

## **A LAST MINUTE CHANGE OF PLANS**

Joan contacted us in the winter of 2014. She was not a tax client and we had never met.

But her life had just been turned upside down. Peter, her husband of 30 years had filed for divorce. That's a surprise no woman should have to address a few short years before retirement.

She explained her concerns. She didn't want to work forever and, in her current job, would probably not be allowed to. How could she retire comfortably? When could she retire comfortably? Could she maintain her current lifestyle in retirement?

She explained that she would be heading to Europe and Africa on her dream vacation and didn't want to deal with anything until she got back. We understood.

In June she contacted us and we began the process.

The first thing we needed to talk about was her goals. Besides the ones listed above, she wanted to stay close to her two grown sons and their children, who did not live nearby. That became important when we discussed the possibility of her selling her house.

Joan had a very good job, making about \$170,000 per year. Peter also had a very good job. But they had lived beyond their means. Their retirement savings were about the same as their mortgage balance. At that stage in their lives, their retirement savings should have been at least a million dollars and their mortgage should have been paid off years before. We had work to do.

We were not surprised to discover that Joan was putting very little into her 401K at work. As a result, she had only about \$350,000 in her retirement accounts and had been overpaying her taxes for years. (She had been doing her own tax returns, so no one had pointed out to her just how much she was overpaying her taxes each year).

After we had had some great conversation and really gotten to know Joan's goals and fears (and had shared a few tissues), we scheduled another meeting and adjourned.

Joan's job was in finance, so she was no stranger to the topics at hand. Over the next week she sent us more information, including details on pensions from previous employment as well as her social security statement.

A couple weeks later we met to present the financial plan and the retirement income projection. Her situation was not nearly as dire as we had originally feared.

But she had to make some changes.

First of all, she had to fully fund her 401K and stop overpaying her taxes. How could she afford to do that, she asked? She couldn't afford not to do that we responded.

She also needed to sell her house and get something smaller. Her current house payments as well as the upkeep of a big house were really hurting her. We discussed house prices in Park City, crunched some numbers, and determined that the sale of the house would produce a down payment on her new house of \$175,000. If she bought a \$400,000 house, she would have a manageable mortgage payment.

Joan was somewhat resistant to getting a house so small that her kids and grandkids could not all stay there when they visited. We asked her to think very carefully about how to weigh that emotional goal against her ultimate financial security. We suggested that perhaps she could get a small house near a hotel.

Besides maxing out on her 401K, Joan needed to save an extra \$9,000 per year until she retired at age 65 or 66. She asked if that meant putting money into a savings or investment account. We suggested that she pay down her mortgage at least an extra \$9,000 per year instead so that she would have no mortgage when she retired.

Her high paying jobs over the years meant that she could look forward to substantial social security checks. In fact, if she waited to collect social security at age 70, she would get \$41,000 per year (in today's dollars) for as long as she lived.

Her pensions from previous jobs were not substantial, but they helped tip the balance toward a high probability of success in achieving her goals.

We talked about a few more things, including estate planning. Joan was not naïve; she had already replaced Paul's name with her sons' names on all beneficiary designations. Still, we urged her to consult with an estate planning attorney and reminded her that one of us would attend the meeting to be sure that the estate plan was consistent with the financial plan and with all we knew about Joan.

After a few more tissues Joan exclaimed, "I could not have done this on my own." She left the meeting with far less uncertainty and far more peace of mind. She had work to do. But she knew that she now had a high probability of achieving her goals.