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Saying 'Yes' to a Couple's Dream House

By, **JAMES CAPPIO,** May 1, 2015

A retired couple wanted a vacation house on the bay--a dream place to spend more time with their seven grandchildren.

So they withdrew $86,000 from their retirement assets to build it, without considering how such a move would affect the rest of their retirement plans.

Abigail Gunderson

"When I saw this, I knew I had to call my clients in for a meeting," says Abigail Gunderson of Tanglewood Wealth Management, which manages $850 million for 425 clients in Houston. The certified financial planner detected the withdrawal during her annual review of the couple's accounts.

Monitoring retired clients to make sure they are spending within their limits is part of Ms. Gunderson's service. She checks in on their accounts and conducts regular reviews.

The couple had been drawing down about 6.5% of their $1.35 million in retirement assets on an annual basis. The cost of building the beach house, combined with the additional maintenance expenses, bumped their withdrawal rate past 10%.

However, as she queried the couple about their spending, she quickly grasped that this purchase was about more than just having a second home. “What really excited them about the vacation house was the opportunity it provided to spend time with the kids,” she says. “Sometimes you have to be like a parent and tell your clients, ‘Don’t do this!’ But in this case I wanted to come up with a creative solution.”

The first step was to improve the couple’s tax position to help save them money. They had been withdrawing from the husband’s IRA, meaning that the distributions--including the $86,000--were fully taxable as ordinary income. For Ms. Gunderson, it’s routine client service to suggest a mix of account distributions to achieve the best tax position. In this case, she switched them to distributions from a joint account, which are only taxable as capital gains on any securities sold to fund the distribution. Next, the adviser focused on reconciling the expenditure on the beach house with the couple’s spending plan. Because of the ongoing costs associated with the house, including maintenance, insurance, and property taxes, they couldn’t reduce their spending immediately.

So Ms. Gunderson proposed a two-stage reduction from the $7,300 a month they had been spending to $5,800. While they were considering how to achieve that target, they would cut $1,000 from their monthly expenses immediately; this left them with enough to cover the associated housing expenses. Then they would reduce their expenses by another $500 six months later. By then, their withdrawal rate would be a more reasonable 5.7% of their total assets.

But the cost of the home meant they couldn’t hold onto it forever and still fund their retirement. So Ms. Gunderson advised that they keep the beach home for 10 years, and then sell it and deposit the estimated $100,000 they’d earn back into their investment accounts.

By then the grandkids would be mostly grown. The husband and wife would be 75 and 85, respectively. They’d still need to keep their expenses down to $5,800 a month, but the cash influx from selling the home would decrease their withdrawal rate to 4.8%, and ensure they don’t run out of retirement funds before they died, Ms. Gunderson says.

Ms. Gunderson’s front loading idea let the couple achieve a retirement dream, without blowing their budget. It seems to be working. The couple is living within their means, and loving their beach home. “The grandchildren are coming over frequently, and the husband golfs a lot,” Ms. Gunderson says. “They expect they will slow down in 10 years and will be ready to sell the house.”