

## GET WITH THE PLAN

Personal-finance professionals offer readers a financial road map

### The situation

Dane, 43, and Cheri, 45, are concerned they are not saving enough for retirement or for college for their two children, ages 9 and 7. Dane is self-employed, and his income can be somewhat erratic, making it harder to budget. Still, the couple use regular savings strategies, and they are hoping it's enough.

#### Net worth

##### ASSETS

Checking/savings	\$63,500
Bonds	\$20,000
IRAs	\$248,700
Mutual funds	\$152,400
529 plans	\$51,000
Brokerage account	\$110,000
Home	\$650,000
Property/autos	\$95,000
<b>TOTAL ASSETS</b>	<b>\$1,035,144</b>
<b>LIABILITIES</b>	
Mortgage	\$227,000
Car loan	\$9,224
<b>TOTAL LIABILITIES</b>	<b>\$236,224</b>
<b>TOTAL NET WORTH</b>	<b>\$1,154,376</b>

#### Budget

##### ANNUAL INCOME:

Dane: \$135,000; Cheri: \$3,000

##### MONTHLY EXPENSES

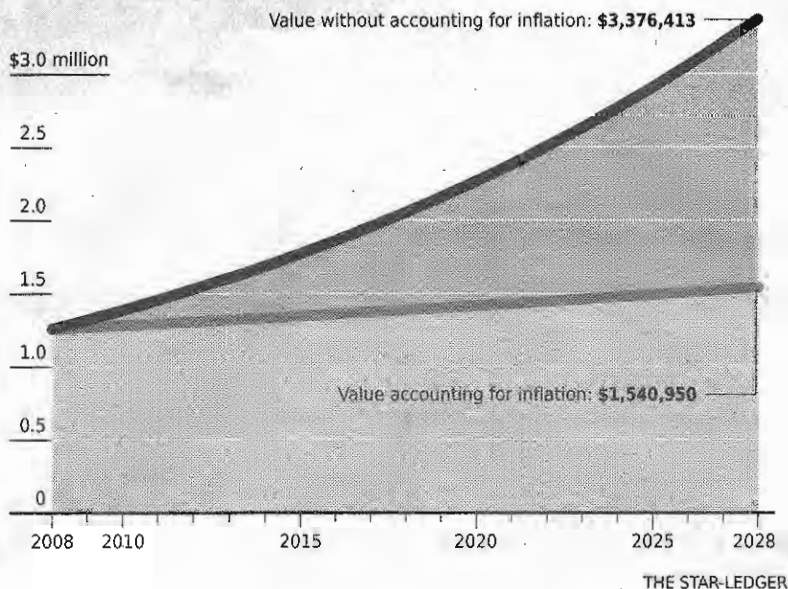
Income taxes	\$3,058
Housing	\$2,833
Utilities	\$725
Food	\$1,150
Child care	\$50
Education	\$75
Personal care	\$250
Transportation	\$642
Medical	\$200
Entertainment	\$355
Vacations	\$800
Gifts/charity	\$570
Miscellaneous	\$620

### The way out

One area the Morris County couple could improve is their tax situation. They are paying more than they need to be, so some smart moves could save some cash there. Then they can take the excess funds and save for their long-term goals. They also need to make sure their estate planning is in order.

#### THE BITE OF INFLATION

Although this couple are saving and investing for the future, inflation will take a big bite out of their purchasing power. While their investments and home value will rise, inflation still will be there. Here's a look at how the value of their investments will rise and what inflation will do to it, based on a conservative 6 percent rate of return on investments, 4 percent growth for real estate value and 4 percent inflation.



# Couple can benefit from more tax savings

BY KARIN PRICE MUELLER  
STAR-LEDGER STAFF

Dane and Cheri are worried about the future. Dane, 43 and self-employed, doesn't have a 401(k) plan, but uses a SEP-IRA instead. They want to make sure they're doing the best they can on their own.

"We are concerned that we are not putting enough money away for retirement and college," Cheri, 45, says. "It is difficult to budget with Dane's job, because it is not constant from year to year."

Dane and Cheri, whose names have been changed, have set aside \$248,700 in IRAs, including Dane's SEP-IRAs, \$152,400 in mutual funds, \$110,000 in a brokerage account, \$20,000 in bonds, \$20,500 in savings and \$43,000 in checking. They've also saved \$51,000 in two 529 plans for their two children, ages 9 and 7, and their only debt is their mortgage and a car loan.

The Star-Ledger asked Jerry Lynch, a certified financial planner with JFL Consulting in Fairfield, to see if Dane and Cheri are on the way to reaching their goals.

Lynch says Dane and Cheri are a classic example of what everyone usually asks when they sit down with a financial planner: Do I have enough and am I saving enough for retirement?

First, Lynch examined their tax situation.

"Everyone has to pay taxes, but you do not have to leave a tip," Lynch says. "We find that many people overpay taxes due to lack of planning or simply not knowing the rules."

Lynch says there are some moves the couple can make to get some tax savings. They could start by adding to a deductible IRA, which would lead to tax savings of \$1,500.

Next, instead of cash donations to charity, the couple could start giving appreciated securities instead of cash. They would save some \$650 on state and federal capital gains, Lynch says. They also can save by using a tax-free money market instead of taxable ones, which could save \$750 a year.

Additionally, the couple got a huge tax refund last year — \$16,000. That means they're paying too much all year round, virtually giving the government a tax-free loan.

Lynch likes that the couple are investing systemati-

cally — on a regular basis — for college, retirement and in their taxable investment accounts. But the couple need an easier plan. They were considering consolidating their accounts, and that might be a good idea. Lynch says a review of their investments yielded more than 70 pages of monthly statements — far too much to keep track of.

"If I trend out their investments, it looks that when Cheri is 65, their investments will be worth about \$2 million, assuming no additional contributions, and their home will be worth about \$1.4 million, with \$650,000 current value at 4 percent growth," Lynch says.

But, while \$3.4 million sounds like a huge number, after we take into consideration inflation at 4 percent, they'd have a value of about \$1.6 million that would generate about \$62,000 to \$77,000 of income annually at 4 percent to 5 percent.

The couple should continue to invest systematically so their savings can grow.

Cheri and Dane also need to address their estate planning, which could create huge issues if not properly arranged. Among the items to consider: re-titling assets so they work in conjunction with their wills and considering protections for their life insurance and IRAs. Plus, they need to review a guardian for their children.

"The guardian of your children should never be the trustee of the funds, even if you trust them," Lynch says. "Having a different person just makes sure that there are some checks and balances."

Dane also has a business partnership, and Lynch says it's essential he arrange a "buy/sell" agreement with his partner, which would dictate what would happen to the company if one partner became disabled or died.

"This is critical, and generally the partners can buy insurance to make sure that funds are available if a partner were to die," he says.

*Get With the Plan* involves readers anonymously divulging their personal financial information in exchange for free advice from a professional. The feature is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice. Readers who would like to participate may contact Karin Price Mueller at [kmueller@starledger.com](mailto:kmueller@starledger.com).