

# GET WITH THE PLAN

Personal-finance professionals offer readers a financial road map

## The situation

Hanna, 37, and Milo, 39, have done very well with their finances so far, but now the game has changed. They have just had twins, and they are not sure what it will mean for their money plans. The couple want to save for college, afford the cost of day care and still retire at age 60.

### Net worth

#### ASSETS

Checking	\$8,000
Savings	\$42,000
CDs	\$49,000
IRAs	\$142,978
401(k)	\$399,146
Mutual funds	\$251,758
Home	\$500,000
Vacation home	\$300,000
Personal property	\$20,000
Autos	\$17,000
<b>TOTAL ASSETS</b>	<b>\$1,729,882</b>

#### LIABILITIES

Mortgages \$379,000

**TOTAL LIABILITIES** \$379,000

**TOTAL NET WORTH** \$1,350,882

### Budget

#### ANNUAL INCOME:

Hanna: \$120,000

Milo: \$93,000

#### MONTHLY EXPENSES

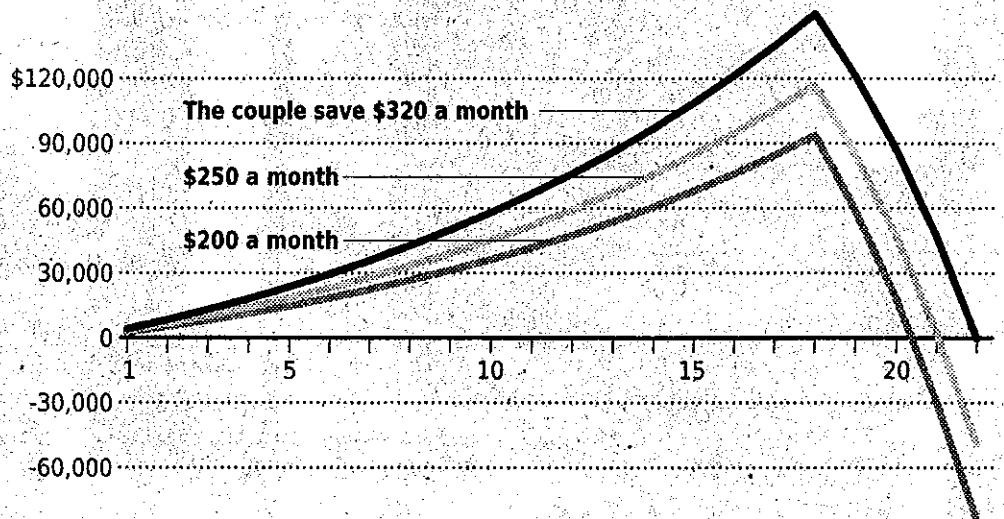
Income taxes	\$2,583
Housing	\$3,550
Vacation home	\$1,370
Utilities	\$410
Food	\$700
Personal care	\$50
Transportation	\$505
Medical	\$235
Entertainment	\$150
Vacations	\$200
Gifts	\$100

## The way out

The Union County couple have established a terrific foundation, and their high savings rate means they have the cash available to redirect some to their new goals. They should open 529 plans for the kids for college and keep saving the max for retirement. It's essential they create a will now and appoint guardians for their children, plus establish a trust to manage their money while the children are minors in case something should happen to them.

### COLLEGE SAVINGS

Hanna and Milo would like to save enough to pay for state college educations for their newborn twins. To reach that goal, certified financial planner and certified personal accountant Doug Duerr says the couple need to set aside \$320 a month in a 529 plan. That would cover annual tuition of \$14,500 in today's dollars, or \$45,046 in future dollars, including inflation. This assumes the funds earn an 8 percent rate of return and a 6.5 percent college inflation rate. If they find the \$320 a month to be too steep, here's a look at how monthly savings of \$250 or \$200 would compare, and how much the shortfall would be.



THE STAR-LEDGER

SOURCE: Doug Duerr, CFP and CPA/PFS

# A family's twofold joy brings double the worry

BY KARIN PRICE MUELLER  
STAR-LEDGER STAFF

Hanna and Milo are entering a new phase of their life together, and it's resulted in a lot of questions about their finances. They've just had twins.

"We have tried very hard to be smart about money, but doubling the size of our family has surely made us feel less confident," says Hanna, 37.

They're wondering if they should maintain their primary and vacation home mortgages, or pay off one of them. They also want to figure out how to finance college educations, pay for day care and still retire at age 60.

Hanna and Milo, whose names have been changed, have so far saved \$399,146 in their 401(k) plans, \$142,978 in IRAs, \$251,758 in mutual funds, \$49,000 in a certificate of deposit, \$42,000 in savings and \$8,000 in checking.

The Star-Ledger tapped Douglas Duerr, a certified financial planner and certified public accountant/personal financial specialist with Duerr & Duerr in Montville, to help the couple tackle the money changes parenthood brings.

"Their portfolio of assets is one which most 60-year-olds would be proud of, and they have accomplished this prior to either one of them turning 40," Duerr says.

Hanna and Milo have done an excellent job saving in both of their retirement plans, as well as in brokerage accounts and savings accounts, Duerr says. At the same time, they have been paying additional principal payments on both their primary residence and vacation home mortgages. Duerr says even though they have done an admirable job of amassing assets and minimizing debt, there are several things they need to do to solidify their financial position.

"Their spending habits currently allow them to save approximately \$45,000 a year after maxing out in their 401(k) plans, Duerr says. But those savings are likely to be significantly lowered as some of the extra funds will be used toward the new expenses related to having a family.

One of their goals is to set aside enough funds to pay for each child's college education at a state school. Based

upon the current average cost of a in-state public college, adjusted annually for a 6.5 percent increase in costs, Hanna and Milo need to save \$320 per month. Duerr says this assumes the investments earn a return of 8 percent and they reinvest all dividends.

"By doing this, they will amass approximately \$200,000 in 18 years," he says. "The best way to achieve these goals is to start saving in a 529 savings plan."

Duerr says by using a 529 plan, all of the earnings, if used for higher education costs, will be tax-free upon distribution. Given the couple's track record for saving, this should be an easily achievable goal, he says.

The couple also would like to retire by age 60. Duerr says, given their savings in their retirement plans and personal investments, they should be in good shape. If they continue to save the maximum amounts allowed in their retirement plans and if they save just half of what that have previously done outside of those plans — due to their newly increased expenses — they could save almost \$6.5 million by the time they are 60, Duerr says. This assumes they will achieve an average 8 percent rate of return prior to retirement.

Duerr thinks they'll do even better, in part because both of their mortgages will be paid off by the time they retire. Without the mortgage expense, their income needs in retirement will drop considerably. This additional disposable income can then be used for additional hobbies and travel in retirement, he says.

One essential thing the couple needs is to draw up a will and establish a guardian for the kids. Duerr suggests they also establish a trust in case Hanna and Milo die before their kids are fully grown. Additionally, Hanna and Milo need to name a trustee who would manage the money in such a trust.

*Get With the Plan involves readers anonymously divulging their personal financial information in exchange for free advice from a professional. Readers who would like to participate may contact Karin Price Mueller at [kmueller@starledger.com](mailto:kmueller@starledger.com).*