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Unconventional Retirement Strategies for Baby Boomers

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The residential real estate market reached its peak price level between October 2005 and April 2006. Prices have dropped by over 50%. The stock market reached its peak in October 2007. The market crashed to below 50% and despite the spring, 2009 rally, is still down about 40%. The nation's June 2009 unemployment rate reached 9.5%, a 26-year high. This article will examine alternatives to conventional behavior.

Case Study: A married couple, both age 55, no longer has to pay for college as the last kid has moved out. Each spouse earns \$60,000/year and combined family income is \$120,000/year; income taxes paid are \$25,000; savings are \$5,000/year. There are no old-fashioned company pension plans. They had an investment portfolio worth \$250,000, all in the stock & bond markets, but now it's worth \$150,000. They purchased their 4 bedroom home in 2002 for \$250,000 and now it's worth \$250,000. The challenge is to create a retirement plan for them.

1. Most want to retire early and over 2/3 take Social Security early at age 62. One must now consider 70 the realistic retirement age. For every year one holds off after age 62, one's Social Security retirement income increases by 6-8%. At age 70, you will receive almost double what the age 62 benefit is.

2. Open your house to 2 roommates, who each pay \$500/month to cover rent & utilities. Overseas students in science and engineering are especially quiet, as they are always at school for 10-12 hours/day. The impact of \$1,000/month, invested in a retirement account at

5%/year return, in 15 years, is \$267,288.

3. Refinance to a 15-year mortgage so that the house will be free and clear by age 70. This also acts as a forced savings plan.

4. Cut down on annual car expense. It's not unusual that a couple with this income is spending \$1,000/month on a car loan or lease. If one used the "Millionaire Next Door" strategy of buying used cars and driving them until they collapse, one could save at least \$5,000/year. In 15 years, at a 5% return, this would be \$107,892.

5. Save an extra \$10,000/year. In 15 years, at a 5% return, this will be \$215,785.

6. Start a side business that nets \$10,000/year. My experience is that a side business will save at least \$5,000/year in taxes, based on thousands that have attended my 1-day tax seminar. The \$10,000 net profit can be put in a retirement account, where it can grow tax-deferred. With a total of \$15,000/year benefit, counting the tax savings, earning 5%/year, the total in 15 years will be \$323,678. My consultations with Baby Boomers often cover what types of side businesses to start.

7. Stop risking one's money in the stock market and establish a private supplemental retirement account. Certain contracts are modeled after Social Security where one receives lifetime income. If one put \$100,000 in an account today, the couple could be guaranteed a 6-8%/year growth in their



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actuarial balance. At age 70, the couple could receive as much as a \$19,033 annual retirement income, for as long as they live.

8. By age 70, the total funds accumulated from steps #2-6 are \$914,643. If one then establishes a supplemental retirement account, one can get as high as a 7.13% cash flow for life, starting at age 71. This would be \$65,195/year.

In summary, one would have \$84,228/year of retirement income in addition to one's Social Security of at least \$50,000/year. The reason this retirement plan prescription is unconventional is because virtually no one does any of the steps mentioned. This couple has to adjust to the realities of repeated stock market crashes and a depressed job market.

Author: Dr. Harold Wong earned his Ph.D. in Economics from UC Berkeley and passed the CPA exam in 1979. Through his seminars, publications, and consultations, he helps Seniors and Baby Boomers maximize retirement income and reduce taxes.

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