

Two long-term savers fine-tune their nest egg

Clarke Caywood, 53, and his wife Mary, 52, have always taken pride in the way they've handled money. As newlyweds in 1973, each made approximately \$12,000. Then Clarke inherited \$9,000 from his grandfather. The young couple used half as a down payment on a three-family apartment house, which gave them income and allowed them to put the money they would have spent on rent into savings. They sold the property for \$32,000 a year later, making a profit of nearly \$12,000.

"Even at that early stage, we were savers by instinct," Clarke says. "By buying a three-family building, our two tenants paid the mortgage and we were able to live virtually rent free."

BY KATHLEEN V. SCHMIDT

Through the years, the Caywoods turned visits to extended family in Florida and Arizona into vacations, bought used cars rather than new ones and shopped the outlet stores. Not believers in credit-card debt, they paid in cash.

Now, 27 years later, the Caywoods have three children: Matthew, 22, who is a Ph.D. degree candidate at the University of California on a full grant; Emily, 19, a sophomore at Northwestern University, and Graham, 14, a freshman at New Trier High School in Winnetka, Ill. Meanwhile, they have amassed more than \$325,000 in tax deferred savings between two 401(k) and 403(b) accounts.

The successful management of their finances doesn't mean everything went according to plan. In the mid-'70s, Clarke started dabbling in stock options, picking individual stocks and investing upwards of \$50,000. "It made for great cocktail conversation," says Clarke, "but it wasn't the wisest way to invest. I would have been better off in mutual funds. I discovered I wasn't the stock picker I thought I was."

Clarke has taught at Northwestern University's Medill School of Journalism in Evanston, Ill. since 1989. He left briefly last April to take a position as chief marketing officer for EMarketworld.com in Richmond, Va., commuting back and forth from his Winnetka home. At EMarketworld, he began contributing to a self-directed 401(k), which now stands at nearly \$30,000. In December, however, Clarke became a casualty of the dot-com meltdown, and he returned to his teaching position at Medill.

For the past 10 years, Clarke made annual contributions of \$10,500, the maximum allowed, to his Northwestern 403(b) plan, the nonprofit counterpart to a 401(k). The 403(b)

Over the years, the Caywoods took frugal vacations, bought used cars instead of new ones and paid for everything in cash. Despite a few twists and turns along the way, they have amassed more than \$325,000 in savings.



has a current value of about \$300,000. Mary, who re-entered the work force nine years ago, now runs a marketing trainer business out of their home.

Both the 401(k) and 403(b) plans are primarily in blue-chip stocks. Financial

REAL MONEY

planner Scott Coleman of Northbrook, Ill. KR D Financial Advisory Services thinks the funds could be better distributed: "This past year spoke to the importance of diversification. If your investments were over-allocated in blue chips, you had to be disappointed."

Though the Caywoods' financial portfolio is basically sound, Coleman feels their investments would work better if 60% were allocated to equities and 40% to fixed-income securities, aiming for a 10% average rate of return. He suggests diversifying among different bond types and different maturities, including Treasury, government agency and corporate bonds. Equity investments could be diversified among domestic large-

caps, mid-caps and small-caps, as well as some international stocks. Coleman also would like to see the Caywoods open a small business retirement account, like a Simplified Employee Pension (SEP), for a portion of Mary's earnings.

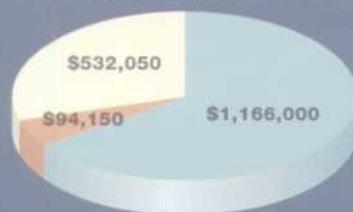
With the likelihood of rising college expenses over the next seven years, Coleman thinks the Caywoods might also look into a home equity loan. The benefit would be additional tax deductions, which would lower their taxable income, while the funds in the tax-deferred savings plans continue to grow. "The objective would be to earn a higher return on the capital over and above the cost of the line of credit."

Assuming Clarke is able to achieve a 10% annual return on his 403(b) and 401(k) savings plans, and that he continues to contribute the maximum per year to his 403(b) plan, he and Mary should come close to quadrupling their retirement assets over the next 12 years. If they do, they'll wind up with total savings of approximately \$1.5 million. ■

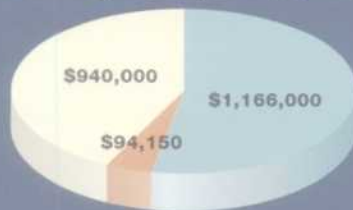
Fine-tuning for optimal returns

In addition to their 401(k) and 403(b) contributions, the Caywoods have been saving \$2,400 a year in a money market fund, where the interest is taxed. Coleman suggests they put that \$2,400—plus another \$1,000 a year—into a tax-sheltered annuity, which would increase their return by \$407,950 over 12 years.

\$2,400 to a Money Market Fund
Total savings in 12 yrs = \$1,792,200



\$3,400 to a Sheltered Annuity
Total savings in 12 yrs = \$2,200,150



Savings 401(k) 403(b)

MONEY TIP

If your child or grandchild is thinking about college, you might want to check out fastweb.com, which lists tens of thousands of grants and scholarships, many that people aren't aware of. Once the student-to-be signs up, he or she will receive notification when new scholarships are added to the database, deadline reminders, even tips on how to write persuasive applications.

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