Your Money: Spend more in retirement? Here's how

If you save right, you can spend more in retirement. *(Getty Images/iStockPhoto)*

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Frank will turn 60 in a few short weeks, and he and his wife Mary, 57, hope retirement won't be too far in the future.

"With our present investments, savings, pensions and ongoing strategy of reducing expenses, can I retire comfortably at 62 and can my wife retire when she turns the same age?" Frank asks.

The couple plan to spend part of their retirement time in New Jersey and part at their out-of-state vacation home.

The Monmouth County couple, whose names have been changed, have saved well. They have $528,000 in IRAs, $158,000 in 401(k) plans, $70,000 in annuities, $337,000 in a brokerage account, $153,000 in mutual funds, $100,000 in savings and $4,000 in checking.

They also have $216,000 in 529 Plans that were earmarked for their two children, 21 and 25, but the children have not attended college — yet. They're still not sure what education they may pursue in the future.

NET WORTH

Assets:
Checking: $4,000
Savings: $100,000
IRAs: $528,000
401(k): $158,000
Annuities: $70,000
Brokerage Account: $337,000
Mutual Funds: $153,000
College Savings: $216,000
Primary Home: $310,000
Vacation Home: $250,000
Personal Property: $15,000
Autos: $30,000
Total Assets: $2,171,000

Liabilities:
Vacation Home Mort.: $139,600
Total Liabilities: $139,600

Frank is eligible for a $25,884 per year pension if he wants to retire at 60, and at the same age, Mary will receive a $38,808 per year pension.

The Star-Ledger asked Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, to help this couple decide if their portfolio is ready for them to retire.

Aznar says Frank and Mary can comfortably achieve financial independence based on their goals, current resources and planned savings before they retire.

"They indicate that they need to spend $65,000 per year, and they will actually be in a position to spend as much as $95,000 per year — significantly more than what they believe they will need to spend," she said. "I ran the analysis to see how high this amount could go without them having worry about running out of money."

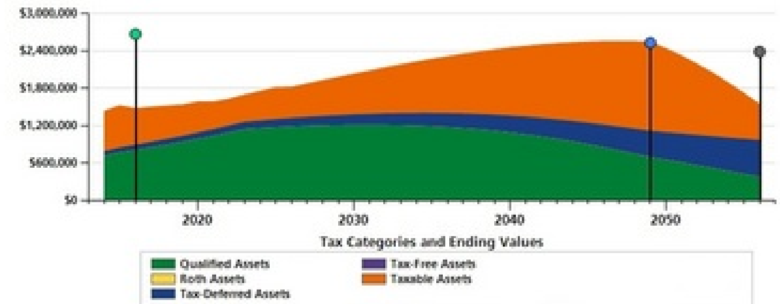
Total Net Worth: $2,031,400

That’s very good news.

After retirement, the couple’s income would come from a combination of their pensions, Social Security and a small amount from their savings and investments. Then after their first few years of retirement, when Frank’s Social Security kicks in, their post-retirement income would actually exceed their retirement living expenses for about eight years, even at the $95,000 per year spending level.

"Their investments and all of their investment income would be able to be left untouched for those years," she said. "Once their living expenses exceed their retirement income — assuming a 3.25 percent rate of inflation on these living expenses — the supplemental income is assumed to come from their investment earnings in the form of interest and dividends."

The Social Security decision is a big one, and Aznar says it will be an important part of this couple’s long-term planning. She recommends they carefully review all their options and not make the common mistake of electing to take benefits as soon as possible without taking into account the long-term ramifications.



A look at how the couple's assets may grow.

Marnie Aznar, CFP

"It can often be a wise decision for the higher earning spouse to delay benefits for as long as possible — until age 70 — in an effort to continue to secure 8 percent delayed retirement credits annually until age 70," Aznar says. "This will also lock in a higher benefit in the event that this spouse predeceases since the survivor would step up to the deceased’s benefit."

Aznar says Frank and Mary need to keep an eye on their investments. They should try to keep expenses as low as possible while they maintain a well-diversified, tax-efficient portfolio.

On the couple’s college accounts and their kids’ future education choices, Aznar assumed any costs would be covered by the assets in the 529 plan. If the kids do not end up needing the money for qualified higher-education expenses, they have a couple of options.

First, they can transfer the money to any family member of the original beneficiary without any income tax implications or penalties, Aznar says. For example, if they want to transfer the funds to future grandchildren, they could do so.

BUDGET

Annual Income:
Frank: $182,000
Mary: $91,000

Monthly Expenses:

Income Taxes: $3,916
Housing: $840
Vacation Home: $1,191
Utilities: $762
Food: $675
Personal Care: $375
Transportation: $751
Medical: $160
Entertainment: $60
Vacations: $333
Charity: $80
Gifts: $25
Misc.: $50

Or they could take the money out for other expenses — but not without a price.

"If the money was withdrawn for anything other than qualified higher education expenses, the beneficiary would need to pay income taxes on any investment growth as well as a 10 percent penalty on this growth," she says.

Right now, Frank and Mary have more money in cash than necessary for an emergency fund. Aznar says that based on their living expenses, they only need to have from $16,000 to $32,000 in cash reserves, which equals three to six months of expenses.

She recommends they use a savings account with **Capital One 360** because it offers a competitive interest rate. Or they could consider a laddered portfolio of short-term Certificates of Deposit to boost returns.

Estate planning is another area the couple should review, making sure they have up-to-date wills and durable powers of attorney for health care and for legal matters. Additionally, they should review all of the beneficiary designation forms on file with the 401(k) plans, IRA accounts and life insurance policies to make sure they have the appropriate designated beneficiaries on these accounts.

Aznar says this couple should also consider purchasing long-term care insurance policies that would pay out in the event that one or both of them needed care or were unable to perform certain "activities of daily living."

"Considering that the average annual cost of a nursing home in the state of New Jersey is approximately $121,180, the necessary daily benefit to cover the full cost would be approximately $332 (per day)," she says. "They should consider purchasing a 5 percent compound inflation rider to ensure that the benefit keeps pace with inflation. Also be sure to purchase from a reputable company."

*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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