Pair can take steps to make money last

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Rick, 63, is already retired. He and his wife Ally, 56, are concerned about her ability to stop working. They're hoping she can retire in six or seven years.

"We're afraid of running out of money, and we want to be debt-free, including no mortgage," Rick said.

Rick and Ally, whose names have been changed, have saved $450,000 in IRAs, $4,800 in Ally's 401 (k) plan, $65,000 in an annuity, $51,000 in savings and $4,500 in checking.

The Star-Ledger asked Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, to help to couple assess their plans for the future.

"Based on their gross income, income tax liability and total living expenses, it appears that they currently have a surplus of approximately $5,000 per year," said Aznar. "This money should be proactively set aside annually while Ally is still employed."

Aznar recommended the couple consider establishing a Roth IRA, for one or both of them, to which they can contribute annually -- including catch-up contributions, since they are both older than age 50 -- as long as one spouse has sufficient earned income. They'll benefit from future tax-free income from their Roths.

Rick and Ally need to reconsider their asset allocation.

First, they have $56,000 in cash accounts, but they only need $35,000 for an emergency fund. Aznar said they could set aside the rest for home improvements they're planning for next year, so they can redirect the funds to be invested for retirement as part of their diversified portfolio.
Their IRAs, which make up the bulk of their savings, are 100 percent invested in Real Estate Investment Trusts, or REITs.

The couple describe their risk tolerance as moderate, so they may want to consider a portfolio of 50 percent stocks and 50 percent fixed income.

In order to maximize their risk-adjusted rate of return, Aznar said, they should try to invest in a variety of fixed-income vehicles, including short-, intermediate-, high-yield and foreign bonds. They should also vary their equity investments to include large-cap, small-cap and micro-cap stocks, international large and small companies, emerging markets and some -- but not all -- REITs for maximum diversification.

To assess the couple's retirement outlook, Aznar assumed an inflation rate of 3.25 percent, a pre-retirement pre-tax rate of return of 7 percent and a post-retirement pre-tax rate of return of 5 percent. She also assumed Ally will start receiving $23,510 a year in Social Security benefits at age 66.

"Based on all of the assumptions made in the long-term retirement analysis, they will be able to comfortably enjoy their retirement without the need to worry about running out of money," Aznar said.

That's as long as there are no major changes. If living expenses are significantly more than anticipated, if their rate of return is significantly less than projected, or in the event they experience a long-term care situation, they could run through their nest egg faster than anticipated.

To protect their assets, the couple may want to consider long-term care insurance. Given that the average daily cost of a nursing home facility in New Jersey is currently $290, Aznar said coverage could be a worthwhile investment.

"These policies are not inexpensive, but it would be worth looking into the cost of a policy that would cover them in the event of a long-term illness in which either of them needed assistance with activities of daily living, such as bathing themselves, feeding themselves, dressing themselves, etc," Aznar advised.

Life insurance is another consideration. Ally only has $65,000 of coverage, but she needs a total of $225,000. Should something happen to her and Rick loses her income, his long-term financial plan could be at risk.

Aznar said a 10-year term policy would be a fairly inexpensive way to secure the death benefit she needs. After 10 years, Ally probably will be retired and will no longer need life insurance coverage.

Rick doesn't have any life insurance, but Aznar said a small $50,000 10-year term policy should be sufficient.

Finally, the couple should make sure their wills, living wills and powers of attorney are up-to-date, and their beneficiary designations are current.

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