Makeovers

FIVE FAMILIES START FRESH

by SARAH MAX AND DONNA ROSATO *Photographs by* MILLER MOBLEY

THE 10-YEAR PLAN Scott and Michele Groth hope to retire just after their younger daughter, Sydney, finishes college. See their story on page 106.

MAKEOVERS

TIME TO KICK BACK
To fund a long retirement, the Schillings need to invest in stocks.

CRAVING SAFETY AS RETIREMENT COMES INTO SIGHT

Paul and Linda Schilling 60 AND 59, CORAL SPRINGS, FLA.

OCCUPATIONS: TOGETHER OWN AND OPERATE A UPS STORE FRANCHISE

GOALS: TO MAKE SAVINGS LAST IN RETIREMENT AND AFFORD FREQUENT TRAVEL

TOTAL INCOME	TOTAL ASSETS
$134,000	$905,000*

PREVIOUS SPREAD: STYLING BY TIFFANY HICKS; HAIR AND MAKEUP BY LISA WILLIAMS. THIS SPREAD: STYLING BY HOLLI KINGSBURY; HAIR AND MAKEUP BY JENNIFER CRUZ

FOR PAUL AND LINDA Schilling, retirement will be a welcome return to a regular life. In 16 years of managing a successful UPS store six days a week, the couple have rarely been able to take more than a day off work at a time or see their favorite Florida Gators college football team play, never mind plan a real vacation. "We want to travel while we're still healthy," says Linda. They would like to retire in six years—or sooner—and hope to begin taking two big trips a year.

With retirement in sight, though, the ups and downs of the stock market are making them nervous. "After clawing our way back from the crash, we've become much more conservative," says Paul. And how. Their once stock-heavy portfolio—which had lost 65% of its value at one point during the 2007–09 downturn—is now almost all in cash. The couple aren't sure how to give themselves some potential for growth without taking on too much risk.

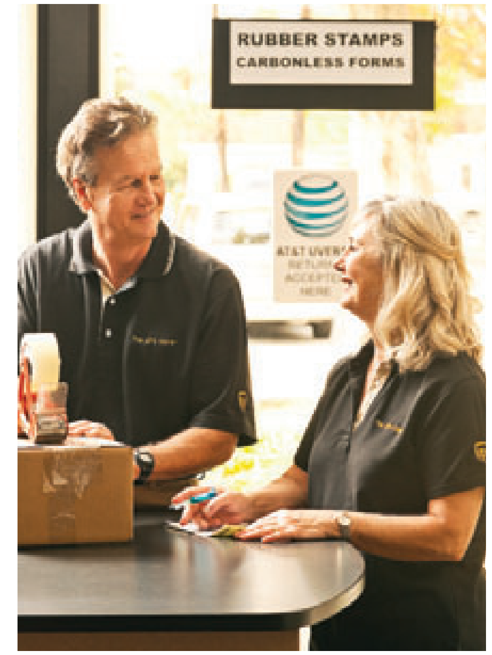
Otherwise, the Schillings have been pounding away at their goal. After their son, Stephen, now 29, graduated from college, the Schillings began socking away as much as 15% of their annual income. Their small mortgage and car loan will be paid off within four years. And they expect to sell their business for at least $200,000.

THE PROBLEM

One word: inflation. With their savings in cash, "Paul and Linda will have a negative return as inflation eats away at their principal," says Ben Tobias, a financial planner in Plantation, Fla.

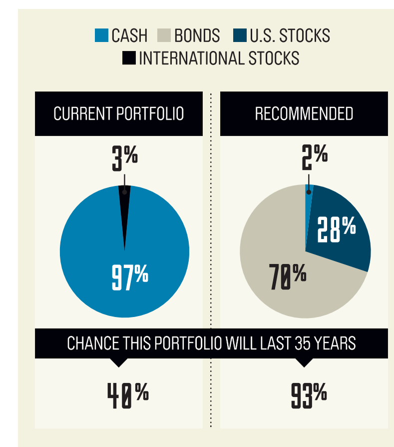
THE ADVICE

Add stocks. Despite an impressive savings rate, the Schillings will have difficulty funding a long retirement with their current investments. Tobias suggests a conservative 28% stock/72% bond mix mostly made up of intermediate- and short-term bonds and large-cap U.S. stocks. Though nervous, Paul and Linda say they're open to diversifying. "Ben makes a good argument," Paul says. Adding the cash from the sale of the business and their expected $50,000 Social Security benefit, Tobias projects the Schillings can afford to retire in six years, withdrawing 4.6% from their portfolio initially and less later on when they scale back on travel expenditures.



TAKING A LITTLE MORE RISK

By holding a diversified mix of stocks and bonds instead of all cash, the Schillings can increase the chances they'll be able to replace 78% of their current income over 30 years.



NOTE: Assumes 4.6% initial withdrawal rate and less thereafter; 4.7% annualized return, and 3% annual inflation. SOURCE: Ben Tobias, Tobias Financial Advisors

> **"THIS CLOSE TO RETIREMENT, I WANT TO PROTECT OUR SAVINGS."**
> —Paul Schilling

Buy long-term-care insurance. Tobias says he doesn't advise most of his clients to get this pricey coverage, but the Schillings are an exception. "They have enough assets to protect but not enough to self-insure," he says, noting that an extended long stay in a long-term-care facility for one of them could wipe out all their savings for the other. Paul balks at a policy that could cost more than $6,200 a year, but long-term-care specialist William Dyess says they can save $1,000 a year by scaling down the policy, choosing, for example, to extend the waiting period for benefits from 30 to 60 days.

Hang on to the home. Paul and Linda don't want to move out of their four-bedroom home, valued at about $270,000. That's fine for now, says Tobias. If the couple get to their seventies and find that their financial picture isn't as bright as they thought it would be, they could downsize to beef up their savings. Says Tobias: "The home is their ace in the hole."

* Retirement savings: $455,000 • Home equity: $230,000 • Cash: $20,000 • Value of business: $200,000

BREAKING FREE OF A TOUGH DEBT CYCLE

Larry and Lynn Mantanona
56 AND 54, FAIRVIEW, ORE.

OCCUPATIONS: CATERING MANAGER; IT MANAGER
GOALS: PAY OFF DEBT, RETIRE IN 10 YEARS

TOTAL INCOME **$152,000** | TOTAL ASSETS **$330,000***

WHEN IT COMES TO family, Lynn and Larry Mantanona believe in sparing no expense. That means frequent travels to Larry's native Guam for weddings, funerals, and other big family events. They had no qualms about taking a $12,000 loan for college tuition for Savanah, 22, and borrowing $20,000 for wedding expenses for Chanelle, 28. "We want to do for our daughters what our parents couldn't do for us," says Lynn.

Now the couple find themselves in a difficult situation. The Mantanonas owe over $90,000 on various credit cards and personal loans and can't seem to whittle the debt down. "We aggressively make payments, but then something comes up, and we have no savings to fall back on," says Lynn. They also owe more on their house than it's worth.

On the upside: The couple have a decent amount of retirement savings, thanks to Lynn's longtime habit of putting 5% of her salary in her 401(k). She'll also qualify for a monthly pension of $1,300 at age 62. Still, the couple feel behind. "Lynn deserves to retire in 10 years," says Larry. "I'll keep working if I have to."

THE PROBLEM

The Mantanonas clearly need to axe the debt, says Marc Russell, an adviser with Convergent Wealth Advisors in Los Angeles. Still, they need to keep saving for retirement. "It's about weighing competing priorities," Russell says. With the right plan, they can get there.

THE ADVICE

Make a repayment plan. In early 2013, Lynn will receive a $14,000 tax-free gift from her mother. That money can nearly wipe out their credit card debt. By temporarily cutting Lynn's retirement contributions to 3%—enough to still get the full company match—they'll free enough cash to make a big dent in their highest-rate debt within a year. Then they can focus on other loans.

Check for money leaks. After closely examining the Mantanonas' budget, Russell thinks they can carve out $200 a month to save in a money-market account earmarked for emergencies and future expenses. As they pay their debts, they should aim to build the emergency fund to six months' worth of living expenses and save more aggressively for retirement.

Move into a target-date fund. Right now Lynn's retirement plan is mostly low-yielding government bonds. Russell suggests she shift into the low-fee 2020 target-date fund in her plan, which would bring her fixed-income allocation to about 46%, or half what it is now. Assuming the couple save an additional $12,000 a year for retirement beginning in 2018, they should hit $600,000 in savings in 10 years—not what they need to fully retire, but not far off. Says Lynn: "At least that will bring us to a manageable situation."

THE PAYMENT STRATEGY

By using Lynn's windfall to pay off credit cards and then attacking other loans, the Mantanonas can be debt-free in five years.

DEBT	HOW THEY'LL GET RID OF IT
Credit card $20,200	YEAR 1: Pay off credit card debt by using $14,000 gift and cutting retirement savings to 3%. REMAINING DEBT: $73,400
Personal loans $22,300	YEAR 2: Pay off one of the personal loans $62,300
Retirement plan loans $15,900	YEAR 3: Pay off student loan, half a retirement loan; return to 5% retirement savings $43,600
Student loan $11,200	
Home-equity loan $24,000	YEAR 4: Use freed-up cash to pay off remaining non-home loans $19,600
TOTAL: $93,600	YEAR 5: Pay off home-equity loan $0

LOOKING AHEAD
The Mantanonas need to fund retirement as they pay down debt.

OPPOSITE PAGE: STYLING AND HAIR AND MAKEUP BY NICA DEMARIA; STYLING AND HAIR AND MAKEUP BY CRISTY GUY

TOO MANY HOMES?
The Handys are split on whether they should add more real estate.

MAKING A BIG BET ON REAL ESTATE

Thomas and Narichica Handy
39 AND 38, LEAVENWORTH, KANS.

OCCUPATIONS: ARMY MAJOR; TEACHER
GOALS: RETIRE FROM THE MILITARY WITHIN 10 YEARS, FUND COLLEGE FOR TWO KIDS

TOTAL INCOME **$147,000** | TOTAL ASSETS **$383,700****

WHEN THOMAS and Narichica Handy bought their first home in Hawaii in 2003, they weren't thinking of becoming landlords. A year later, duty called. Deployed to Afghanistan, the military couple turned the house into a rental. It's a pattern they've repeated over the course of several more moves. Now they hope the income from their four rental properties scattered around the country will allow Thomas to retire from the military before age 50 and pay for college for their kids, Thomas III, 6, and Hannah, 2. (Narichica, who goes by Richie, left the military in 2006 and is now a schoolteacher.)

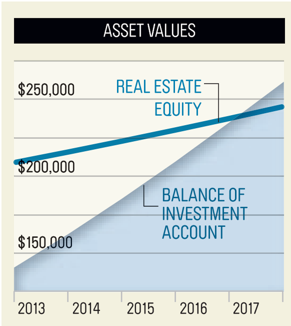
The Handys believe the housing market is more likely to appreciate over the long term than

* Retirement savings: $330,000

** Retirement savings: $141,000 • Home equity: $214,000 • Cash: $24,000 • 529 college saving plans: $4,700 stocks, and neither gets an employer match. They stopped contributing to their retirement plans a few years ago and funnel 10% of their income into a savings account, which they use to fund real estate purchases. Thomas will get a military pension of half his pay, and the couple expect that two of the properties will be paid off before he retires. He'll also get $30,000 for his kids' college, thanks to GI Bill benefits. For now, though, the homes kick out only a small income when fully rented, and the Arizona house lacked a tenant for four months last year.

LESS REAL ESTATE, MORE STOCKS

By putting all their new savings into stocks and bonds, the Handys will have a more balanced portfolio within five years.



NOTES: *Assumes 5% annual growth for investment account and a $14,000 annual contribution; assumes 3% annual growth on real estate equity.* **SOURCE:** *MONEY research*

THE PROBLEM

Betting too much on real estate is a risky proposition, says Kathy Stepp, a principal with Stepp & Rothwell in Overland Park, Kans. "One long-term vacancy could torpedo everything," she notes.

THE ADVICE

Take a break from real estate. Hold off on buying more homes, says Stepp. She understands the Handys' frustration with the stock market but points out that since the couple bought their first house in 2003, the S&P 500 has gained an average of about 7% a year while the housing market declined. "Look at stocks over the long run," she urges. Richie sides with Stepp: "More properties would spread us too thin," she says. And the real estate fund that accounts for 11% of the couple's retirement savings needs to go. Thomas isn't convinced: "We have a lot in real estate, but this market is low," he says.

Create a flexible account. Nearly all Thomas and Richie's wealth is tied up in retirement accounts and houses. "They can't access their cash if they need it," says Stepp. She suggests the Handys save in a taxable account using low-cost, tax-efficient index funds so they won't be stuck with big capital gains bills but can tap some of the money if they need to (such as for college). Once they've built up that account to the level of their real estate equity, they can go back to saving in retirement accounts. Assuming a 3% annual increase in rents, the fully rented homes should earn about $30,000 a year a decade from now. That, plus a part-time job and his pension, should allow Thomas to retire from the military early.

Add another stopgap. Their $24,000 emergency fund might not cover unexpected maintenance costs on their homes. A home-equity line of credit can serve as a backup. Good idea, says Thomas: "We'll start the paperwork right away."

WHEN COLLEGE AND RETIREMENT COLLIDE

Scott and Michele Groth

BOTH 48, ALBUQUERQUE

OCCUPATIONS: DIRECTOR OF LOGISTICS AT AN AIR FORCE BASE; FIRST-GRADE TEACHER

GOALS: TO RETIRE BY 2023 AND PAY FOR THEIR KIDS' COLLEGE EDUCATIONS

TOTAL INCOME	TOTAL ASSETS
$169,000	$375,000*

FAST FORWARD
The Groths need to fund dual savings goals for the next decade.

FOR SCOTT AND MICHELE Groth, the dream of early retirement almost seems within reach. At age 58 both can start collecting pensions worth about half their current pay, plus cost-of-living increases. Since Scott is a federal employee, they will also get low-cost retirement health care benefits. All that's on top of the $315,000 they've saved in retirement accounts. But there's a big hitch: The Groths want to fully fund state college tuition for their daughters Casey, 17, and Sydney, 12. Though recent promotions and raises have boosted their income by $20,000 over the past two years, they've got only $8,000 in college savings, and Sydney will graduate just a year before their hoped-for retirement age.

The Groths caught a break when Casey, who will start at New Mexico State University next year, became eligible for a state scholarship that covers eight semesters of tuition as long as she maintains a 2.5 GPA. (Son Jacob, 21, is in the Air Force, which will pay for his degree in full.) They figure modest retirement dreams will take them the rest of the way. "We just want to spend time at home with our future grandkids," says Michele.

THE PROBLEM

The Groths are underestimating how much their children's higher education will cost, says Lee Munson, a financial planner in Albuquerque. Even with her scholarship, Casey's student fees, room and board, and daily living expenses are likely to add up to about $7,500 a year. And the $50 a month the Groths are putting in Sydney's 529 plan now won't pay for much school in six years.

THE ADVICE

Save for college—quick! The Groths will need to tap some of their $22,000 emergency fund immediately for Casey's living expenses. Munson recommends they put $450 a month aside to rebuild that account. They should also put $200 more a month in Sydney's 529.

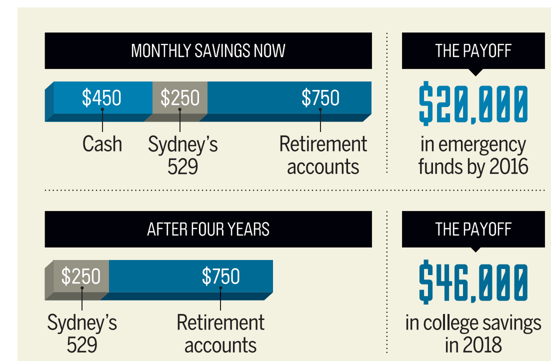
Go aggressive. Nervous about what's going on in Washington, Scott moved 70% of the couple's retirement savings into short-term bonds last year. That won't give the couple the growth they need for a retirement of more than 30 years. Since they have substantial pensions and can absorb periodic losses, Munson recommends an 80%/20% mix of stocks and bonds. They'll need to sock away an additional $750 a month to hit their goal of retiring in 10 years. While that will require some belt-tightening for the next few years while Casey is in school, Scott isn't fazed: "We can definitely put away more," he says.

Don't become landlords. The Groths hope to cut Casey's living costs by buying a house near the campus in Las Cruces that she can share with roommates. Don't do it, says Munson. They'll be on the hook for long-distance repairs and maintenance, will need expensive liability insurance, and will add to their debt load with retirement just a decade away.

WHERE THE CASH SHOULD GO

Even with recent salary hikes, the Groths will have to stretch to save the extra $1,450 a month needed to fund college and retirement in 10 years. Once Casey finishes school, they can cut back.

NOTE: *The college savings and retirement portfolio both assume a 6% rate of return.*



* Retirement savings: $315,000 • Home equity: $30,000 Cash: $22,000 • College savings plan: $8,000

TAKING CHARGE
As a single professional, Bowman wants to be on top of her finances.

SEEKING A SHOT OF CONFIDENCE

Lisa Bowman
46, BELLA VISTA, ARK.

- OCCUPATION: RETAIL MANAGER
- GOALS: CREATE A RETIREMENT SAVINGS PLAN, BUY A NEW HOME

TOTAL INCOME	TOTAL ASSETS
$104,000	$195,000*

WHEN A LOVED ONE is ill, saving for retirement is never top of mind. That was the case for Lisa Bowman, whose husband suffered a debilitating stroke six years ago and passed away in 2011. With a steady stream of medical bills not covered by their high-deductible plan, the couple just managed to get by. Since Bowman was relocated from Watertown, N.Y., to Arkansas for work last year, she has made saving a priority. In 2012 she contributed $17,000 to her 401(k), socked away $4,000 in a Roth, and put another $11,000 into individual stocks in a taxable account. She'd like to buy a home and take a vacation, but she worries that would be too profligate. "I feel panicked," she says.

THE PROBLEM

To reduce her fear, Bowman needs an allocation that won't cause sudden losses, says Jeremy Kisner of SureVest Capital Management in Phoenix. And she deserves to have a place she can truly call home.

THE ADVICE

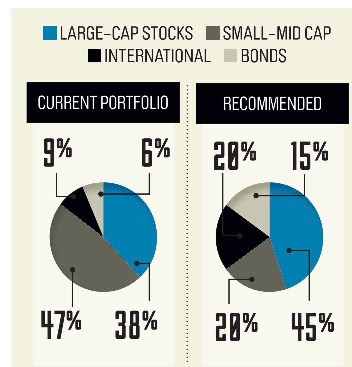
Diversify. The bulk of Bowman's retirement assets are in growth-oriented stocks that can be volatile. "If we had another 2008, she'd be down 40%," says Kisner. He suggests adding more bonds as well as stocks of companies that tend to grow more slowly but are more dependable. Since bonds have had a good run, a 15% allocation makes sense for now, says Kisner; she can add more bonds over time. At Bowman's current savings rate, she's on track to retire at 63—and she can take vacations too.

Stop picking stocks. For her taxable account, Bowman has been picking stocks willy-nilly. "I feel like I'm throwing darts," she says. Kisner suggests she invest in a global allocation fund such as BlackRock Global Allocation (MDLOX) or First Eagle Global fund (FESGX); both carry sales loads, but annual fees are low. "For relatively small amounts of money, a global allocation fund is easier than choosing a bunch of funds based on market trends," he says.

Buy a house now. Bowman recently listed her New York home but expects it could take a long time to sell it. She'd planned to save for a 20% down payment on a $150,000 house in Arkansas, though that will take a couple of years or cut into her retirement contributions. Rather than risk interest rates going up, Kisner suggests buying now using a Federal Housing Administration loan, which requires just 3.5% down. At today's rates, her monthly nut on a 30-year FHA loan—including taxes and mortgage insurance—will be less than her $1,250 rent. Bowman says she'll take his advice: "I feel much better about where I am." M

A LESS RISKY RETIREMENT PLAN

Bowman owns too many small stocks and not enough bonds. She can add more large company stocks to her portfolio and still get the growth she needs.



SOURCE: Jeremy Kisner, SureVest Capital Management

* Retirement savings: $115,000 • Home equity: $36,000
Stocks: $24,000 • Cash: $20,000

STYLING AND HAIR AND MAKEUP BY HEIDI SEAGER BOWLES