

# Bachelor wants best advantage from his savings

*Money Manager/by Karin Price Mueller*

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## Problem

What to do with a lump of cash - pay off the mortgage or invest? That's the question eating at Jason, 44, who contacted the Herald for advice.

"I was thinking of paying off the mortgage and then take money I was paying for the mortgage to max out my retirement plan," says Jason, who works in the energy management field.

Jason has saved \$34,687 in a savings account. The mortgage balance on his Central Massachusetts home is \$30,943, and he has a monthly payment of \$552, at 6.12 percent interest.

He's not afraid of using most of his available cash to pay off the mortgage because he says his job provides a lot of overtime.

"To save money back up isn't really a big effort for me since I'm single. I don't have a wife and kids to support," Jason says. "It's easy for me to save money."

But Jason isn't sure how much he needs to save, or where he should invest it so that he can afford to retire at age 55, perhaps working a part-time job, if necessary, to supplement his income.

"I knew that I wasn't putting enough into my retirement funds," he says. "But I really don't know anything about the stock market. I hate to start investing a lot of money when I don't really know what I'm doing."

Jason's deferred compensation plan has a balance of \$30,964. The account has \$5,621 in an Active Small Cap Stock Portfolio account. He adds \$50 a week from his annual \$45,297 salary to this fund. He also has \$4,258 in Fidelity Growth Company and \$21,085 in The Income Fund accounts.

Jason also contributes \$75 a week to his pension, which will pay him a benefit of \$1,416 a month if he retires at age 55. If he retires at a later age, he'd get an even bigger pension.

Overall, Jason has very modest living expenses. Besides his mortgage, he pays \$164 a month for utilities, \$200 a month for groceries and dining out, and \$151 on car-related expenses, such as commuting costs.

In fact, his love for "things that go" is his most expensive hobby. As a bachelor, Jason says he can afford to buy himself a lot of toys. He owns a boat and three cars - most recently he bought a 1969 Pontiac Firebird.

"It's an expensive hobby, I guess, but as far as my life goes, I have money to do basically whatever I feel like doing," he says.

Part of his money strategy is to pay cash for everything - including his classic car. Jason has no credit card debt or other loans outside of his mortgage. Before he buys anything he makes sure he has enough money to pay cash for it. He has no plans to change that strategy into his retirement years. Though being debt-free is a big plus, he isn't sure whether he will have enough investment income to fund his retirement.

“Right now I got everything invested very conservatively so I'm not going to make much money, but I'm not going to lose money either,” he says. “It's hard for me to be aggressive in something I don't understand.”

## **Solution**

### **Investing cash will provide better return over long term**

Paying off Jason's mortgage isn't the best financial move. By investing a portion of his cash instead, Jason will have more money available for retirement - money it looks as if Jason will need.

“He's 44 now and he'd like to retire early at 55,” says Rick Fingerman, a certified financial planner with Financial Planning Solutions, of Medford. “But if he does, there will be a shortfall.”

A big shortfall, indeed. If Jason retires at age 55, his pension will only be worth 20 percent of his salary - not enough to cover his expenses. If he worked until age 60, he'll not only more than double his monthly pension but he'll also have more time to allow investments to grow, says Fingerman, president of the Financial Planning Association of Massachusetts.

“If he waits until age 60, he'll be very comfortable because his pension is going to be so much higher,” he says.

Holding on to his mortgage is another strategy that will help Jason fund his retirement. Instead of sending a lump of cash to the bank, Jason could invest some of that money for his golden years. Plus, there's no real advantage to paying off the mortgage in full. By doing so, Jason would lose the interest deduction and lose potential interest on his savings.

“The mortgage interest rate is low at 6.125 percent and he has about seven years left on it,” Fingerman says. “Instead of paying it off he can make that cash work for him.”

Plus, even by keeping the mortgage, Jason will be mortgage-free by age 52 - well before retirement.

Fingerman recommends Jason take the \$34,687 in cash and keep \$14,000 on the sidelines as an emergency fund. That amount will be more than enough to cover his monthly expenses should he be out of work for a few months.

Jason should take the remaining \$20,000 and invest it for the long term in a balanced mutual fund. If those dollars grow for 15 years at a rate of return of 10 percent, the account will be worth \$83,000 - more money thjat Jason can use to fund his retirement.

Or another possibility: Jason could take a portion of the \$20,000 and start investing in Roth IRAs. Fingerman says if he acts before April 15, Jason could still invest \$2,000 for the 2001

tax year. Then, he could continue funding the account, dollar-cost-averaging, with monthly contributions of \$250 per month. By age 60, if that account earns an average of 10 percent a year, would be worth \$104,000.

Waiting until age 60 for retirement would also have a big impact on Jason's 401(k). If he retires at age 55, the account will be worth \$121,000 at a 10 percent rate of return. If he stays on the job the extra five years to age 60, the account will be worth \$212,000 - nearly double in just five years.

Jason's 401(k) plan needs a little reorganization, Fingerman says. He'd like to see Jason diversify the portfolio so that 35 percent of the account is invested in large-cap value, 25 percent in large-cap growth, 15 percent in small- to mid-caps, 10 percent in international investments and 15 percent in bonds.

Jason can benefit from investing in both his 401(k) and the Roth IRAs together, Fingerman says. It's a tax strategy that Jason will appreciate when it comes time to withdraw the money down the road.

``He gets an instant savings now when he contributes to the 401(k), but then he'll have to pay taxes on that money later," Fingerman says. ``Because the Roth is tax-free, you'll have both taxable and tax-free money to draw from, so he'll have flexibility."

Separately, Fingerman notes that Jason has no life insurance, and says he probably doesn't need any, being a bachelor with no dependents. This will also allow Jason to financially concentrate on retirement going forward, instead of worrying about taking care of anyone else.

``He could retire at 55 and he's probably be OK, but if he wants to be more than OK, he should work until 60," Fingerman says. ``He's really better off than most people."