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Affording Retirement and Home Renovation

BY AUSTIN KILHAM

After buying a fixer-upper house, a baby-boomer couple wondered whether they could afford the renovations on the home without jeopardizing their retirement.

"When most people reach this stage in life they find their homes too big and are looking to downsize," says Dan White, president of Daniel A. White and Associates, a Glen Mills, Pa., firm that manages $82 million in assets for 370 clients.

But this couple found themselves in a more complicated situation: They had purchased the home jointly with their 39-year-old son, who was unable to afford the down payment on his own. The wife's 89-year-old father was also living in the home's in-law apartment. All told, three generations were living in the home.

Under the arrangement, the son was paying the mortgage, property tax and utility bills. The clients had funded the down payment and also promised to pay for a kitchen update.

The couple had decided to buy the home to help both the older and younger generations, but found themselves reluctant to take on debt or jeopardize their retirement savings for the remodel. "They came to me concerned about which accounts to pull the renovation money from, and whether they would have enough for retirement," Mr. White says.

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Mr. White dug into their retirement income in search of a solution—and found a way to make the renovation and retirement possible.

The husband, 65, recently had retired and his wife, 64, still was working and hoping to retire in the next two years. Her income covered their current living expenses. For their retirement, the couple had the husband's pension, Social Security and $100,000 saved in the husband's 401(k).

Mr. White's first recommendation was for the couple to take the pension in a $700,000 lump sum, rather than in monthly payments. He advised that they then roll it into fixed annuities to use when they were both retired. The strategy would provide about $56,000 in income per year in their retirement. But unlike annual pension payments, it allowed them to pass any remaining money in the annuity to their son after their deaths.

The pension benefits, supplemented by the couple's Social Security, were enough to cover their retirement expenses. So Mr. White turned to $100,000 that the husband had saved in his 401(k). He suggested they withdraw $40,000 from the account, putting $30,000 toward the kitchen renovation and using the rest to pay the taxes on the withdrawal.

Initially, the couple was anxious about taking money from their 401(k) savings. But once Mr. White showed how they could cover their retirement expenses with their pension benefits and Social Security, they understood that using other assets to renovate the kitchen wouldn't put them at financial risk.

Mr. White says it is the adviser's job to help clients understand the financial implications of the choices they make—and to show that they don't need to hesitate to achieve their goals.

"While this family's setup wouldn't work for everyone, there are many couples out there nearing retirement that would benefit from thinking outside the box to make the most of their savings," he says. ■

Since 1987, Glen Mills-based Daniel A. White & Associates has been helping families secure their finances so they can enjoy their golden years. For more information, please call 610-358-8942.

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