

Well-off, but worried about retiring soon

Money Manager/by Karin Price Mueller

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Problem:

After years of saving for retirement, Paul and Mary want to make sure they're going to have enough money after Paul stops working in three years.

The North Shore couple, whose names have been changed for publication, came to the Herald for help in preparing for their golden years.

"I think we're close," says Paul, 60, a computer programmer for a financial services company. "But we waste a lot, spend a lot."

Paul's income of \$87,500, and Mary's \$5,000 annual income from Social Security, covers most of the couple's expenses.

The big-ticket item: They carry two mortgages on two properties. The first, with \$81,000 remaining, is on the home in which they live. They also own another home in town, which Mary, 68, inherited many years ago. They have a \$70,000 balance on that mortgage.

Paul and Mary also have home equity loans on both properties, worth \$18,500 and \$60,000 respectively. The proceeds from the loans were used to pay for college educations for their three children.

The loans eat up a substantial amount of income each month: \$2,400 for the mortgages and \$300 for the home equity loans. The couple also pays \$675 per month for property taxes and insurance, and approximately \$200 per month for maintenance.

The upside of all the expenses is that they receive \$1,400 per month in rental income from the second property.

"For now, we'll keep the house," Paul says. "But we may sell it for retirement."

The couple has been working hard to find other income sources for retirement, which they hope will allow travel, learning to golf and camping in northern New England.

Paul saves 15 percent of his salary to his 401(k) plan, to which his employer matches 50 cents on the dollar up to 6 percent. The account, worth \$72,100, is invested 100 percent in mutual funds: 65 percent in his company's stock index fund, 10 percent in an S&P 500 fund, 15 percent in an international index fund and 10 percent in a conservative index fund.

Paul also has a balance of \$86,400 in a previous employer's plan, which is 100 percent invested in an index fund. From the same employer, Paul expects to receive a monthly pension of \$1,796 when he retires. He also expects to receive a pension from his current job, worth approximately \$375 a month.

Paul and Mary have Individual Retirement Accounts invested in Fidelity Growth Company. Paul's is worth \$24,337, and Mary's is worth \$4,803.

The couple also has nonretirement investments. They inherited a stock portfolio worth \$211,315, invested in companies including Verizon, IBM, BellSouth, SBC Communications and AT&T. Paul and Mary keep the stock certificates themselves instead of using a brokerage account. They plan to keep the stocks no matter what happens in the market, and they plan to pass the shares on to their children some day.

They also have some liquid assets, with three checking accounts totaling \$2,800 and a certificate of deposit worth \$1,200.

"I don't feel like we have enough cash," Paul says. "I'd like to have more for emergencies."

In addition to their mortgages and home equity loans, the couple has \$4,500 of credit card debt on a card that charges no interest until next year. They plan to pay that debt, which was racked up when they hired a painter to paint their rental home, before interest charges build. They also have one payment of \$721 left on their car loan.

Solution:

Couple needs more cash

The years of saving have set Paul and Mary up for a comfortable retirement. "They're on the right track," says Al Wroblewski, a certified financial planner based in Cambridge. "The biggest plus is that they have multiple income sources for retirement."

The more income sources you have, the more you spread the risk, Wroblewski says, and that's just what Paul and Mary have done. When they decide to retire, they can collect Paul's pensions, Social Security, take distributions from two 401(k) plans and two IRAs, plus continue to get rental income from their property. But the couple's work isn't done, he says. Though they have lots of assets from