She revamped her retirement plan after a divorce. Is she on track?

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Analysis

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Mary Andersen, 60, had to reevaluate her retirement plan after her divorce. The fourth-grade teacher sits in her classroom in Haymarket, Va., in May. (Bill O'Leary/The Washington Post)

Since her divorce more than a decade ago, Mary Andersen has had to make some major changes to her retirement plan.

After she and her husband split their joint savings and assets, she realized that even her modest idea of retirement would require her to take a more active role in her finances. Andersen took on a full-time job and qualified for a pension, opened a retirement account and boosted her savings. Now the 60-year-old teacher wants to know if she is on track to retire in five or six years.

“I had not up until that point done any kind of research on financial stuff because my husband took care of that,” she said. “I want to make sure that I have enough money.”

Andersen, who teaches fourth grade in Manassas, Va., said she imagines she’ll spend her retirement visiting her two grandchildren in Virginia and Florida, making pottery at home and maybe tutoring part-time to earn some extra cash. Because her parents, who also are divorced, are still alive — her mother is 85 and her father is 90 — Andersen says she could be in for a long retirement. She occasionally helps her mother financially and wants to save enough to avoid becoming a burden on her children.

We shared details about Andersen’s finances with two experts, Lule Demmissie, managing director of investment guidance at TD Ameritrade, and Kurt Rupprecht, a wealth management adviser for Northwestern Mutual, and asked them for feedback.

The big picture

Teaching is a second career for Andersen. She worked as an oceanographer before she had her second child, who was born prematurely, and she gave up work to be a stay-at-home mom. Once her four children were grown, she returned to working full time 14 years ago, this time as a teacher. She also went back to school and 10 years ago, after the divorce was finalized, she graduated with a master’s in education.

Andersen earns about $60,000 a year from teaching and receives $28,500 a year from her ex-husband's annuity. While she is still working, Andersen is trying to balance paying off her $140,000 mortgage — she kept the family's five-bedroom house after the divorce — with saving for retirement. Because she feels as though she is catching up, she wants to save as much as she can now.

Her monthly bills include a $1,500 mortgage payment, $312 for property taxes, $140 for home and car insurance, about $230 for electricity and $120 for gas to fuel her car.

She spends about $500 on groceries, $320 for phone, cable and Internet service, $200 on entertainment and $200 on maintenance for the house. She also makes about $200 a month in charitable contributions.

Andersen also is making extra payments of up to $500 a month on credit cards so she can clear the debt this summer.

She makes the maximum $6,500 a year contribution allowed to her individual retirement accounts, including a traditional IRA, which allows tax deductions for contributions and a Roth IRA, which is funded with after-tax dollars but provides tax-free income in retirement. Her emergency savings are enough to cover about two months' worth of expenses, and her nest egg, including her home equity, is enough to cover about three times her annual pay. She plans to stay in her home until she retires, but may consider selling it later to move into a smaller place.

Andersen also bought a long-term care insurance policy, which should help her pay for any at home care or nursing home costs needed later in life. She also wants guidance on when to take Social Security and if she needs to make any changes to her investments.

Adjustments needed

In retirement, Andersen expects to receive about $19,000 a year from her pension and $17,500 from Social Security, if she waits until age 66 to collect. Combined with the annuity she is receiving from her ex-husband, she would be able to replace the salary she is earning as a teacher.

However, her current income may not be enough after factoring in inflation and the higher health-care bills she may face in retirement, Demmissie said. That means Andersen may need to either find a part-time job or trim her living expenses to make ends meet, she said.

"We either have to figure out how to reduce your expenditure in retirement or figure out if there something you can do part time in retirement for you to realistically be able to retire by 65," Demmissie said, adding that Andersen should aim to cut expenses by 15 percent to 20 percent.

One way to do that would be to lower her mortgage payment, which is her largest monthly bill. But because there is a chance Andersen may sell her house after she stops working, she shouldn't feel pressure to pay off her mortgage, Rupprecht said.

She could reduce her housing costs if she downsizes into a less expensive home, he said. If she can afford to pay for the new house outright with the equity from her current house, she may be able to eliminate her mortgage payment, he said. Even if she doesn't, moving to a less expensive house could lower her payment.

Boost savings and income

Once her credit cards are paid off, Andersen could hold off on making extra mortgage payments and use the cash to boost her emergency savings, Rupprecht said. She can build up the fund to the point that it can cover one to two years' worth of expenses. "Having that kind of cushion leading into retirement is going to allow you to be more strategic about when you start drawing down on Social Security," he added.

With retirement less than a decade away, Andersen should also move to protect her savings by reducing how much she invests in stocks, Demmissie said. Earlier this spring, all of her IRA savings were invested in stocks through mutual funds and exchange-traded funds. But someone who is five years away from retirement might be better off in a more moderate portfolio that offers exposure to stocks and bonds, Demmissie said. After speaking with the experts, Andersen readjusted her allocation to be 60 percent invested in stocks and 40 percent in bonds.

Andersen should also start planning for moves that could boost her retirement income, the experts said. For instance, she could wait until age 70 to collect Social Security, which would increase her monthly payments to about $2,140 from the roughly $1,500 she would receive at 66. In the meantime, she could live off her savings, pension and annuity income. But she'll have to reevaluate that decision every year, based on her expenses, Rupprecht said.

She also could work part time in retirement, Demmissie said. Andersen said she could tutor a few days a week, something she is doing now to make extra cash to help cover home improvements or to pay for vacations. Keeping that up could bring her $300 to $900 a month, based on how many students she tutors.

Selling some of the items she plans to make with her newfound free time in retirement, such as pottery or tie-dye shirts, also could bring in some extra cash, Andersen said. But she isn't counting on it. And if she makes the other changes as planned, the experts said, she won't have to.

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