

## School loans cutting into home savings: Retirement a concern, too

*Money Manager/by Karin Price Mueller*

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### **Problem:**

Liza wanted to make her life better. In her late 20s, she quit her jobs as an emergency medical technician and substitute teacher, and went to school for psychology.

Now at age 30, she feels as if she's got too much debt - her college loans - and that she's financially falling behind her peers.

So Liza turned to the Herald for help in paying down her debt and planning for her future.

"My friends are married with two incomes and beautiful homes," Liza said. "I don't feel like I'm as much of an adult as they are. They seem to be so much further ahead."

Liza has been working to minimize spending and to cut down debt since she got her psychology degree about two years ago. She has eight years left on her college loans, totaling \$5,800. Her required monthly payment is \$107, but she's been sending in \$500 per month toward that debt.

She also pays \$329 a month for a car payment, and has an outstanding balance of \$1,000 at her dentist's office. If that balance isn't paid by May, the interest-free \$1,000 will shoot up to a rate of 21.99 percent.

Where Liza finds great savings is her living expenses. Instead of being out on her own, she moved back home to her parents' house in northern Massachusetts when she finished school. They agreed Liza should concentrate on saving for the future and paying down debt instead of throwing money away with high rent. Her ride isn't completely free, though. She pays her parents \$216 per month in rent.

"If I lived somewhere else making what I make I'd be fine, but here it's so expensive," she said. "By age 30 you hope you can support yourself."

That's her other goal - buying a condo or home in about five years. She knows it's a costly proposition, so Liza is very conscious of her spending habits. She allots herself only \$50 per week for spending money - allowing her to direct more of her \$47,590-a-year salary to her savings plans. She has \$5,700 in a savings account, \$800 in a checking account and \$185 in a credit union.

While she saves for short-term goals, Liza also knows it's important to get a jump start on saving for retirement.

Her job offers a 403(b) plan, to which she contributes 6 percent of her salary - the most she said she can contribute without jeopardizing her debt-reduction plan. The account, with a balance of \$3,200, is split evenly between Fidelity New Millennium and Fidelity OTC. Liza said she's not sure if she made the right investment choices.

"I didn't know which funds to pick and I'm not a business major," she said. "It's like asking a heart surgeon to go out and play professional baseball."

### **Solution:**

#### **Existing payment plan taking care of business**

Liza has a bright future ahead of her, and soon she'll have plenty of free cash flow to allow her to save for a home and for retirement.

“This is a person who's committed to accumulate and to do well,” said Art Ford, a certified financial planner and certified public accountant with Sullivan Bille & Co., based in Tewksbury. “By changing jobs and starting this new career, she's almost over the hump to get there.”

Even though she feels as if she's behind the curve, compared to her peers, Ford said that's not so. Despite the challenge of paying off student debt, so far she's done a great job at cutting down those bills. And Ford also said the fact that she hasn't run up any high-interest credit card debt will aid her to reach her goals much faster than the average 30-year-old.

“Yes, there are people in her age group with more savings and higher retirement balances,” Ford said. “But for every one of them there are four others with high credit card balances, late notices and no clear set of goals.”

Ford applauds Liza's pledge to pay off her debt as soon as possible. If she continues paying down her college loans at a rate of \$500 per month, she'll be free of those payments by next June.

Once she pays off the loan, she can direct those payments to her house fund, creating a sizable down payment in a relatively short time. That will probably allow her to get into a home within her time frame of five years, or even sooner.

“There is no magic,” Ford said. “But she has it under control and it's a long-term situation.”

Liza has \$5,700 in savings, which is part emergency fund and part house fund. Ford said it's OK to keep those monies together as she continues to accumulate more savings. She has enough discipline to stop herself from dipping into those funds unnecessarily, he said.cw0

Retirement savings is also off to a good start. So far, Liza has \$3,200 in her 403(b) plan, which Ford calls a great foundation for a strong financial future. Unfortunately, Liza isn't offered any matching funds by her employer, so she won't find any additional help there.

Ford said Liza should consider some of the other investment choices in her retirement plan so that she can better diversify the account. In addition to New Millennium and OTC, he'd like her to consider such alternatives as the Fidelity Fund, Fidelity Value and Fidelity Convertible Securities.

Assuming a rate of return of 8 percent a year, if Liza continues to save 6 percent of her salary, she could accumulate \$584,000 by retirement. If she saves an extra \$20 per week, the account would be worth \$777,000 in the same time frame. Or if those funds earned a 9 percent return, the account would be worth \$979,000.

“If she could increase her contributions later on, maybe to 8, 9 or 10 percent, her numbers on retirement will be even better,” Ford said.

Also, by increasing her contribution, Ford said Liza will benefit in a tax sense. Not only will the funds grow in her 403(b) account tax-deferred, she will also decrease her taxable income because the funds are invested pre-tax.

In other areas, Ford said her life insurance situation is sufficient given she has no dependents. Her employer provides one year of salary as a life insurance benefit - which is enough, Ford said. Liza also has a \$10,000 policy her parents bought for her several years ago when she was in school.

And after looking at her spending habits, Ford said this area, too, is in good shape. Living at home saves her hundreds of dollars in rent, which she can instead allocate toward paying down her debt and bulking up her savings.

“She is a quality, high-energy, talented person,” Ford said. “She'll definitely be able to reach her goals.”

