

Accountant says couple's retirement plan OK if they avoid risky investments

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Karin Price Mueller/The Star-Ledger
By

Josh, 60, and Rachel, 64, want to take advantage of their retirement years. Rachel has already stopped working, and Josh would like to quit when he's 66.

"We want to know if we have enough money to retire and live a comfortable lifestyle," Josh says. "We want to be able to have one major trip, perhaps overseas every second year, and enjoyable vacations."

Josh and Rachel, whose names have been changed, have saved \$394,600 in 401(k) plans, \$8,100 in IRAs, \$380,400 in a brokerage account, \$141,600 in certificates of deposit, \$2,400 in a money market, \$26,000 in savings and \$2,500 in checking. At retirement, Josh can count on a pension of \$28,260 per year, in addition to Social Security benefits of \$29,068 at age 66.

The Star-Ledger asked Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, to help the couple see if their assets will support the lifestyle they desire for their retirement years.

"Josh will be able to comfortably retire at the desired age of 66, and they will not have to worry about running out of money during their lifetimes," Aznar says.

That's if the spending and saving information they provided to Get With The Plan is accurate.

For the calculations, Anzar assumed the couple would spend \$75,000 a year in retirement and that their expenses will increase at the base inflation rate of 3.25 percent annually.

"This is equivalent to their current annual spending plus \$15,000 per year to cover potential excess health care expenses in order to be as conservative as possible," she says.

She assumed the couple would pay off their mortgage in 2013 and their home equity loan in 2015, at which time their living expenses would drop by \$16,000 per year. She also assumed they'd spend \$7,500 a year on travel for the first 15 years of retirement.

While the couple has done a good job saving in retirement accounts, Aznar also assumed Josh will max out his 401(k) and also contribute the \$5,000 "catch-up" contribution for those over age 50.

Aznar says there is currently a significant amount of cash in Josh's and Rachel's retirement plans in the form of stable value funds. She recommends they consider being slightly more aggressive with these investments in an effort to seek a slightly higher rate of return on their money.

But overall, they shouldn't take on too much risk.

"At this stage of their lives, I would suggest that their portfolio be invested in a fairly conservative portfolio invested in roughly 50 percent stocks and 50 percent bonds," she says. "Within the equity portion of their portfolio, they should look to have exposure to a wide variety of asset classes for maximum diversification.

They should also pay close attention to investment expenses and try to keep costs as low as possible. The less Josh and Rachel pay in portfolio-related fees, the more they keep in their pockets for their own living expenses.

Their 401(k) portfolio consists of Josh's current plan and a couple of older plans from former employers. Aznar says for administrative ease and to provide them with an unlimited number of available investment options, these could be rolled over to IRAs.

For estate-planning purposes, Aznar suggests the couple make sure their wills are updated and that they have living wills and durable powers of attorney.

They should also make sure to update their beneficiary designation forms for all of their retirement plans and life insurance policies and make sure they mesh with their current wishes.

Insurance is another area the couple should examine.

Their only life insurance policies are those provided by Josh's employer, and that should be sufficient, she said.

But the purchase of long-term care insurance should be seriously considered.

"Unfortunately, the odds are good that at least one of them will require long-term care at some point in the future and the annual average cost for a nursing home in the state of New Jersey is currently \$112,000," Aznar says. "Given that, they should contact a long-term care insurance agent to review their options and decide on the best approach given their specific circumstances."

While they're on the insurance front, they should also review their property and casualty insurance policies to make sure they have all the necessary coverage, plus riders for items such as jewelry or antiques.

And finally, they should make sure to review their credit reports at least once a year to make sure there are no errors and to protect themselves from identity theft.

"They can secure a free copy of these reports from each of the three rating agencies from annualcreditreport.com," she says.

Get With the Plan is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice.

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