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Your Money: Couple ready to flee NJ, but is their money?

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

Ed and Margie are biding their time, and when their youngest child graduates from high school in two years, they want to leave the state.
"It's too expensive in New Jersey," says Ed, 60. "We need to accurately estimate anticipated expenses in retirement to make sure we have enough money to last."
The couple, whose names have been changed, have saved $760,000 in 401(k) plans, $1,500 in savings and $500 in checking. They also have $49,000 in a college account for their youngest of three children.
Ed will receive an annual pension of $20,300 a year, and Margie will receive one worth $51,200 a year.

The Star-Ledger asked ***Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge***, to help the couple determine when they can make the big move to retirement.

"They have been focused on making additional principal payments on their mortgage to reduce the debt when they are ready for retirement," Mott says. "But this has come at the expense of any type of additional savings to be used either for emergencies or the additional goals they have of contributing to their children's weddings, college costs and new cars at some point in the future."
That means the couple have very little in emergency reserves, which won't work.
Mott said they should redirect the extra $1,200 per month they've been using to pay down their mortgage, instead putting it in an emergency fund. Mott recommends they save between three to six months of living expenses, or between $38,235 and $76,470.

Upon retirement, they should consider keeping a year's expenses in liquid, easy-to-access accounts.
Mott looked at their budget and how their expenses would change when they retire, and she used an $85,000 per year annual living expense for when they leave work.
While their pensions will help a lot, much of their success will depend on how they draw Social Security benefits.
While they'd both be eligible to take benefits at 62, Mott says that would reduce their annual benefit by 25 percent for the rest of their lives.
"They would be wise to wait until full retirement age, or use the file-and-suspend strategy to allow Ed's benefit to gain 8 percent for four additional years," Mott says. "This could be especially helpful to Ed were Margie to pass away prematurely and he would be relying solely on his income to meet living expenses."

Mott says if both were to file at 62, they would receive $42,048 annually with a total benefit at 95 of $1.4 million in today's dollars. By waiting to age 66, their annual income would be $55,536 and they would accrue almost $1.7 million by age 95.
Or, using file-and-suspend, Ed would open a claim with Social Security at full retirement age but suspend his benefit, which would then grow at 8 percent a year.
Then Margie, at full retirement age, could take a spousal benefit of $11,604 until she reaches age 70. In the meantime, her benefit will also grow 8 percent a year until she reaches age 70 and switches from a spousal benefit to her own. The net result would be annual income of $68,244 when both reach age 70 and a cumulative benefit of $1.8 million, Mott says.
But of course there are unknowns. Mott says they have to consider their health before making the choice.
Mott looked at several retirement projection scenarios with the different Social Security options and found that their likelihood of success — which is defined as outliving their money — was 92 percent regardless of which filing strategy they use.
If they use the file-and-suspend strategy, they'd be in the 99 percent range, Mott says.
"This means they would be able to fund their expense goals from ages 62 through 66 from the retirement account and not make a significant dent in the assets, which would impact them in the long term," she said. "But controlling expenses is a must."

To provide another test of their financial success, Mott increased their annual living expenses to $100,000. The result was a decline in the probability of outliving their money to 63 percent, so they are going to need to be aware of and track their expenses during retirement to be sure they don’t overspend.

Mott took a look at the 401(k) plans, which are invested in four funds, including a target date fund, giving them an allocation of 57 percent in equities and 42 percent fixed income. But given the couple’s conservative risk tolerance and the fact that they’re nearing retirement, Mott says they should adjust the allocation to a more balanced portfolio.

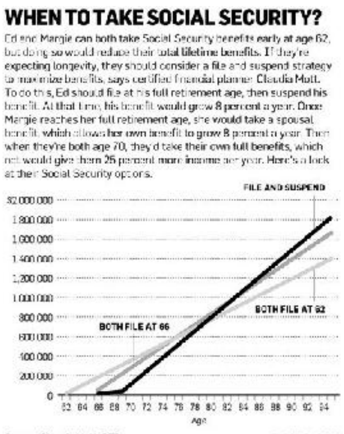
"They should look at the investment options available through the 401(k) platform to see if he could shift money in the Target 2025 fund into a short-term bond or stable value fund, a small-cap blend equity fund and perhaps a smidge into long-term bonds, emerging markets and REITs," Mott says.

Then at retirement, the funds should be rolled over into an IRA which will save on administrative fees and offer the couple a broader selection of investment choices.

Given the pensions and Social Security income, Mott says the couple shouldn’t need to draw from the retirement accounts until age 70½, when they will have to take required minimum distributions.

"Based on their life expectancy of age 90 and 95, their portfolio could well grow to over $2 million with average investment returns of 6.3 percent over the time period," she says.

And given that they want to leave assets for their children someday, and that they don’t have wills, they need to meet immediately with an estate planning attorney to organize their estate.



NET WORTH

Assets:

Checking: $500

Savings: $1,500

401(k): $760,000

College Savings: $49,000

Primary Home: $500,000

Personal Property: $150,000

Autos: $15,000

Total Assets: $1,476,000

Liabilities:

Mortgage: $152,400

Car Loans: $9,700

Total Liabilities: $162,100

Total Net Worth: $1,313,900

BUDGET

Annual Income:

Ed Salary: $130,000

Ed Bonus: $20,000

Margie Salary: $90,000

Monthly Expenses:

Income Taxes: $2,939

Housing $4,990

Utilities: $910

Food: $1,105

Education: $1,025

Personal Care: $260

Transportation: $1,775

Medical: $570

Entertainment: $60

Vacations: $250

Charity: $1,170

Gifts: $350

Pet Care: $30

Misc.: $250

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***.