GET WITH THE PLAN

Personal-finance professionals offer readers a financial road map

The situation

Henry and Marion, both 51, have undertaken a major life change since 9/11. They quit their corporate jobs to start careers in social work, lowering their income but giving them more time to spend with their two children, ages 15 and 14. The couple now feel behind in retirement and college savings, and they are not sure what steps to take next.

Net worth

ASSETS

Checking	$2,170
IRAs	$28,730
401(k)	$322,390
College savings	$43,730
Home	$700,000
Timeshare	$17,000
Rental properties	$405,000
Property/autos	$55,000
TOTAL ASSETS	$1,574,020

LIABILITIES

Mortgage	$393,000
Rental properties	$229,000
TOTAL LIABILITIES	$622,000
TOTAL NET WORTH	$952,020

Budget

ANNUAL INCOME:

Henry: $58,000
Marion: $58,000
Rental income: $45,000

MONTHLY EXPENSES

Income taxes	$750
Housing/utilities	$3,835
Rental properties	$3,700
Food	$1,800
Personal care	$320
Transportation	$520
Medical	$300
Entertainment/vacations	$640
House cleaning	$200
Landscaping	$100
Miscellaneous	$205

The way out

The Morris County couple are taking on too much undiversified risk, with more than half of their retirement savings in three stocks and a significant part of their net worth in rental properties. To lower their expenses, they should consider reallocating their savings and possibly selling a property or two. Working until age 65 instead of age 60 would also be wise, so the couple can take advantage of their full pensions.

ASSET ALLOCATION

Henry and Marion need some serious asset allocation changes. For starters, their portfolio is overwhelmingly invested in large-cap stocks, at more than 83 percent of their assets. Of that amount, 73 percent are in financial stocks, which means the couple are taking on far more risk. They should instead diversify to other asset classes and keep a larger allocation in cash. The cash should be held in non-retirement accounts for emergency purposes.

	CURRENT	PROPOSED
Cash	3.00%	5.00%
Large cap	83.13%	30.00%
Mid cap	2.13%	15.00%
Small cap	4.45%	10.00%
International	0.00%	15.00%
Bonds	7.27%	20.00%
Other	0.00%	5.00%

THE STAR-LEDGER

SOURCE: Douglas Duerr, CFP and CPA/PFS

After career changes, couple face reality

BY KARIN PRICE MUELLER
STAR-LEDGER STAFF

Henry and Marion pushed aside the material world so many New Jerseyans work hard to join. After 9/11, they quit their corporate jobs, pursued what they call "more meaningful" jobs in social work and changed their lifestyle, spending more time with their children and spending less time worrying about their financial future.

"When we both made our career changes, we recognized the financial investment it would require," says Marion, 51. "Now that our children are 15 and 14, however, panic has set in."

Marion says their lifestyle change was one of choice, but it dramatically altered their earnings and savings, and they had to subsidize their income with personal savings and money from an inheritance. They moved from an affluent community to a more modest one. Now, they see retirement lurking, and they're worried about paying for their kids' college educations.

Marion and Henry, whose names have been changed, have $322,390 in 401(k) plans, $28,730 in IRAs, $43,730 in a brokerage account that's earmarked for college savings and $2,170 in checking. They also will both receive pensions, the value of which will depend on when they decide to retire. They also own two rental properties and a time-share.

The Star-Ledger asked Douglas Duerr, a certified financial planner and certified public accountant with Duerr & Duerr in Montville, to help the couple make the most of their resources.

"Most people are settled into their careers in their mid-40s, but that is when they made a drastic change," Duerr says. "This had a huge impact on their annual earnings and has required them to rethink how they need to plan for retirement, college expenses and their overall daily expenses."

One concern is college for their kids. The couple have set aside $43,730 in a brokerage account, but Duerr says the cost for both children to attend a state university will run close to $150,000. To afford this, the couple would have to save $610 per month.

If the children were to attend a private university, the total costs could be as much as $355,000, which translates into savings of $2,408 per month. Both of these calculations assume their investments will earn 8 percent annually and a college inflation of 6.5 percent a year. Duerr says Henry and Marion should try to set aside as much as possible, but they shouldn't let it jeopardize their retirement, because the children can always take out loans for tuition, but you cannot take out a loan for retirement.

Duerr is more concerned the college money isn't in a 529 plan, and this account is virtually the only liquid asset they have, so in essence, it's also their emergency fund. Should they lose their jobs or, worse, become disabled, they would have to draw from these funds. Duerr says another problem is the majority of the funds are invested in individual securities.

"They should consider keeping a larger portion of these assets in cash," Duerr says. "Even though they will not earn much interest, the assets will be more stable."

Their asset allocation problems extend to their retirement savings, with nearly three-fourths of their overall asset allocation invested in three holdings — all financial stocks.

"The recent downturn in this sector has decreased the value of their overall retirement portfolio," he says. "They need to better diversify these holdings."

Henry and Marion own a time share and two vacation properties — one purchased earlier this year. Duerr says he's concerned if they cannot rent these properties, they will have to cover the overall carrying costs.

"They are currently overextending themselves with their various real estate holdings," he says. For retirement, the couple plan to sell one vacation property and their New Jersey home. Duerr says this is not a bad plan, but it is risky, given their situation and other investments.

The couple hope to retire at 60. Duerr says this is going to be difficult, given their career changes. They won't be eligible for full pensions from their jobs until age 65. Duerr suggests they work longer.

Get With the Plan involves readers anonymously divulging their personal financial information in exchange for free advice. Readers may contact Karin Price Mueller at kmueller@starledger.com.