## This Couple Needs Your Advice

By Kerry Pechter Thu, Jun 15, 2017

These two people, ages 64 and 63, have a combined net worth of about $\$ 2.5$ million. They're looking for ways to generate income in retirement. Here are some specifics about their finances. What would you recommend?


A friend, now 64 years old and near retirement, recently asked me for suggestions about income planning. Despite relatively ample savings and real wealth, he and his wife aren't sure if they can afford to stop working for the next 20 years or more.

Though not members of America's "one percent," this self-employed professional couple is comfortable. They hold some $\$ 1.2$ million in brokerage accounts at one of the big regional firms. They own two homes, valued at $\$ 1.23$ million and $\$ 435,000$.

The couple likes and trusts their current broker/advisor. Their well-diversified accounts have been growing. But the broker can't answer detailed questions about the amount of fees they pay. For future income, she offered just one suggestion, that they invest $\$ 400,000$ in one of her own firm's variable annuities, which offers a living benefit and deferral bonus.

How would you advise this couple? As a broker, advisor or planner, how you would solve their "case" based on the rough numbers provided in the boxes below? We'd like to hear about solutions that would help them:

- Build a safe bridge from now to retirement, minimizing sequence of return risk.
- Fill the gap between their desired retirement income and income from existing guaranteed sources.
- Cover their sons' graduate school expenses if necessary.
- Travel abroad each year in early retirement.
- Maintain their homes, both built in 1989.
- Generate $\$ 50,000$ to $\$ 70,000$ per year from savings.
- Protect this healthy, active couple from longevity risk.
- Assure a legacy of $\$ 500,000$ or more per child.

Here are a few essential facts about the couple, whom will call "Andrew" and "Laura." They earned a combined $\$ 303,000$ last year from their business ( $\$ 200,000 \mathrm{AGI}$ ), which they will shut down when they retire. They also earned $\$ 27,600$ from renting their second home. Andrew is 64 years old and plans to work until age 70 (while reserving the right to retire earlier).

Laura is 63 years old and would like to start working part-time immediately, which will reduce the couple's income. Starting at age 65, she'll begin receiving $\$ 585$ per month from a pension that has an optional lump-sum value of $\$ 85,000$. They have long-term care insurance.

Andrew and Laura will have a significant shortfall in guaranteed retirement income. They expect to receive a combined $\$ 60,000$ each year in Social Security benefits if they both claim at full retirement age, but $\$ 81,000$ if they both claim at age 70 . They will also receive about $\$ 7,000$ from Laura's pension. They would like a total of $\$ 140,000$ in real pretax retirement income. So they have an "income gap" of $\$ 50,000$ to \$70,000.

Here's some of the data Andrew and Laura provided:

| Current Asset Allocation | Amount | Pct. |
| :--- | ---: | ---: |
| Classes | $\$ 49,500$ | $4 \%$ |
| Cash and cash investments | $\$ 340,000$ | $27 \%$ |
| Fixed income <br> (Index funds, ETFs and actively managed funds. <br> Largest single position: DoubleLine Total Bond, <br> $\sim \$ 100,000)$ |  |  |
| Equities <br> (Index funds, ETFs and actively managed funds in <br> all sectors and style boxes. Largest single <br> position: Apple, $\sim \$ 90,000$ ) | $\$ 745,000$ | $60 \%$ |
| Alternatives | $\$ 60,500$ | $5 \%$ |
| Other | $\$ 44,000$ | $4 \%$ |
| Total | $\$ 1,239,000$ | $100 \%$ |


| Qualified Accounts |  |  |
| :---: | :---: | :---: |
| Andrew's qualified accounts |  |  |
| Traditional IRA |  | \$52,000 |
|  | Equities, \$52,000 |  |
| SEP-IRA |  | \$415,000 |
|  | Equities, \$168,000 |  |
| Roth IRA |  | \$88,000 |
|  | Equities, \$95,000 |  |
| Laura's qualified accounts |  |  |
| Traditional IRA |  | \$60,000 |
|  | Equities, \$65,000 |  |
| SEP-IRA |  | \$341,000 |
|  | Equities, \$103,000 |  |
| SEP-IRA |  | \$146,000 |
|  | Equities, \$146,000 |  |
| Roth IRA |  | \$104,000 |
|  | Equities, \$116,000 |  |
|  |  |  |
| Total qualified |  | \$1,206,000 |


| Assets |  | Expenses/liabilities |
| :---: | :---: | :---: |
| Real estate |  |  |
| Primary residence | \$1,230,000 | Annual mortgage $\$ 20,500$ $(\$ 248,000$ balance @ $2.8 \%$, payoff $11-2013)$ |
| Second home | \$435,000 |  |
| Retirement savings |  |  |
| Qualified Assets | \$1,206,000 | Living expense(Utilities, insurance, travel, <br> personal expenses, entertainment, <br> supplies, gifts, fuel, etc.)倍 |
| Other | \$33,000 | Out-of-pocket medical \$8,500 |
|  |  | Taxes |
| Personal property | \$50,000 | Income taxes $\$ 72,600$ <br> Self-emp. tax $\$ 29,000$ <br> Medicare tax $\$ 8400$ |
| 2008 sedan | \$10,000 |  |
| 2013 SUV | \$17,000 |  |
|  |  | Still owed on SUV \$10,000 |
| Total assets | \$2,981,000 | Liabilities \$583,000 |

What would you tell Andrew and Laura to do? Take systematic withdrawals? Practice the $4 \%$ rule? Use time-segmentation or buckets? Set up a bond ladder? Buy immediate and/or deferred annuities? Luckily, their level of savings gives them (and you) a lot of options.

Submit your income planning ideas by July 1, 2017. Be as specific (given the limits of the data) or as general as you wish. Explain how you would be compensated and provide a ballpark figure of annual advisory and investment costs. Tell us what type of broker, advisor or planner you are, what licenses/degrees/designations you have and how you usually get paid. We'll publish your suggestions in a future issue.
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