
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 we will call "Andrew" and "Laura." They earned a combined \$303,000 last year from their business (\$200,000 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		
Classes	Amount	Pct.
Cash and cash investments	\$49,500	4%
Fixed income (Index funds, ETFs and actively managed funds. Largest single position: DoubleLine Total Bond, ~\$100,000)	\$340,000	27%
Equities (Index funds, ETFs and actively managed funds in all sectors and style boxes. Largest single position: Apple, ~\$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	Annual mortgage	\$17,900 (\$325,000 balance @ 3.6%, payoff 10-2046)
Retirement savings			
Qualified Assets	\$1,206,000	Living expense	\$70,000 (Utilities, insurance, travel, personal expenses, entertainment, supplies, gifts, fuel, etc.)
Other	\$33,000	Out-of-pocket medical	\$8,500
		Taxes	
Personal property	\$50,000	Income taxes	\$72,600
2008 sedan	\$10,000	Self-emp. tax	\$29,000
2013 SUV	\$17,000	Medicare tax	\$8,400
		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.