

New parents get back on a saving schedule

In 1988, two recent college grads met at an IBM orientation in Rochester, Minnesota. A romance blossomed, and in 1994 they married. Today, Jon and Marcy Brandt, both 35, are still together at IBM. They're also working together at home to build a solid financial foundation.

Jon and Marcy are savers at heart. But two years ago, their savings program and lifestyle were dramatically altered by two events. The first was the birth of their daughter, Dana. The second was the purchase of a new house.

The Brandts had purchased their first home in 1992 for \$77,500. When the housing market peaked in 2000, they sold it for \$124,000 and bought a larger one. They were able to make a

big down payment, which keeps their mortgage payments low, but the new house costs more to run and is taking more of their income than before. To add to the pinch, after six weeks of maternity leave, Marcy took a year off from work to care for her daughter.

BY JENNA MAHONEY

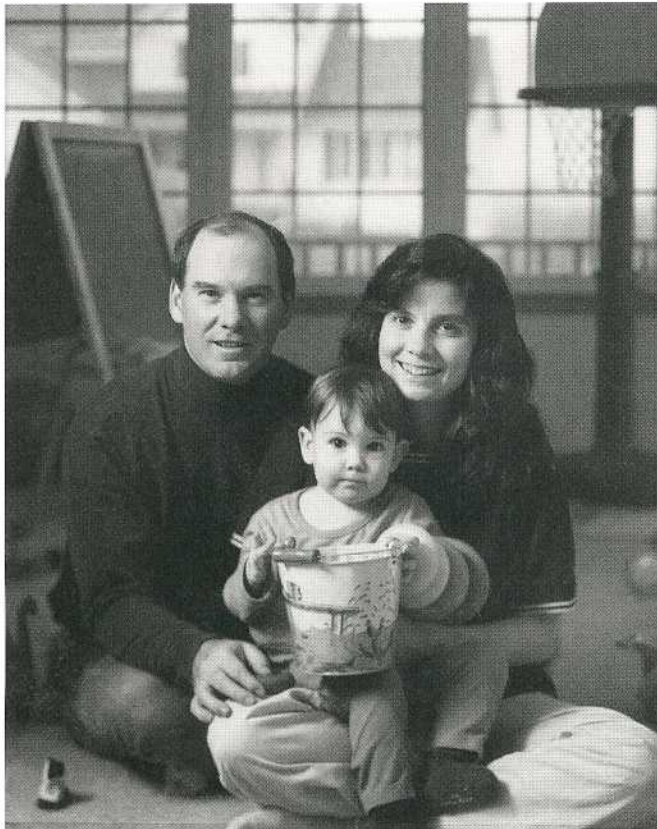
Before Dana was born, Marcy contributed the yearly maximum of 12% to IBM's 401(k) plan. During her year off, her income went to zero, as did her 401(k) contributions. At that time, Jon cut contributions to his 401(k) from the full 12% to 2%. "Since Marcy wasn't working, we wanted to prepare for the baby and balance the other bills," he explains.

Jon and Marcy also decided to work part-time so that one parent was always at home. "We did that until Dana was 16 months old, which was in October 2000. After that, we decided Marcy would go back to work full time," says Jon, who is continuing a 25-hour-a-week, part-time work schedule so that their daughter is at day-care only four hours a day.

Now that Dana is two, the Brandts are eager to get their finances back on track. As things stand, there's \$71,225 in Marcy's 401(k), \$69,376 in Jon's. Roughly two-thirds of Marcy's savings are in small- and mid-cap mutual funds, the other third in large-cap funds; Jon has about 60% in small- and mid-caps, 30% in large-caps and 10% in international funds. The Brandts are now putting about 6% of their salaries into their 401(k)s, and are thinking about setting up a college fund for Dana.

Their single biggest expenditure is the mortgage payment on their house, which comes to about \$1,200 a month, plus an extra \$100 a month toward the principle. Otherwise, the Brandts are frugal with their spending. "We have credit cards for convenience," says Jon.

"The first thing Jon and Marcy need to do is prioritize where they put their money. They aren't saving at a constant rate, and they need a clearer budget in order to allocate their funds more efficiently," says financial adviser Scott Coleman.



REAL MONEY

“We never carry a balance.” Paying cash for their two cars in 1998 eliminated car payments. And they aren’t big spenders. “We don’t eat out too much and we rarely go to the movies,” Marcy says. As for vacations, “We mostly take car trips and visit family in Iowa or Wisconsin.”

Combined, the Brandts make about \$120,000 a year. Besides their 401(k) plans, both Jon and Marcy have Roth IRAs and have been contributing \$2,000 each year. They also invest in mutual funds and pay \$450 a month for a variable life insurance policy.

“I like the idea of the insurance policy. Unlike a 401(k) or an IRA, it will allow us to access our money tax-free and with no penalties after 10 years,” explains Jon. The Brandts have about \$6,000 in a savings account, but feel that they should have more as a cushion.

Scott E. Coleman, a financial adviser at KRD Financial Advisory Services in Northbrook, Ill., took a look and had

this to say about their finances: “The first thing Jon and Marcy need to do is prioritize where they put their money. They aren’t saving at a constant rate, and they need a clearer budget in order to allocate their funds more efficiently.”

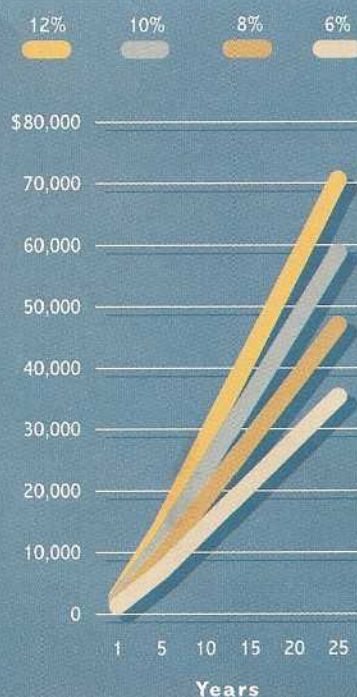
They also should be taking advantage of the fact that IBM offers a 50% match on every dollar they contribute to their 401(k). “That’s essentially free money,” says Coleman, “and the tax deferral allows them to save pre-tax dollars that will potentially be taxed at a lower rate at the age of retirement.”

Coleman also believes they should re-evaluate their insurance. “They might find a cheaper deal through their employer, in which case they can split the savings between their 401(k) plan and a savings account.”

As for Dana’s future tuition, they’ll have to weigh their priorities. “They’ll have a lot of time to save for college,” says Coleman. “They shouldn’t skimp on their own savings in order to start socking money away for college.” ■

Saving taxes

Financial planner Scott Coleman believes the Brandts should put the maximum allowed into their 401(k) plans. Because contributions are made with pre-tax dollars, a 401(k) is a tax-advantaged plan with a kicker. Assuming annual growth of 6%, 8%, 10% and 12%, here’s how much the Brandts will save in taxes if they follow Coleman’s advice.



MONEY TIP

Summer is a great time to travel. You know there are good deals online, but where? For starters, try cheaptickets.com, Priceline.com and lowest-fare.com. Frommers.com sends out a cool budget travel newsletter through email for those oft-missed deals. If you’re looking to travel by train, Amtrak.com is a surefire site to check for railway deals—just hit the “rail sale” tab.

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