

GET WITH THE PLAN

Personal-finance professionals offer readers a financial road map

The situation

Mae is a 33-year-old single woman with no dependents. She wants to save more of the money she earns, hoping the extra cash will allow her to sell her condo and purchase a single family home. Even with the slumping housing market, she's finding home prices to be expensive.

Net worth

ASSETS

Checking	\$2,000
Savings	\$16,000
401(k)	\$12,000
Home	\$210,000
Personal property	\$5,000
Autos	\$17,000
TOTAL ASSETS	\$262,000

LIABILITIES

Mortgage	\$153,000
College loans	\$19,000
Car loan	\$14,000
TOTAL LIABILITIES	\$186,000
TOTAL NET WORTH	\$76,000

Budget

ANNUAL INCOME:

Salary: \$84,000
Bonus: \$3,000

MONTHLY EXPENSES

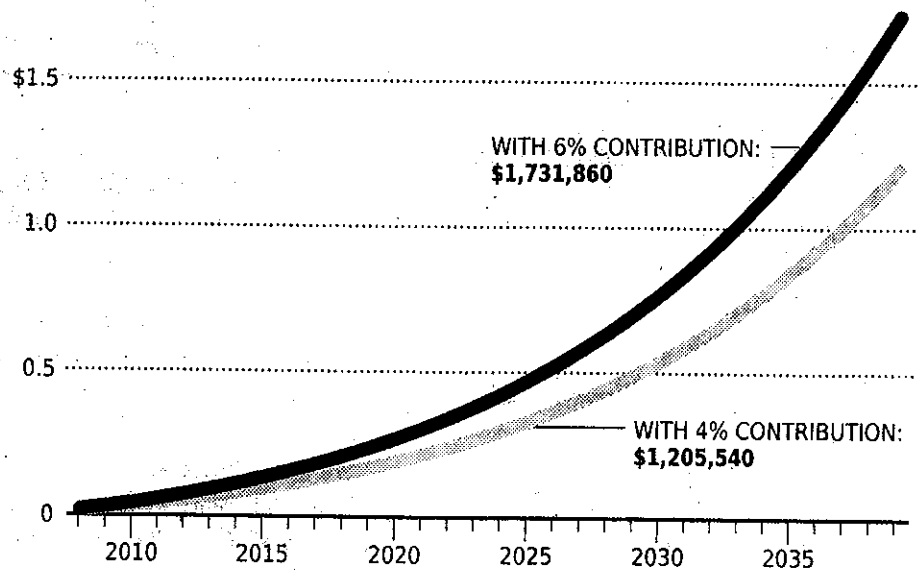
Income taxes	\$1,525
Housing	\$1,732
Utilities	\$190
Food	\$730
Education costs	\$50
Personal care	\$135
Transportation	\$935
Medical	\$144
Entertainment	\$20
Vacations	\$166
Gifts/charity	\$70
Gym membership	\$65

The way out

The Essex County woman can set aside more money each month to increase her savings, which would give her the 20 percent down payment she should have to buy the home she wants. Additionally, she's missing out on big opportunities for retirement by not saving enough to benefit from her company's full matching program.

DON'T LEAVE MONEY ON THE TABLE

Mae's company retirement plan is a very generous one. For every dollar she saves up to 6 percent of salary, the company contributes 75 cents. After she's with the company for 10 years — she has three more years to go — it will contribute \$1.25 for every dollar she saves up to 6 percent of salary. Today, Mae is only saving 4 percent, so she's leaving lots of free money on the table. Here's a look at how her account value would change if she increases her contributions.



THE STAR-LEDGER

SOURCE: Douglas Duerr, CFP and CPA/PFS

First build the nest egg, then purchase the nest

BY KARIN PRICE MUELLER
STAR-LEDGER STAFF

Mae is trying to take her financial future into her own hands. She's attending graduate school to better her education, and she wants to make some lifestyle changes in the near future.

"My main goals would be to increase savings (emergency fund) and to be able to sell my condominium and purchase a house," Mae says.

Mae, 33, whose name has been changed, has saved \$2,000 in checking, \$16,000 in savings and \$12,000 in her 401(k). She saves 4 percent of her salary to the account. Her employer matches 75 cents, up to the first 6 percent of salary contributed, and after 10 years of employment, the company contributes \$1.25, up to 6 percent of salary. She's been with the company for seven years.

The Star-Ledger tapped Douglas Duerr, a certified financial planner and certified public accountant/personal financial specialist with Duerr & Duerr in Montville, to help Mae make the most of her resources.

"These are all very attainable goals but the time period in which she accomplishes them may be longer than she initially thought," Duerr says.

Mae has taken a look at the housing market to see how her hopes to upsize fit into today's conditions. Her condo is worth about \$210,000, but even with the depressed real estate market, Mae has not seen homes she is interested in buying that cost less than \$400,000.

She has approximately \$60,000 of equity in her condo. Duerr says if she were able to purchase a home for \$425,000 and put down the \$60,000 in equity from her condo, she'd have a mortgage of \$365,000. That move would give her a monthly mortgage payment of roughly \$2,250, or \$1,000 more than she is now paying. This payment doesn't factor in the increased real estate taxes she's likely to find.

Duerr says, based upon Mae's current financial situation, this doesn't appear to be a wise move to make anytime soon.

"Even though home prices are currently at low levels and long-term interest rates are low, she still should have a larger down payment," Duerr says. "I would recommend at least 20 percent, which would be \$85,000 on a \$425,000 home."

Given the current credit crisis, Duerr says most lenders are requiring a down payment of this size.

Mae also is concerned about having a large enough emergency fund. Duerr says the rule of thumb is to have three to six months of your expenses saved. Mae has \$16,000 set aside for emergencies, which covers about four months of expenses. Duerr suggests she try to set aside an additional \$300 or so each month to boost the account. After about a year, she'll have almost six months of emergency funds in savings. As another backup, Duerr says Mae should see if she has disability insurance coverage at work.

Duerr also says Mae is losing out on retirement savings. Her employer will match six percent of salary, but she's only saving 4 percent; that means she's losing \$1,260 of free match money. After she's there 10 years, they'll contribute even more.

"If Mae was to continue to contribute 4 percent of her salary and earn an 8 percent return, at age 65 her retirement plan would be worth \$1,222,300," he says. "If she increases her contributions to 6 percent in order to receive the full match from her employer, her ending balance at age 65 would be \$1,755,198, assuming an 8 percent rate of return."

Duerr says she should do everything possible to increase her contributions.

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 kmuel@starledger.com.