When Social Security benefits kick in at 65, she'll receive the monthly \$3,013 from her employer.

The Star-Ledger asked Andrew Novick, a certified financial planner with Condor Capital Management in Martinsville, to help the couple prepare for full-time retirement.

"Although their pension and Social Security benefits will provide significant post-retirement income, they will still need to rely on their portfolio for supplemental retirement income," Novick says.

To project how long their assets will last, Novick assumed Molly will retire at 62.

He projected a plan through age 99. It was assumed the couple's portfolio would earn an average annual rate of return of 6 percent, which matches their risk tolerance. Inflation was marked at 3 percent.

Novick also assumed Molly would pay off her 401(k) loan at retirement — a requirement with many 401(k) plans.

"The results indicate that their investment portfolio, combined with their pensions and Social Security benefits, will likely be able to provide a maximum gross annual income of \$111,249 in today's dollars during retirement up to age 99 for Molly," Novick says.

While that sounds good, it's less than what they calculated because that income is pre-tax.

"Unfortunately, this is quite a bit below their estimated \$104,500 desired retirement income," Novick says. "Nonetheless, I suspect that they can tweak their budget in retirement in order to stay under the maximum recommended amount."

Novick recommends they spend less, though, because income taxes will have to be paid out of that amount. Assuming a combined average federal/state tax rate of 20 percent on the entire maximum recommended amount, he says, this would leave \$88,999 for yearly living expenses.

The couple's outlook depends in large part on a 6 percent investment rate of return, which corresponds to a conservative 30 percent stock and 70 percent fixed-income target allocation.

Their current portfolio is, essentially, entirely in fixed-income securities, which would mean a lower rate of return. That would reduce the results by at least 10 percent, Novick says.

"History indicates that you need at least a 30 percent equity allocation to provide enough growth to keep ahead of inflation after taxes over the long-term, so I suggest shifting some of their portfolio into equities," he says.

The projections assume they will spend down their principal during their retirement until it is completely depleted.

If leaving an inheritance for their child is very important, they may want to spend less.

Molly has several options regarding her pension payout option, but she's leaning toward the single-life pension benefit because it has the highest benefit.

Novick says Molly understands taking a single-life payout means the loss of all pension benefits at her death, which poses a significant financial risk for Nils.

To make up for the pension loss, she should consider buying more life insurance, which would cover the benefit at her death.

Novick says that after retirement, Molly will have three policies worth \$450,000 of life insurance coverage, which should be enough.

The couple should review these policies to make sure they still suit their needs as time passes.

Novick also took a look at the couple's annuities, a financial product Novick says he generally does not recommend.

"Most annuities come with surrender penalties, which severely limit your ability to withdraw funds for many years," he says. "Although annuities do grow on a tax-deferred basis, distributions out of an annuity receive less-favorable tax treatment since they are considered ordinary income."

Additionally, Novick says the interest rates on fixed annuities are relatively low while the internal expense ratios of variable annuities are quite high, sometimes exceeding 2 percent.

He says the high costs make variable annuities particularly unattractive investment options for IRAs, which are already tax-deferred.

"My preference is to invest in a straightforward manner where you understand how the account is invested, keep investment fees low and can control disbursements out of the account," Novick says.

Finally, he recommends the couple consider long-term care insurance to preserve their assets should one of them need long-term care, which can cost more than \$250 a day.

Get With the Plan is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice. To participate, contact Karin Price Mueller at kmueller@starledger.com.

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