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Your Money: Secure your own retirement before gifting assets to family and charity

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Tad, 68, and Wendy, 65, have raised three children, and now they're focusing on retirement. Huge on their to-do list is preserving their assets so they can leave something behind for their children.

"We have deferred collecting Social Security for Wendy until she reaches age 70. We have applied for spousal benefits in its place," Tad says. "We will withdraw from my IRA to cover any income shortfall."

They also want to leave their bodies to science, specifically to the UMDNJ cadaver donation program.

The couple also plans to convert assets from Tad's IRA to a Roth IRA while they're in a lower tax bracket, and they want to gift assets to minimize their estate's exposure in the event they ever need Medicaid.

The couple, whose names have changed, have saved $562,000 in IRAs, $27,400 in a brokerage account, $4,000 in savings and $2,000 in checking.

The Star-Ledger asked **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**, to help the couple plot out their retirement years.

"Unlike many retirees in their 60s, they are not afraid of outliving their money," Mott says. "They feel that they lack for nothing with their current sources of income and want to continue to share the wealth with their family and selected charities."

Right now the couple relies on two pensions and Social Security. They used the "file and suspend" strategy, so Wendy receives a small benefit, but at 70, her monthly benefit will boost to $2,292. Mott says by age 76, she will have collected more in benefits than she would have if she received her own benefits at age 66.

With annual living expenses of approximately $42,660 and income of $61,100 projected for 2014, there's a positive pre-tax cash flow of just over $18,000.

"Over the next few years, their cash flow is going to continue to grow along with their incomes," Mott says.

When Wendy receives the higher benefit and they start taking required minimum distributions from IRAs, they'll have extra cash of more than $40,000 a year.

The couple enjoys giving to charities, but before they begin any type of regular charitable giving, Mott says they should be sure they have what they need for the future.

First, the emergency fund for unanticipated expenses, surprise repairs or unexpected purchases, she says. The couple only has $6,000 in cash accounts, so Mott recommends the couple earmark most of this year's excess cash flow to build up those balances. Ideally, they should have a year's worth of expenses in a liquid fund.

One of Tad's goals is to have the couple's final wishes taken care of long before they're gone. For that reason, Mott says they may want to consider a pre-paid funeral, or to make sure to set aside funds meant for this purpose.

"Leaving an estate that is entirely made up of IRAs will make it difficult for their executors to cover these types of expenses," she said.

The couple also had interest in long-term care insurance. The average cost of an assisted-living facility in North Jersey is about $78,000 per year, and a semi-private room in a nursing home can cost more than $110,000. While it is impossible to know if Tad or Wendy might need care, they should consider how they'd pay for it.

"There are a variety of long-term care insurance options that might cover a portion or all of the care they need, but premiums can be high," Mott says. "Making a decision about how to meet possible long-term care costs is essential before they create a gifting plan and potentially give away assets they might want to use for this purpose."

Mott also looked at their IRAs, which are invested in the Vanguard Target Retirement 2025 fund, which is made up of four Vanguard Index funds: Total U.S. Stock Market, Total International Stock, Total U.S. Bond, and Total International Bond.

"Target retirement funds make it easy for people to get a diversified asset allocation at a low cost," Mott says. "The investments will become more conservative as the investor approaches retirement."

Still, the portfolio is invested more aggressively than it needs to be, but whether or not they make changes, Mott says their retirement should be successful. That's because the couple isn't relying on investment income for their cash flow.

Still, they can lower risk and increase return by using some additional low-cost Vanguard products to invest in small-caps, REITs, emerging markets and world bond areas.

Tad has been converting some of the traditional IRAs to Roths over the past few years while their income tax rate was below 15 percent, and Mott likes the strategy.

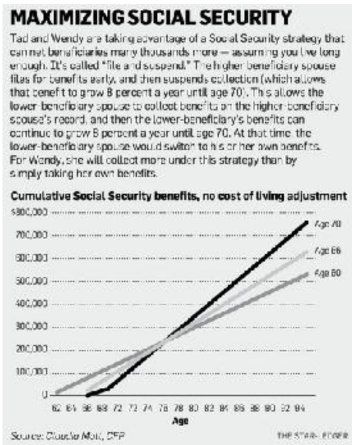
"Although you pay income taxes in the year the conversion is completed, the money in the Roth can continue to grow tax-free and will not be taxed when withdrawn," she says.

And because Roth IRAs have no required distributions, assets can transfer to children or grandchildren with the benefit of years of potential appreciation.

To get their estate planning ducks in a row, they should make sure to have up-to-date wills, living wills or health care directives and powers of attorney. They need to talk to UMDNJ to make sure they complete any necessary paperwork for the cadaver program.

They should also create a listing of all their accounts, including account numbers, online user names and passwords, and any other account information — including for social media sites — so their heirs can take care of business.

Once they have their emergency fund solidified and they consider long-term care insurance options, they can move on to consider how and when they want to gift their assets to relatives and favorite charities.



NET WORTH

Assets:

Checking: $2,000

Savings: $4,000

IRAs: $562,000

Brokerage Account: $27,400

Primary Home: $375,000

Second Home: $50,000

Personal Property: $35,000

Autos: $15,000

Total Assets: $1,070,400

Liabilities:

None

Total Liabilities: $0

Total Net Worth: $1,070,400

BUDGET

Annual Income:

Tad Social Security: $18,832

Tad Pension: $8,040

Wendy Pension: $29,444

Wendy Social Security: $4,832

Monthly Expenses:

Income Taxes: $395

Housing $1,100

Utilities: $345

Food: $440

Personal Care: $250

Transportation: $240

Medical: $260

Entertainment: $190

Vacations: $360

Charity: $140

Gifts: $70

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