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Can These Retirements Be Saved?

We invited readers to tell us about the cracks in their nest eggs. Here's a look at several who asked for 'retirement makeovers'—and what the experts recommend.

By KELLY GREENE

Trying to figure out how to repair your nest egg in the wake of the market turmoil? Join the crowd.

Earlier this fall, we invited readers to share with us their questions and concerns about their financial future. The responses were painful: Individuals and couples who had worked diligently for decades to prepare for later life now find themselves asking how to start over.

We paired several respondents with financial planners from across the country. Each individual or couple received two assessments. The subjects provided a good look at their income, holdings, expenses and goals; the experts, in turn, recommended investments and steps that our readers hadn't considered.

The good news: Every one of our participants has a shot at a successful retirement. The hard part: Some people will have to work longer than they had hoped, or move someplace cheaper, to make their money last.

Are you in the same position as some of these struggling investors? Do you see hope in their retirement makeovers? Take a look.

Donna McCann Unemployed at 61

BACKGROUND: After getting divorced two decades ago, Ms. McCann worked her way up from drugstore technician to director of a pharmaceutical-billing department wrangling reimbursements for drugs supplied to nursing homes and managing a staff of six. She lost her job in September 2008 following a company buyout. She recently completed a few software and accounting classes.

CHALLENGE: If Ms. McCann hasn't landed a job by April, when she turns 62, can she afford to quit looking for work, and instead draw her income from Social Security and investments? What if she leaves Metuchen, N.J., and moves to North Carolina, where living expenses are generally lower? Meanwhile, how can she jump-start her job search?

BALANCE SHEET: Ms. McCann owes $25,000 on her mortgage and thinks she could sell her house for $250,000. Before she lost her job, her income was $78,000 a year. She has saved about $190,000 in individual retirement accounts and other investments and has about $45,000 in cash. She expects her monthly expenses in New Jersey to be about $3,100 a month; in North Carolina, $1,950. If she starts collecting Social Security at age 62, she expects to get about $1,100 a month.

ADVICE: Moving south is Ms. McCann's best bet. Retiring in New Jersey with her existing assets at age 62 "is simply not feasible," says Cary Carbonaro, a certified financial planner with offices in Huntington, N.Y., and Clermont, Fla. If Ms. McCann can sell her home for $250,000, she can buy a home for a bit more than $100,000 in North Carolina and add $100,000 to her savings after paying off her current mortgage. Then, if she invests that sum at a 4% average rate of return, her monthly income would get a $333 boost.

Even if Ms. McCann lands a job in New Jersey in the same pay range as before and works until she turns 66, she may want to move south upon retirement, Ms. Carbonaro adds. That's because Ms. McCann would still be lacking about $800 a month to meet her expenses, using a relatively high 6% annual withdrawal rate from her investments.

Ms. McCann also needs to simplify her investments. Her five retirement accounts and two brokerage accounts are too much to handle, says Dan Casey, a senior asset manager with Bridgeriver Advisors LLC in West Bloomfield, Mich. Plus, nearly 20% of her money overall is invested in small-cap funds—"a pretty aggressive sector, and one I wouldn't recommend being in at your point in life," Mr. Casey says.

To make the portfolio a bit less risky, he suggests selling $34,000 of those small-cap holdings and replacing them with a diverse group of bond exchange-traded funds. When Ms. McCann retires and wants to start generating income from the portfolio, he suggests tweaking it further to include "conservative investments such as preferred shares, [more] exchange-traded funds and closed-end mutual funds invested in bonds or

high-dividend stocks," which he predicts could generate roughly $18,000 a year in income.

Ms. McCann is also holding too much in cash to keep up with inflation, Ms. Carbonaro says. She suggests reducing the cash position to 10% from 35% and raising fixed-income holdings to 55% of the portfolio, from just over 3% currently.

The planners also urged Ms. McCann to ask the Social Security Administration to calculate a monthly benefit based on her ex-husband's earnings record. Divorced spouses generally are eligible for such benefits if they were married at least 10 years and the other spouse is at least 62 and eligible for Social Security. The question for Ms. McCann: Will the benefit based on her ex-husband's earnings record be more than the benefit based on her record? If so, her monthly check could be bigger, too.

As for the job search, Ms. McCann's experience with prescription-drug reimbursement is a valuable asset, according to two veteran headhunters at New Directions Inc., an outplacement firm in Boston. "You should stretch your mind a little bit about this skill set you have," says Samuel Pease, a New Directions vice president. "Hospitals, group medical practices, oncology centers, nursing homes, retirement villages—there are a number of places that are buying drugs for which you would be ideally suited."

One other note: Mr. Casey thinks Ms. McCann should make long-term-care insurance a "high priority," since she's single and recent changes in the law have made it tougher to qualify for Medicaid. He estimates that basic coverage would cost about $1,400 a year. He recommends such coverage for "anybody who's single or widowed," and for most people with more than $300,000 in assets.

Ann and Tom Barry
Student Loans at 50

BACKGROUND: For the first 15 years they were married, Ann and Tom Barry traveled with Broadway musicals as an electrician and a carpenter, respectively. After Sept. 11, 2001, such productions scaled back, and the couple settled in Knoxville, Tenn. Ms. Barry, 50, went back to school and became a forensic accountant. Mr. Barry, 49, is a custom cabinet maker and ski patroller.

CHALLENGE: Can the Barrys afford to retire in 10 years if they work part time after that, and replace their current home with two condos—possibly in Montana and Florida—worth the same amount? How should they pay off Ms. Barry's $50,000 in student loans? And does their managed investment account make sense for them?

BALANCE SHEET: The Barrys have IRAs and after-tax savings totaling about $320,000—including one managed account of mostly individual stocks that has plummeted 50% in value to $126,000 in the past two years. Their house is mortgage-free and worth about $300,000. Neither spouse has a 401(k) plan or a pension.

ADVICE: The Barrys' first goal should be to pay off their three student loans, says Helga Cuthbert, a certified financial planner in Decatur, Ga. They can do so within three years with about $1,500 a month, making the largest payments on the loan with the highest rate first. When the loans are paid off, they should add that $18,000 a year to the $12,000 a year they already are saving, for a total of $30,000 a year, she says.

They have a decent shot at retiring at age 60, Ms. Cuthbert says, as long as they do three things: meet the $30,000-a-year savings target until then; continue working part time after 60 for several years to cover living expenses of $2,500 to $3,500 a month; and invest their savings so that they earn an average 6.5% a year. If they hit all three of those goals, the Barrys would have an 80% chance of having their money last throughout their lifetimes. That assumes that they live to be 95 and start taking Social Security at age 62, she adds.

In contrast, Chris Long, a certified financial planner in Chicago, recommends that they keep working full time until age 67—also making IRA contributions, and then working part time after that. He thinks they face a chance of running out of money in retirement and need to bolster their savings.

About their IRA contributions: Both planners advise the couple to start contributing the maximum allowed to Roth IRAs (currently $5,000 a year for each of them plus an additional $1,000 apiece annually at age 50 and over), rather than traditional IRAs. That way, their retirement withdrawals would be tax-free. The planners also

recommend replacing their current investments—particularly their individual stock holdings, on which they are paying fees of almost 2% a year in some cases—with lower-cost index mutual funds.

Finally, Ms. Cuthbert recommends that the Barrys evaluate the purchase of long-term-care insurance as part of their overall insurance plan every year.

Jackie and Steve Johnson
Sandwiched

BACKGROUND: Ms. Johnson, age 54, is a lawyer who owns a small business managing clinical-research trials. Mr. Johnson, 57, sells computer-networking systems and security equipment. They live in Wichita, Kan., and have two children in college.

CHALLENGE: Can they afford to retire at ages 65 and 68 while also laying out a considerable sum to help Ms. Johnson's 76-year-old mother, who expects to need financial assistance?

BALANCE SHEET: The Johnsons have a combined annual income that averages around $140,000, about $600,000 in retirement savings (primarily mutual funds invested in large-cap U.S. stocks), $70,000 in cash and a house valued at $275,000 that's almost paid for. They also try to save about $20,000 a year combined in her simplified employee pension and his 401(k).

Overall, about two-thirds of their current investments are in equities.

ADVICE: The Johnsons are in decent financial shape, but they need to diversify their holdings, says Barry Kaplan, a certified financial planner in Atlanta. Mr. Kaplan suggests adding some midcap and small-cap stock funds to lower their risk through diversification. These have the potential to deliver better returns, helping the couple build up their assets and putting them in a stronger position to help Ms. Johnson's mother.

Of course, those sectors can also be riskier than big stocks, so Mr. Kaplan suggests adding some stability to the portfolio with bond funds, such as Vanguard Group's Short-Term Bond Index and Inflation-Protected Securities funds.

Clark Randall, a certified financial planner in Dallas, suggests that the Johnsons reduce their equity holdings to about 50% of their current investments from two-thirds. He also advises them to pursue a strategy that delivers better income than large caps—and gives them more assets to make ends meet—while offering stability. His suggested portfolio: long-term bonds, real-estate investment trusts that aren't publicly traded, and regulated hedge funds, such as the Calamos Market Neutral Fund and the Merger Fund.

As for Ms. Johnson's mother, Mr. Randall suggests that the Johnsons could buy her house by setting up a mortgage between themselves, with no lender involved. Over the next 25 years, the Johnsons would pay Ms. Johnson's mother about $9,500 annually for the place—about what they're spending now on their children in college, both of whom are expected to finish within two years.

But there's a risk here. Mr. Randall is counting on the house more than doubling in value in the next 25 years to $400,000, at which point the Johnsons could sell it and fold that money into their savings. If the house doesn't appreciate enough, the Johnsons have a slimmer chance of making their money last throughout retirement.

Both planners think the Johnsons need long-term-care insurance. "My very rough rule of thumb is that if your net worth is less than $500,000, you can't afford [the premiums]. If it's north of $3 million, you can self-insure," Mr. Kaplan says.

To cover the average cost of daily care in Kansas, Mr. Kaplan suggests buying a policy that pays at least $150 a day. It should also include "inflation protection," meaning the payments rise with inflation, along with a "shared care" rider, meaning one spouse could tap benefits left unused by the other, he says.

Michael and Mary Fettinger
Postpone the Date?

BACKGROUND: Mr. Fettinger, 55, is the director of controlling for Robert Bosch LLC, an automotive supplier, and Ms. Fettinger, 56, is a medical biller. When they relocated to the Detroit area in 2007, they sold a four-bedroom home in La Porte, Ind., and now lease a three-bedroom townhouse.

CHALLENGE: The Fettingers originally planned to retire at ages 56 and 57, but after seeing their investments fall in value, they decided to postpone it for a year—and want to know if they should push it later. They also plan to travel for a few years and then build a home (designed to let them age in place) in Bloomington, Ind., where they have family and can attend college classes. They'd like to know if it makes more sense to take out a mortgage or pay cash for that house.

BALANCE SHEET: The Fettingers have about $1.32 million in savings and are shooting for $100,000 in income each year in retirement. Mr. Fettinger will get a $40,000-a-year pension, and the couple will get roughly $30,000 a year in Social Security (starting at age 62). They expect to build a home costing $325,000, about $250,000 of which they may finance.

ADVICE: The Fettingers should put off retirement until Mr. Fettinger turns 60, according to certified financial planners Kenneth Butze of Shaker Heights, Ohio, and Gary Cotter of Sun City Centre, Fla. Health-insurance costs are the big reason. Although they can keep Mr. Fettinger's corporate coverage, they have to pay 104% of the current cost until he turns 60. At that point, Bosch pays 75% of the bill until he turns 65 and qualifies for Medicare.

A mortgage in retirement might make sense for the Fettingers, because most of their savings are in tax-deferred retirement accounts, the planners say. If the couple pays cash for a house in their early 60s, they would have to use a large portion of their after-tax savings, leaving them less flexibility in how they tap savings on which they will owe tax at the time of withdrawal, Mr. Cotter says.

To remove the stress of carrying mortgage debt in retirement, Mr. Butze suggests using money the couple has been putting into savings bonds to buy $250,000 in life insurance. That way, if either spouse died at a time when the couple's investments were performing poorly, the survivor could use the payout either to pay off the mortgage or to cover a few years of expenses. (They already have long-term-care insurance.)

The Fettingers also should consider converting part of their after-tax retirement accounts to a Roth IRA after Jan. 1, when the $100,000 income limit for such conversions is dropped, Mr. Cotter says. Again, doing so would make them less vulnerable to future income-tax increases, since Roth IRA withdrawals are generally tax-free after the holding requirements are met.

The couple should also consider paring their 55-plus investments to no more than a dozen so that they're easier to track, Mr. Butze says.

Mike and Roberta Nadel
Still On Track After a Layoff?

BACKGROUND: Mr. Nadel, 49, was laid off as a sports columnist for a chain of newspapers in January—with no severance pay. He is freelancing and collecting unemployment. His wife, 48, a registered nurse, switched jobs the previous month to a lower-paying, but more satisfying, position at a children's hospital.

CHALLENGE: Will the Nadels be on track for retirement at ages 60 and 61, even if Mr. Nadel continues to freelance instead of returning to work full time? They are renting their home and would consider moving somewhere with a lower cost of living.

BALANCE SHEET: The Nadels have about $925,000 in savings, including about $546,000 in investments. Mr. Nadel expects to receive two pensions starting at age 65 (from past jobs) totaling about $1,900 a month. Last year, Mr. Nadel made $94,000, but this year he's expecting to make only about one-third of that, and when his unemployment runs out next spring, his annual income from freelance assignments could fall to between $12,000 and $15,000 a year. Ms. Nadel expects to make about $60,000 this year, down from about $70,000 in 2008. The couple is renting a house for about $2,000 a month, and don't expect to buy a home unless they relocate.

ADVICE: Mr. Nadel either needs to find a way to make more money in the next decade, or the couple should push

out their retirement a few years to be safe, according to Julie Schatz, a certified financial planner in Menlo Park, Calif., and Charles Farrell, an investment adviser in Denver.

Given current income and savings projections, waiting until ages 62 and 63 to retire would give the couple a 90% chance of making their income last 30 years, Ms. Schatz says. And if Mr. Nadel finds a way to boost his preretirement income in the near term to between $35,000 and $45,000 a year so they can, in turn, stay on track with their savings, the couple could still retire at ages 60 and 61 with their desired income of $70,000 a year (in today's dollars), Mr. Farrell says.

If the Nadels decide to buy a home, the planners are split on the best way to handle the expense. Mr. Farrell recommends paying off any mortgage before they retire to make it easier to live off their investment income later on. In contrast, Ms. Schatz prefers that they use $100,000 of their savings to make a down payment, and then finance the rest of the cost—up to $200,000—with a 30-year mortgage. That way, they can invest the money they'd otherwise put into principal as a hedge against potentially rising inflation.

The planners agree that Mr. Nadel should reallocate his portfolio, including dumping four individual stocks, currently worth about $76,000 and representing about 9% of the couple's net worth, and replace it with index funds. "Particularly if they buy a house, the portion of money in six companies becomes a bigger bet," Ms. Schatz says. "I'd like to see it under 5%."

The planners also recommend that the Nadels secure long-term-care insurance by the time they retire, which could add $6,000 to $10,000 a year to their costs.

"Mike and Robert have all the characteristics of being able to do this," Mr. Farrell says. "But they've had a major restructuring in the past year. Now, they need to keep a tight focus on their budget to make sure they can still save at the same levels."

Curtis Green
The Home Stretch

Background: Mr. Green, a 60-year-old fraud investigator for the state of Texas who lives near Dallas, plans to retire at age 66, when he can claim his full Social Security retirement benefits, along with his maximum pension and employee health benefits (both available starting at age 65).

CHALLENGE: Is Mr. Green's IRA invested well, or could he boost its performance in the next several years with some other investment strategy?

BALANCE SHEET: Mr. Green is vested in a state pension plan that currently would pay him $605 a month—but will double those payments if he waits to retire at age 65. His IRA has a value of about $110,000 and is invested in a "professional advisory account" that charges 1.3% of the total account value each year to buy and sell mutual funds on his behalf. He deposits 3% of his monthly paycheck into a 401(k) account that currently has a value of $10,500 (also under professional management). He expects to need about $3,000 a month for living expenses in retirement. Mr. Green also has a 6.875% mortgage with a $66,000 balance and $580 monthly payment. He pays $56 a month for a $75,000 term life-insurance policy, mainly so his five children could use it to pay off his mortgage.

ADVICE: Mr. Green should be fine with a little belt-tightening all around, according to certified financial planners Scott Hanson of Sacramento, Calif., and Pete Bush of Baton Rouge, La.

First, he should ditch the IRA's professional advisory account, they say. He could replace the advice he's getting now by phone for the same cost—or less—with a fee-only financial planner who would meet with him one-on-one at least once a year and provide retirement projections in addition to portfolio management. Mr. Green could also handle his investments on his own for a few years, implementing one of two portfolios suggested by Mr. Hanson using low-cost mutual funds, and hire a financial planner down the road. But Mr. Bush recommends also checking in with an adviser at least once a year for financial-planning advice, so that Mr. Green's portfolio gets rebalanced when his life changes, "as opposed to a static 70/30 mix that doesn't reflect his situation."

Mr. Hanson worries that Mr. Green's $3,000 monthly budget for expenses in retirement is too low, because it's a

significant drop from his current take-home pay of $4,670. To that end, the planners recommend that he step up his savings now. Mr. Green could increase his monthly 401(k) contribution to 5% of income from 3%, and at the same time reduce his income taxes, Mr. Bush says.

He also recommends that Mr. Green pay off his mortgage over the next six years either by adding $560 a month in extra payments or by refinancing to a 15-year mortgage around 4.25%, which would save him $6,000 (before the refinancing costs). Mr. Hanson suggests another approach: refinancing with a 30-year mortgage that has a fixed interest rate for seven years. Assuming Mr. Green can get a 4.5% rate, meaning a monthly payment of $1,118 (including extra principal), he could pay off the loan at age 66.

Mr. Green's life insurance could be problematic: The term runs out—and the premiums will almost undoubtedly increase—shortly after he retires. Mr. Hanson recommends dropping the policy, along with paying down the mortgage, or trying to replace it with a policy with guaranteed premiums.

In retirement, Mr. Green will need more cash reserves as well, "since everything you will take out of your IRA and 401(k) will create an additional tax bill in the year you take it," says Mr. Bush. If Mr. Green saves $130 a month over the next six years, it will amount to nearly $10,000. "Put it on auto draft just like your 401(k); it's out of sight and out of mind," he says.

Larry and Irena Kaiser
Switching Gears

BACKGROUND: Mr. Kaiser took early retirement in 2003 at age 54, got married and moved to Australia. Now 61, he and his 53-year-old wife have moved back to the U.S. But the buyout of his share in a hotel business is in doubt, the 5% interest rate he was earning on savings has fallen to about 1.5%, and he has determined that he underestimated their annual living expenses after returning to the U.S. by 10%, he says.

CHALLENGE: The Kaisers want help getting back on track after finding that "nothing worked out as I had planned in advance," Mr. Kaiser says. Ideally, they would like to sell their Boston condo and buy a home in the same price range "somewhere warm." Also, Mr. Kaiser wants to get a handle on their finances so they will last for his younger wife.

BALANCE SHEET: The Kaisers have about $800,000 in cash and investments. Mr. Kaiser is earning about 2% a month on $350,000 in stocks by selling covered calls and puts (a strategy he learned from a cousin who had a seat on the New York Stock Exchange). They hold $365,000 in online money-market accounts earning 1.3%, as well as about $60,000 in a checking account to cover bills. Mr. Kaiser's hotel-partnership share is earning $50,000 a year. Altogether, their income has totaled about $92,000 a year, basically equal to their expenses. But in the past year, lower interest income has made that tougher, Mr. Kaiser says.

In one year, they expect to start collecting $13,000 in Social Security, and in five years Mr. Kaiser will qualify for Medicare. They also own a condo worth about $750,000.

ADVICE: To generate enough income and outpace inflation, the Kaisers need to invest more of their total savings in something other than money-market accounts and certificates of deposit. Glenn McKinney, a financial adviser with Lincoln Financial Securities Corp. in Safety Harbor, Fla., and Long Beach, Calif., suggests using a target-distribution strategy to invest part of the cash. A company such as Russell Investments, Tacoma, Wash., could build a portfolio for the Kaisers to produce lifetime income. "It's like having your own private pension plan," he says.

Mr. McKinney also suggests moving part of the $365,000 from money-market funds into conservative short-term bond funds "that can give you two to three times what you're getting now."

Matthew Tuttle, a certified financial planner in Stamford, Conn., agrees that more of the couple's assets should be invested, but he suggests a do-it-yourself approach: Mr. Kaiser could invest on his own in tactical mutual funds designed to deliver consistent returns. To help spread the risk, Mr. Kaiser should choose a few different tactical funds, which he could evaluate using Morningstar Inc. data to "look at what their style is, what they do and how much flexibility they have," he says. "The beauty of the past year is that you can look and see the worst-case scenario."

To help the Kaisers get started figuring out where to move, Mr. McKinney suggests using the Web site bestplaces.net, which can help them compare expenses in Boston with other cities. "You can go in there and say, 'This is where we live now, and this is where we're thinking about going,' and find out the difference in the cost," he says.

Valentino Piermarini
Stung by the Markets

BACKGROUND: A stroke forced Mr. Piermarini, 68, to retire in 2003 from his career as a pilot flying corporate jets. At that point, he sold a house in Florida and now rents part of a home in Santa Barbara, Calif.

CHALLENGE: After watching his investment accounts fall more than 33% in value in the past two years, Mr. Piermarini is afraid to withdraw the $2,000 a month he had been counting on to supplement his income. He's seeking help reconstructing his portfolio so he feels comfortable making withdrawals again.

BALANCE SHEET: Mr. Piermarini receives $55,000 a year from a military pension and Social Security. He has $282,000 in assets in a taxable investment account, $245,000 in an IRA and $100,000 in a bank certificate of deposit with a three-month term earning 0.9% interest.

ADVICE: Mr. Piermarini is in better shape than he thinks, since he has two reliable sources of income, Social Security and a pension, along with veterans' health benefits. But there are ways his investments might generate more income.

Barry Picker, a certified financial planner and certified public accountant in Brooklyn, N.Y., notes that about one-third of Mr. Piermarini's IRA and brokerage account are in cash, meaning "it's not invested at all." Mr. Picker suggests putting that money in bonds, which would keep the retiree in a 50/50 mix between equities and fixed income, he says, and provide a better hedge against potential inflation.

Much of Mr. Piermarini's other fixed-income holdings are preferred stocks, which Mr. Picker also recommends shifting to bonds.

One easy thing Mr. Piermarini could do to boost his return is to shop for a higher interest rate for his $100,000 CD, says Jay LaMalfa, a certified financial planner in Parsippany, N.J. And to reliably drum up $2,000 a month in income, he suggests investing part of the nest egg in either a single-premium immediate annuity or a variable annuity with an income guarantee. Mr. Piermarini could get at least $1,600 a month by buying a $240,000 immediate annuity, for example. (You can get a quick snapshot of immediate-annuity returns at immediateannuities.com.)

Variable annuities are more complicated, and carry higher fees and penalties for early withdrawals—but also have the potential, at least, for higher returns. The most important thing to look for is an insurer with a strong industry rating, since the insurer guarantees the payments, Mr. LaMalfa says.

He suggests two variable annuities that are available in California from insurers with relatively strong ratings. One, Ohio National Life Insurance Co.'s ONcore Lite variable annuity, guarantees 5% growth on the income base each year. If the investments inside the annuity were to tank, the income base is converted to an immediate annuity. Perspective Advisors II, offered by Prudential PLC's Jackson National Life Insurance Co., also guarantees 5% growth, and it continues the income at the same payout level if the principal erodes, Mr. LaMalfa says. Both have total fees of more than 2%.

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