Case Study #1: College Graduate in Debt

The Situation:

Jennifer Barry, 25, is not unlike many young adults today. Just a few years out of college, she is $23,300 in debt. Of this amount, $16,000 is owed on student loans and $7,300 is owed on two credit cards. "I kind of went overboard on credit in college," Barry explains. "Now I want to get this debt paid off as soon as possible so I can increase my savings."

Barry isn't waiting to repay the debt, however, before she starts saving. She participates in a 403(b) plan at work and is currently saving $90 bi-weekly. To date, she has accumulated $2,800 but she is unsure about whether she selected the right investment options. She puts 25% of her deposit in a stock index fund, 25% in aggressive growth, 25% in an actively managed growth fund, and 25% in a money market fund. "I wasn't sure what to do," she notes, "so I made the same choices as a co-worker." Lately, she has felt uneasy seeing her account balance decrease during the stock market's wild gyrations.

Automatic saving appeals to Barry, who confesses a weakness for shopping. She'd like to save more, both for retirement in her 403(b) plan and for emergencies. "I don't have much to fall back on if my car breaks down or I have some other emergency," she worries. After repaying her debts and increasing her savings, Barry wants to purchase a home and a new car within ten years. She is willing to assume some investment risk to achieve a high rate of return.

Like many young college graduates, Barry has a negative net worth. In other words, at this stage of her life, her debts ($23,300) exceed her assets ($5,600) for a net worth of minus $17,700. Her assets consist of $800 in a checking account, her $2,800 403(b), and a $2,000 car.

Barry shares an apartment with a friend and pays $350 per month for rent, plus $320 toward her four debts. She earns $28,900 annually ($2,408 per month) and her other expenses were not listed. Last year, Barry received a $685 tax refund and spent it on clothing and home furnishings.

Barry's employer provides health insurance. She participates in an HMO and is satisfied with the level of service. She lacks a renter's insurance policy, however, to cover the potential loss or theft of her personal possessions. Her automobile insurance policy has $150,000 of liability coverage. Barry also has employer-provided disability insurance to provide income if she was unable to work and contributes $14.04 per month toward the premium. The amount and duration of this coverage is unknown, however (many employer policies provide benefits for only two years or less).

Barry is not currently funding an IRA and could only guess at a retirement date in 2040 at age 65. She attended an employee benefits seminar two years ago and began her 403(b) plan as a result. "I learned about the awesome effect of compound interest," she notes. "As soon as I repay my debts, I will save more."

Suggested Financial Strategies:

- Accelerate debt repayment using the PowerPay computerized debt reduction program. This program systematically adds the monthly payment from repaid debts to remaining creditors. To obtain a PowerPay analysis, visit the Web site www.rce.rutgers.edu/money2000.

- Track spending for a month to determine how current income is spent. Using this information, Barry can then prepare a spending plan (budget). Ideally, income should equal expenses plus money set aside for savings. Barry seems to have substantial income unaccounted for and needs to build up an emergency reserve of at least three months expenses. She should also purchase renter's insurance.

- Consider additional automated investments such as increasing the 403(b) plan contribution when income rises. Another good strategy for small investors is to enroll in a mutual fund automatic investment plan. Deposits are then subtracted automatically from an investor's bank account, such as a $50 deposit on the 15th of every month. U.S. savings bonds can also be purchased in a similar manner through the Treasury Department's EasySaver® plan.

- Increase the liability limit on the auto policy from $150,000 to $300,000 for an adequate amount of coverage needed in today's litigious society. Another suggested strategy is to prepare a will in the event of an untimely death. Even with a negative net worth now, Barry's assets will grow over time and she needs a distribution plan.

- Read the prospectuses that accompany the mutual funds selected for her 403(b) plan. Select funds that have good historical performance and a low expense ratio. Reposition the 25% in the money market fund to a stock-based fund. With a 40-year time horizon, Barry will benefit from time diversification, which is the reduction of investment risk over time. Also, try not to get too upset about periodic declines in the value of her account. This comes with the territory but, historically, stocks have outperformed any other asset in time periods of 10 years or more.

Case Study #2: Young Family With Mounting Debt

The Situation:

Dan and Sue Koogler, 29 and 28, are trying to get ahead financially. They also want to buy two "big ticket" items (a house and a car) and pay for Dan to complete his college degree requirements. Their primary financial objective, however, is to reduce debt and achieve positive cash flow. The couple also has very little savings and would like to be able to put some money aside.

The Kooglers are parents of a pre-school child and Sue is a stay-at-home mom. Dan is the sole breadwinner and earns $40,000 annually. It was unclear if Sue was interested in returning to the labor force or whether child care costs and taxes would wipe out whatever she would earn.

Unfortunately, the Kooglers are starting to face some financial difficulty. Monthly payments on their debts are consuming a greater percentage of their income and, along with their mortgage, don't leave them much income for other expenses. The couple has absolutely no money in savings for emergencies.

Another indicator of financial distress is the couple's negative net worth. In other words, they owe more than they own. The couple's assets total to $100,600 and include $1,000 in a checking account, $2,600 in Dan's 401(k), a $84,000 condo, and two cars and personal property worth $13,000.

On the debt side, the couple owes $84,000 on their mortgage, two personal loans totaling $10,000, $7,000 on a credit card, $7,193 on a time share, and $13,000 to Sue's parents. Their net worth (assets minus debts) is, thus, minus $20,593.

Dan says he would like to retire when he is 55 and "live comfortably and independently." Neither Sue nor Dan has IRAs, however, and Dan has stopped contributing to his employer 401(k). The couple has no wills. "I don't have money to pay a lawyer to do the will and am not sure how to do it without a lawyer," Dan explained.

The couple has $300,000 of term life insurance on Dan and an unspecified amount of family health insurance paid for by Dan's employer. They carry adequate 250/500 liability insurance on their cars but their $51,000 of condo insurance appears low compared to the unit's market value. There is no disability insurance to cover the loss of Dan's income should he be unable to work due to accident or illness.

Suggested Financial Strategies:

- Track monthly income and expenses for a month or two to analyze household cash flow and identify expenses that can be reduced.

- Contact Rutgers Cooperative Extension for a PowerPay analysis. This computerized debt reduction program calculates the time and interest saved by adding the monthly payment for debts that are repaid to the payment due to remaining creditors. For a PowerPay worksheet, visit the Web site www.rce.rutgers.edu/money2000.

- Another resource for dealing with debt is the Consumer Credit Counseling Service (CCCS). CCCS can often negotiate to reduce a client's interest rate and has a debt management program to make pro-rated payments to creditors. For additional information, visit www.nfcc.org.

- Dan should try to save something, even $10 per paycheck, for retirement. Otherwise, he will lose the tremendous advantage of compound interest. This is especially true if his employer matches 401(k) plan contributions. Not taking advantage of this is like walking away from free money.

- Sue should explore income-generating possibilities. If it doesn't pay to work outside the home, she might be able to work at home or work during hours that Dan could be home with their child.

- As the sole family earner, Dan is taking a big risk without disability coverage. If he couldn't work, there would be no source of income to pay household bills. While disability insurance would add an extra expense, it would also provide peace of mind. Coverage should be explored. A review of the adequacy of the couple's condo insurance is also recommended.

- A top priority is emergency savings. Something should be set aside from each paycheck to build up a reserve. Ideally, this reserve should equal about three month's expenses.

- Another priority is to draft wills. Without them, the state would decide who would get the Koogler's property and be guardian to their child.

- Although retirement is decades away, a savings need analysis is recommended. The Kooglers need to calculate what they need to save and determine if early retirement at 55 is possible. A good resource to get started is the "Ballpark Estimate" worksheet on the Web site www.asec.org.

Case Study #3: Young Couple Coping With Debt

The Situation:

Bob and Pina Ing, 31 and 28, are in the midst of a financial crisis. They freely admit that they have lived "paycheck to paycheck" for years and it has caught up with them. Pina was recently laid off from her employer, a New York-based dot-com, which has made their situation even more precarious. For the first time, they are scrambling to make minimum payments on their credit cards.

The Ings have had a negative net worth since they were both single and in college. This means that they owe more than they own. On the asset side, they have $1,000 in checking, $10,000 in a 2.5% savings account (from wedding presents a year ago), $3,000 in Bob's 401(k) plan (his employer automatically enrolled him), two cars worth $18,000, and $8,000 of personal property for a total of $40,000 of assets.

On the debt side of the ledger, the Ings owe $12,800 on nine credit cards, $21,000 in student loans, and $14,000 on car payments for a total of $47,800. They are very interested in exploring ways to accelerate the repayment of debt and reduce monthly payments.

Bob earns $42,000 ($3,500 monthly) in a sales position and Pina had been earning $27,500 at the dot-com, or 40 percent of the family's income, before she was "dot-canned." The Ings admit that they are clueless about how much they actually spend each month. "We know our big bills, like car payments and rent, but we have never added up things like gas and food," explains Pina.

The Ings call their savings account "no-touch money." They are hesitant to spend it because it is all they have and because they would like to have something to "show" wedding gift donors, such as the downpayment for a home. They also plan to continue contributing 3% of Bob's salary to his 401(k).

Neither spouse has life or disability insurance, nor do they have a renter's insurance policy to cover their possessions. They carry adequate 100/300/50 liability on their cars and have health insurance provided through Bob's employer.

Pina is tired of a four-hour daily commute to New York City and is exploring career opportunities closer to home. She is also wondering whether she should get out of the volatile high tech industry sector and work for a "safer" employer such as a Fortune 500 company or government. "My skills are in computer use and editing," she explains.

Bob and Pina could only guess at a retirement date: 2039,when Bob is 67. This is the age required for a full (unreduced) Social Security benefit for persons born in 1960 and later. More immediate concerns are paying off debt and buying a new car in two years. The Ings would also like to buy a house and have a baby within the next decade.

Suggested Financial Strategies:

- Total monthly income and expenses for a month or two to determine household spending patterns and identify expenses that can be reduced.

- Prepare a spending plan based on their reduced income. Review their tracking form and consider ways to increase income and reduce expenses. To get ahead, the Ings must learn to live below their means.

- Stop credit card purchases immediately to avoid incurring additional debt. This is a common error of unemployed persons, who try to maintain their previous lifestyle on plastic.

- Contact the Consumer Credit Counseling Service (CCCS) for assistance with debt reduction. CCCS may be able to negotiate with the Ing's creditors to lower the interest rates or reduce payments. If the Ings participate in a CCCS debt management program, they will have to surrender their credit cards. Working with CCCS will also be recorded in their credit file and is considered a negative remark with some creditors, but no worse than their late payments.

- Another debt-related resource is the Cooperative Extension PowerPay program. The program calculates the time and interest savings when the monthly payment from repaid debts is added to remaining debts. As each creditor is repaid, its monthly payment gets applied to a remaining creditor. A calendar is included that tells how much each creditor gets paid.

- Reposition savings to a money market mutual fund and/or CDs for a higher interest rate than the bank passbook account. The couple might also consider using some (e.g., $3,000) of their savings to accelerate the repayment of debt.

- Pina can check with counselors at the local community college about future career options. Many have comprehensive databases of occupational information.

- For financial goals such as house and car downpayments, the Ings should determine a date and price and determine how much savings is required per year and per month to achieve them.

- Purchase disability insurance and renter's insurance as soon as possible and have a life insurance needs analysis done. Purchase a term life policy to obtain the most coverage for the least cost.

Case # 4: Single-Earner Family With Children

The Situation:

Greg and Cindy Hana, 34 and 27, are the parents of two small children with a third on the way. They are concerned about their financial future and are wondering if they're doing things right. Greg is the sole breadwinner and earns $66,000 annually. He works in a relatively dangerous occupation, as a city firefighter, and is eligible to receive a pension in 2011, when he is only age 45, with 25 years of service.

The Hana's short-term financial goals are to replace their aging cars in a few years and begin an automatic mutual fund investment program. Longer term, they are concerned about college costs and retirement. Their monthly expenses average $1,500, including a $1,300 mortgage payment on their $200,000 home.

Greg currently saves $350 per month in a deferred compensation plan offered by his employer. The couple also has $1,000 of stock and $2,000 in mutual funds. Other assets comprising their $74,500 net worth are a $3,000 CD, $2,000 in checking, $6,500 of life insurance cash value, their home, and two cars worth $2,000.

The couple's two debts are a $141,000 mortgage balance and a $1,000 Visa card bill.

The Hanas own life insurance policies totaling $400,000 ($300,000 through work) on Greg and $77,500 on Cindy but lack disability coverage. Greg's employer provides health insurance for the entire family. The liability limits on their auto and homeowner's policies are adequate.

No individual retirement accounts (IRAs) were noted on the Hana's questionnaire. Greg will receive a traditional defined benefit pension based on his income and years of service. Since he will be so young when he is eligible to collect benefits, he plans to continue working in a related field.

A glaring weakness in the Hana's financial planning is their lack of a will. "We do not know who to assign as guardians of our children," notes Greg. This is a common dilemma for parents of young children, who sometimes wait until their children are grown to draft a will so they don't have to deal with this issue.

Suggested Financial Strategies:

- Track cash flow for a month or two to see where their money is going. There is a considerable about of income unaccounted for. Greg grosses $5,500 monthly and says they spend only $1,500. They are probably spending a lot more than they realize.

- Visit a Web site with financial calculators, such as www.financenter.com to calculate the savings required for college and retirement. The Hanas should complete a calculation to determine what they need to save.

- Greg is fortunate to have the option to collect a pension at age 45 and still be young enough to work another 20 or so years. To do so, he will need to continue to update his job skills. To get ahead in today's job market, it is important to never consider your education finished.

- A big weakness of the Hana's is lack of disability insurance. Greg is at high risk of an accident, due to the nature of his job, and is the sole support of his household. If his employer does not provide coverage, an individual policy should be purchased as soon as possible. Perhaps he might be eligible for group rates through his union.

- Another immediate need is the preparation of wills. Despite their reservations about finding the "perfect" guardian, the Hanas should select the best available people (e.g., friends, grandparents) for the job and get a will drafted. Otherwise, the state will make this decision for them if they die young.

- Assuming the Hanas identify additional cash to invest after tracking their monthly expenses, they should consider increasing Greg's tax-deferred plan contribution and/or dollar-cost averaging mutual fund share purchases (e.g., $50 per month). Most mutual funds will deduct the amount of purchase from a bank account if you check this option on your account application.

- To accumulate funds for a new car, break the cost into small do-able amounts. For example, if the Hanas need $9,000 in three years, that works out to $3,000 per year or $115 per bi-weekly paycheck.

- Another suggestion is to boost their emergency reserves to six months expenses. Some of this money can be placed in short-term CDs or a money market mutual fund to earn a higher return than bank passbook accounts. At least a six-month cushion is generally advisable for single-earner households.

Case # 5: Single Parent With Negative Net Worth

The Situation:

Peggy Janis, 34, is divorced and a single parent of two teenagers. Employed full time, she earns $28,360 annually. No mention was made of other income sources such as alimony or child support.

Janis wants to own her own home and develop a realistic budget to manage her income. She'd also like to get a higher-paying job and feel more financially secure.

Concerns about financial security are not unfounded. From the information provided, Janis appears to have a negative net worth. This means that her debts exceed her assets, which include $800 in a checking account, $8,331 in a 403(b) retirement savings account, a $1,500 car, and $2,000 of personal property.

She owes $19,000 on seven credit cards that average a 19% interest rate. Recently, she has found it increasingly difficult to make minimum payments.

Janis says she spends $1,300 of her $2,363 monthly income, including $500 for rent. She doesn't have a car loan and puts nothing aside for savings. She doesn't own life or disability or renters insurance and details were lacking about the adequacy of her automobile coverage. Her employer provides health benefits for herself and the children.

Janis does not have a will. She is also living day to day and is most concerned with meeting current expenses rather than saving for the future.

She did indicate an anticipated retirement date, however: 2026, when she would be 59. To date, she has not started an individual retirement account and it was unclear if her employer provides a pension.

Suggested Financial Strategies:

- Track monthly income and expenses for a month or two to analyze household cash flow and identify expenses that can be reduced.

- A resource for dealing with debt is the Consumer Credit Counseling Service (CCCS). CCCS can often negotiate to reduce a client's interest rate and has a debt management program to make pro-rated payments to creditors.

- Janis could also call her credit card issuer herself and try to negotiate a lower interest rate.

- A top priority is emergency savings. Something should be set aside from each paycheck to build up a reserve. Ideally, this reserve should eventually equal about three month's expenses. A simple way to start is saving $1 a day, plus pocket change, which will grow to about $50 per month. Savings for a house downpayment can also be accumulated gradually in a similar manner.

- Another priority is to draft a will. Without one, the state would decide who would be guardian to Janis' children. Barring unusual circumstances, her ex-husband probably would be named to raise the children if something happened to Janis, but she could suggest someone else, if needed.

- Agencies such as a local women's center or community college should be contacted for career planning assistance. Scholarships or financial aid options should be explored to avoid additional expenses for tuition.

- A review of her ex-husband's insurance coverage should be done. Janis and her children are "living on the edge" with no back up funds in the event of her death, disability, or the destruction of their property. This situation would be worse if her "ex" lacks coverage also.

- Take advantage of all available assistance programs that are designed to help struggling single parents. Another available resource is the federal earned income tax credit.

Case Study #6: Couple Coping With Debt

The Situation:

Sue and Dan Shimo, 37 and 42, are experiencing a cash flow crisis. Sue has been disabled and unable to work for the past five months. She is awaiting a verdict on her application for Social Security disability insurance in a few months. Previously, she earned $24,000, in addition to Dan's $33,000 salary, so the family has lost 42 percent of its income.

Unfortunately, the Shimo's expenses haven't decreased accordingly. In fact, they have increased. Over the past year, the couple's credit card balances have soared to a total of $8,400 as they took several cash advances to pay household bills. Sue must also pay $450 per month out-of-pocket for anti-depressant prescription drugs.

The Shimos have known for some time that they are spending more than they earn. What they are unsure of, is by how much their expenses exceed their income. They have also spent down their emergency savings to $1,200, which is less than a month's expenses. Before Sue left her job, the couple had $3,500 in savings.

The Shimo's largest household expense is their $1,165 mortgage payment. The interest rate charged is 7 ¾ percent. They are also paying about $200 monthly for minimum payments on their credit cards and have a $296 car lease payment. They recently paid a penalty to terminate Sue's car lease early. "Without a job, I simply couldn't afford to keep the car," she explained.

The Shimos admit that they've never kept good financial records. They have also lived "paycheck to paycheck" for over a decade and have no retirement savings or education fund for their seven-year old child. "As soon as we got paid, the money was gone," said Dan.

The Shimo's net worth (assets minus debts) is $28,720, reflecting the fact that they have saved very little and have a high debt load. Their assets include $1,200 in a passbook bank account, $1,800 in checking (being held for bills), $2,600 of life insurance cash value, their $105,000 condo, and $20,000 of personal property. Sue had a 401(k) with her previous employer but spent the $2,800 balance when she received a lump sum distribution earlier this year.

Household debts total $101,880 and include a $92,000 mortgage balance, $8,400 on four credit cards, and $1,480 (five more payments) on Dan's car lease. The Shimos recently got hit with a $29 late fee when they were unable to make a payment on one of their credit cards by the due date. To add insult to injury, the annual percentage rate (APR) on that credit card increased from 14.9% to 23.4%.

Sue and Dan each has $50,000 whole life insurance policies and health insurance paid by Dan's employer. Neither has disability insurance (except for the short-term state benefits), an omission that became very apparent since Sue has been unable to work. Their condo and auto insurance are adequate with $300,000 liability limits.

Neither spouse has a will. "Truth be told, we don't know who to name as a guardian," explains Sue. "That is the real reason that we haven't seen a lawyer." The couple could only guess at a retirement date: 2026 when Dan is 67. This is currently the age required for unreduced Social Security benefits for people born after 1960. The Shimos have never calculated what they need to save.

Suggested Financial Strategies:

- Total monthly income and expenses to determine the extent of negative cash flow.

- Prepare a spending plan based on a reduced income. Review their tracking form and consider ways to increase income and reduce expenses. Accept the fact that major expense reductions will be needed if Sue does not obtain Social Security disability benefits and continues to be unable to work. The Shimos cannot continue to live their previous lifestyle.

- Stop credit card purchases immediately to avoid incurring additional debt. Contact the credit card that is charging the penalty APR and ask whether it can ever be lowered. Some credit cards revert back to the original interest rate after several months of on-time payments and some do not. If not, close the account and pay it off ASAP.

- Contact the Consumer Credit Counseling Service (CCCS). CCCS may be able to negotiate with the Shimo's creditors to lower the interest rates or reduce payments. If the Shimos participate in a CCCS debt management program, they will have to surrender their credit cards. Working with CCCS will also be recorded in their credit file.

- Another debt-related resource is the Cooperative Extension PowerPay program. The program calculates time and interest savings when the monthly payment from repaid debts is added to remaining debts. As each creditor is repaid, its monthly payment gets applied to a remaining creditor. A calendar is included that tells how much each creditor gets paid.

- Prepare a will. If the Shimos don't, the state will decide who will care for their child and inherit their property. Name contingent guardians and executors in case those named first are unable to serve.

- Inquire about available mortgage interest rates and consider refinancing.

- Gradually increase emergency savings to about three month's expenses. Try to save even $10 per week to beef up their reserves.

- Dan should also purchase disability insurance as he is now the sole breadwinner. If he has the interest and marketable job skills, he could also start a sideline business, or work a second job, to increase household income and obtain additional money to repay debt or invest.

- Do a retirement savings needs analysis. Check the *Ballpark Estimate* calculator on the Web site www.asec.org. If Dan has access to a retirement plan, he should start contributing, even one percent of his pay, to take advantage of employer matching and compound interest.

Case # 7: Single Parent Receiving Temporary Alimony

The Situation:

Hope Forma, 45, is a single parent of two teenagers. She is currently attending school part-time to earn a master's degree. She expects to finish in four years, which is exactly when her alimony will end. She earns $12,000 a year and receives $32,000 for next two years and $21,480 for the two years after that. She expects her income to at least triple when her schooling is completed.

Forma's short-term goals are to complete her degree and sell her $285,000 home and move into a smaller dwelling that is more affordable. She also wants to send her children to college and save for her future. "I know I need to downsize my lifestyle to be able to save for retirement," she notes.

The house has a $197,000 mortgage, which would leave $88,000 (minus selling costs) of profit when it is sold. Her capital gain would be less than $250,000 (for single taxpayers) so there is no tax liability. Forma would then like to buy a condo for less than $100,000 so that she is no longer responsible for snow removal and yard work.

Forma's net worth statement was incomplete, but she listed $80,000 of cash assets, $72,254 of invested assets (including a $67,000 IRA), her home, and a vehicle and personal property worth $33,000, for total assets of $470,254. Her only debt is the mortgage, leaving her with a net worth of $273,254. No other details, such as where the money is invested, were provided.

Forma noted that she has a will but it needs to be updated. She also plans to change her tax withholding to reflect her current economic status. She has $100,000 of whole life insurance and an employer-paid health plan (PPO) that covers her and the children. Her home and car appear adequately insured with $500,000 liability limits. No disability insurance was listed and Forma asked, "Will I need this?" on her questionnaire.

Forma estimates that she spends $5,000 monthly ($60,000 a year), which is $1,334 more than the $3,666 she receives monthly ($44,000 a year). She's been using money received in her divorce settlement to make up the difference. As she's seen her savings dwindle, she has become more concerned about her finances and knows she needs to "do something" to get things in balance.

Retirement is planned between 2014 and 2019, when Forma will be 59 to 64. She anticipates receiving Social Security, plus an employer pension, plus her current IRA and whatever else she saves in the future. Upon retirement, she'd like to buy a condo in a warm and inexpensive state and be financially independent of her children in her old age.

Suggested Financial Strategies:

- Track household spending for a month to identify expenses that can be reduced. In the short run, Forma needs to "close the gap" as much as possible between income and expenses to improve her cash flow. The sooner she sells her house and "trades down" to smaller quarters, the better. It is obvious that she can't afford her previous lifestyle on her current income.

- See a lawyer as soon as possible to prepare a new will. Also, make sure that everyone named to key positions (e.g., executor) is who she wants and that all beneficiary designations on financial accounts (e.g., on IRA) also reflect her current wishes.

- Purchase disability insurance as soon as her income stabilizes. Policies generally cover up to 70% of gross income. Disability insurance is an overlooked area of family finance and provides benefits to replace lost wages in the event of accident or illness. Look for a policy with an affordable waiting period and a definition of disability as the inability to perform the duties of her current occupation.

- Aim for diversification and growth potential in the investment of the proceeds of the sale of her home. If she clears $80,000, she might use up to $50,000 as the downpayment on a condo and invest the rest. Different investments than what she currently owns should be selected. They should provide above-average performance and have low expenses.

- As for the college education of her children, Forma noted some "in trust for" accounts, but did not specify an amount. While she has some money in savings, it is unclear how much she'll have when her children are ready. Her first investment priority should be her own retirement, however, because there are scholarships and loans for school, but not for old age. Use an online financial calculator to estimate the savings required for both college and retirement.

Case Study #8: Workers Coping With Investment Losses

The Situation:

Hope and Kevin Danes, 47 and 48, are worried about their finances. Their major concern, like many investors during 2000-02, is the substantial drop in the value of their investment portfolio. A year ago, the couple's net worth was approaching $750,000. Today, it is less than $600,000, despite regular deposits over the past year to their savings account, IRAs, and Hope's 401(k) plan.

Hope, particularly, is concerned about these losses and is, in fact, losing sleep over this. In the last quarter, alone, her 401(k) account balance has plummeted from $103,000 to $78,000. When questioned about the types of investments she holds, she admitted that she does not understand her investment selections. A review of her account statement revealed a 100% stock asset allocation in five mutual funds, including an emerging markets fund and an aggressive growth fund.

On the plus side, the Danes have no debt with the exception of a $88,000 mortgage balance. Both of their cars are fully paid for and they pay credit card bills in full each month. In addition, they save $1,000 monthly in a passbook savings account that currently earns 1.5%. Hope also contributes the maximum allowed ($11,000 this year) to her 401(k) and Kevin recently started a Simplified Employee Pension (SEP) plan with his self-employment earnings, although it is not funded to the maximum allowed.

Together, the Danes earn $110,000 and were hoping to retire in their mid to late fifties. With the recent market downturn, however, they wonder if this is still possible. They are also wondering if they should prepay the principal on their 6.5% mortgage instead of saving $1,000 monthly in their passbook account.

The couple's net worth is $595,000. Assets total $683,000 and consist of $30,000 in passbook savings; $5,000 in checking; Kevin's $15,000 SEP; $22,000 in IRAs; $78,000 in Hope's 401(k); $258,000 in a rollover 401(k) from Kevin's previous job (down from $350,000 and also invested very aggressively); a $250,000 house; and $30,000 of personal property.

Details of the couple's insurance and estate plans were not provided as their immediate focus was on investment decisions. They did indicate, however, that they are in the 27% marginal tax bracket for married couples filing jointly (taxable income between $46,700 and $112,850 in 2002).

Suggested Financial Strategies:

- Know your risk tolerance level and realize that there are trade-offs with every investment decision. The more stock in one's portfolio, the greater its volatility (i.e., ups and downs in prices). Some people are intentionally aggressive investors and are willing to incur a greater chance of loss for the potential of a larger gain over time. Others, such as the Danes, appear not to know what they got themselves into and became "accidental aggressive investors."

- Learn about basic investment principles, such as diversification, and investment performance history, which indicates that stocks have outperformed bonds and cash investments in time periods of ten years or longer in the past (this is, however, no guarantee for the future). A helpful resource is the *Investing For Your Future* home study course. The course can be accessed for free online at www.investing.rutgers.edu.

- Hang tight, if possible, with existing investments until the market eventually rebounds. Selling now would only convert a paper loss to a real loss and it wouldn't even be deductible in tax-deferred accounts such as IRAs and 401(k)s. Consider selling only if their mutual funds have experienced four consecutive quarters of below market average returns.

- New payroll deposits can be invested more conservatively. Contact the custodian of Hope's employer plan for information about available investment options.

- Consider investing in low-expense stock and bond index funds that track market indices rather than aggressive stock funds. Other less volatile types of stock funds to consider are equity-income, asset allocation, and balanced funds, which include several types of assets in one fund portfolio. Look for mutual funds with low expenses and good 5- and 10-year performance relative to market indices and peer funds.

- Another, more conservative, strategy would be to invest a sum of money in zero-coupon bonds timed to mature during retirement. The balance could be invested in stock index funds. If worst came to worst and they lost all money in stocks (highly unlikely), they'd still have their original principal from the zero-coupon bond at maturity (minus the effects of inflation).

- Reposition the $30,000 in passbook savings. The Danes could earn 2% to 3% more, without any loss of principal, in U.S. Savings bonds, longer-term CDs, and Treasury bills and notes.

- As for their $1,000 of savings each month, prepaying interest on a 6.5% mortgage is equivalent to earning 4.74% after taxes (6.5% - 6.5 x .27). If they would not earn any more than 4.74% on an alternative use of this money, prepaying would make sense after fully funding Stan's SEP (note: people with outstanding consumer debt, or those not fully funding tax-deferred retirement plans, especially with employer matching, should do these things first before prepaying a mortgage).

Case Study #9: Young Widow Facing The Future

The Situation:

The average age of widows in the United States is 56. Widowed this year at age 48, Peggy Brie is on her own financially at a much earlier age than many women. She has many important decisions to make and limited financial experience.

Brie and her late husband, together, earned $135,352. Of this amount, Peggy earns $47,000, so she has lost two-thirds of her household income. Her two major concerns are to maintain her household on a greatly reduced income and to wisely manage her late husband's $239,000 life insurance policy and $110,000 403(b) account. She is also expecting a $45,000 inheritance within the next six months, so she'll soon be making decisions to invest almost $400,000.

Brie's net worth is $425,680. On the asset side, she has $800 in checking and $239,600 (mostly the insurance settlement) in a bank account paying 1.65% interest. In addition, she has the $110,000 403(b) balance, $18,000 in five stocks that she knows nothing about and wants to unload, a $11,000 car, a $215,000 home, and $20,000 of personal property and home furnishings.

Brie also has $188,720 of debts. They include $4,720 remaining on her late husband's car lease ($337 per month x 14 months), an $80,000 first mortgage, an $83,000 second mortgage, and $21,000 of credit card debt, $13,000 of which includes medical and funeral expenses that had to be charged before the insurance settlement arrived.

Brie estimates that her monthly expenses total $4,000, but she really isn't sure. Her biggest expense is $2,300 per month on the home mortgages. This is more than half of the $3,916 that Brie grosses each month and 72% of her $3,200 net pay.

Brie is considering paying off both mortgages with the insurance proceeds as soon as possible so that she doesn't have mortgage payments looming over her. It is very important to her to keep the house for at least another 10 to 15 years until she is ready to retire. Her three children are in their late teens and early twenties and two still live at home.

Brie estimates that she will retire in 2016 at age 62. She will be eligible for an employer pension and Social Security but has no individual retirement assets of her own. Her employer offers a tax-deferred retirement plan, but she has never participated. "My husband was the saver and I liked to spend what I earned," she explains. Brie plans to rollover her husband's 403(b) into her name and not touch this money until she retires.

Brie has adequate employer-paid health insurance that covers her and two of her three children who are still considered dependents. It has low deductibles and co-payments and $ 1 million of major medical coverage. She has $150,000 of life insurance and no individual or employer-provided disability insurance. The coverage limits of her auto and homeowners policies were not specified.

Suggested Financial Strategies:

- Total monthly income and expenses and develop a spending plan based on current figures.

- Realize that there are trade-offs with every decision. If the insurance money is used to pay off the mortgages, monthly expenses will be much easier to handle. On the flip side, however, there is the "opportunity cost" of not having that money available to invest. Brie says that she would probably only keep this money in a low-rate savings account because she knows nothing about investing. In this case, paying off her 6.5% and 7.75% mortgages makes sense economically and for peace of mind.

- Pay off the $21,000 credit card balance with cash assets. It is unwise to earn under 2% on savings while paying double-digit interest on credit cards. This is a common financial error called "mental accounting" (thinking of one's money as separate accounts instead of as a combined total).

- Keep at least three months expenses (about $12,000) in liquid cash assets for emergencies. This money can be placed in Treasury bills or money market mutual funds to earn a higher return. If Brie sells the stock and repays the two mortgages, she'd have $94,000 left ($239,000 + $18,000, minus $163,000). After setting aside $12,000, and repaying $21,000 debt, she'd have about $60,000 to invest after taxes and/or commissions on sale of stock, plus $45,000 that is coming ($105,000 total).

- Consider investing in low-expense stock and bond index funds that track market indices. Another, more conservative, strategy would be to invest, say, $30,000 to $40,000 in zero-coupon bonds timed to mature at retirement. The balance could be invested in stock index funds. If worst came to worst and Brie lost all money in stocks (highly unlikely), she'd still have her original $105,000 at maturity.

- Once the mortgages are repaid, start a Roth IRA, beginning this year, with the "extra" income she'll have by eliminating a major household expense. In addition, Brie should try to save at least the percentage of her pay that will earn her the maximum match from her employer's savings plan.

- Contact the car dealer that supplied her deceased husband's leased car and arrange to return the car. There may be a penalty (check the lease agreement) but it would be much cheaper that continuing payments on a second car that she doesn't need. Another option would be to keep the leased car and sell her own, fully paid for, car outright for cash.

- Revise her will and name a new executor. Ditto for the beneficiary designation on her life insurance policy and any other legal documents that mentioned her deceased husband.

- Consider opportunities for job training and advancement to increase her income in future years. Good local sources of career counseling information are local women's centers and community colleges.

Case Study #10: Coping With The Aftermath of Cancer

The Situation:

Dale and Sally Gab, 48 and 47, have had a difficult year financially. Dale was diagnosed with cancer and spent most of last year in treatment. While he received paid sick leave from his "day job," the Gab's income decreased by almost $10,000 because Dale was too tired to operate his sideline Web site development business. Worse yet, the Gabs were responsible for about $15,000 of medical bills that were not covered by insurance. The result: a $25,000 hit to the family's cash flow.

"We thought we had good health insurance," notes Dale, who pays almost $2,000 annually toward the cost of traditional health coverage through his employer. The insurance covers Dale and Sally and their 8-year old son, Chad. When the Gabs read the fine print, however, they found that they were responsible for 20% of the cost of radiation and chemotherapy. Several expensive diagnostic tests were also not fully reimbursed.

The Gabs are wondering whether they should switch to a managed care plan that covers 100% of chemo and radiation in case Dale needs additional treatments in the future. "We don't like the idea of owing 20% of an unknown number," Sally explains.

To pay last year's medical bills, the Gabs withdrew $15,000 from savings. They charged the medical bills to their GM credit card to get discount dollars toward a new car, but paid the bill in full with money from a mutual fund that was earmarked for Chad's college expenses. They always try not to revolve a balance on their credit cards.

Another drain on the Gab's finances was the so-called "secondary costs" of Dale's disease. They included over fifty trips to the hospital for treatments and increased telephone bills to call doctors and family members. Dale recently got a new cell phone plan with more minutes so that he could make health-related calls during the day from work without having to use an expensive telephone calling card.

Together, Dale and Sally earned $84,000 last year. Dale earned $38,000 and Sally, $46,000. Dale hopes to resume his sideline business this year and charge $75 an hour to design Web pages. Of their $7,000 monthly gross income, they estimate that household expenses total $3,500. Dale and Sally also contribute 10% of their respective salaries ($8,400 total) to tax-deferred employer retirement savings plans, plus an additional $2,000 apiece to Roth IRAs. Sally's employer also provides a defined benefit pension to which she contributes 7% of her salary.

The Gab's net worth is $298,400. Assets include $1,000 in checking and savings, $20,000 in CDs (set aside for Chad's college expenses), $150,000 in 401(k)s, $42,000 in traditional and Roth IRAs, two cars worth $15,000, a $180,000 house, and $5,000 of personal property. Their debts total $114,600 and include a $15,000 home equity loan, $4,600 on car loans, and a $95,000 mortgage.

Dale's bout with cancer also has the Gabs concerned about life and disability insurance. Dale and Sally each have $150,000 term life insurance policies. In addition, Dale's job provides coverage equal to three times his salary ($114,000). Neither spouse has disability coverage to provide income if they were unable to work. Dale, however, has 180 accumulated "sick days."

The Gabs have recently been talking seriously about retirement. They had originally planned to work until age 65 but, with Dale's health problems, are now considering age 55 in case his life expectancy is reduced. He would then step up his Web site business to replace part of his earnings. The Gabs have not ever calculated what they to save, nor have they prepared wills or any other estate planning documents.

Suggested Financial Strategies:

- Switch health insurance plans very carefully. Check with Dale's employer about the annual open enrollment period to make changes and make sure that there are no pre-existing condition clauses that could limit future coverage. Another important consideration is whether the Gab's doctors, and especially Dale's oncologists, participate in other plans.

- Consider the purchase of disability insurance. While Dale may now be uninsurable or, at the very least considered "high risk," Sally is the higher earner and needs to cover the risk of loss of her income due to an accident or illness. As the Gabs have already experienced, large uninsured expenses can instantly wipe out years of savings. Fortunately, Dale still has about eight months of paid sick leave.

- Increase emergency savings to at least three months expenses. The Gabs should also track spending for a month or two because substantial income is unaccounted for.

- Calculate the savings required for retirement. The Gabs should try different scenarios with various combinations of retirement ages, life expectancies, and income replacement percentages. A simple resource for retirement planning is the *Ballpark Estimate* worksheet on the Web site www.asec.org.

- When Dale resumes his Web site design business, he should establish a Simplified Employee Pension (SEP) plan to shelter additional tax-deferred income. Business owners can contribute up to 13.04% of their net business income (i.e., profit after business expenses).

- Draft wills immediately, naming an executor and a guardian for Chad. Otherwise, the state will determine the distribution of the Gab's assets. Also, considering Dale's health, the Gabs should prepare living wills and a durable power of attorney.

- Do a college savings calculation for Chad and take action to replenish savings for his college expenses. An excellent place to save is a state-sponsored college savings plan (a.k.a. "529 plan"). Check the Web site www.collegesavings.org for details about state 529 plans.

Case Study #11: Laid Off Factory Worker

The Situation:

Sandra Hayhoe, 49, was recently laid off from a local factory. Worse yet, her former employer has filed for Chapter 11 bankruptcy and closed its doors so she doesn't have any health insurance. Normally, when someone loses their job, they are eligible for continued health benefits, at their own expense, under a federal law called COBRA, which covers employers with 20 or more workers. In Hayhoe's case, however, there is no longer any employer to collect premiums or administer coverage.

Prior to losing her job, Hayhoe earned $20,800 annually at the factory. She also has two other part-time jobs. She earns about $8,000 a year from salary and tips as a bartender/waitress and $4,000 annually working in a retail store. Thus, her annual income has declined from $32,800 to about $12,000, a 64% decrease.

Hayhoe is hoping to increase her hours at one or both of these jobs in the next few months. She is also thinking about taking computer courses to learn a new job skill. "I doubt there's any other factory around here that will pay me what I was earning before," she explains.

Hayhoe is divorced and has two grown children, one of whom lives at home rent-free. She rents a two-bedroom apartment for $600 a month including utilities. She also has a $246 monthly car payment and pays $150 monthly on $5,500 of credit card debt.

Before the layoff, Hayhoe was just making ends meet. Now, these three bills alone consume all of her income. She estimates that she is spending about $600 a month more than she earns. The $10,000 in savings that she had from an inheritance a few years ago is down to $7,600.

For years, Hayhoe says she has lived "paycheck to paycheck." She took on her two part-time jobs a few years ago when her children turned 18 and child support checks ended. She felt that she couldn't reduce her expenses any further, so she increased her income. Hayhoe has no life, disability, or renter's insurance and carries 100/300/50 of auto liability coverage.

Hayhoe has a net worth of $19,600. Her assets total $25,100 and include $7,600 in a 2.5% bank savings account; $1,500 in a checking account; $8,000 in an IRA invested in several certificates of deposit; a $5,000 car; and $3,000 of personal property. Her debts include $1,230 on her car loan (five more payments) and $4,270 on four credit cards.

No retirement date was listed on Hayhoe's questionnaire. Instead, she noted, "I'll probably always have to work." Another concern of Hayhoe and her former co-workers is their future pension benefits. Hayhoe worked at the factory almost 24 years and is vested in its pension plan. According to representatives from her former union, she can start collecting a pension at age 62. Details about how to collect this money in the future are sketchy, however.

Hayhoe does not have a will. She says she never knew whom to list as guardian for her children, so she never prepared one. She always assumed her ex-husband would care for the children, if necessary. She has also never gotten around to replacing him as the beneficiary of her IRA, which was funded in the 1980s. “I had more money then,” she explains. “Between the two of us, we earned $53,000. Unfortunately, we spent it all.”

Suggested Financial Strategies:

- Track monthly income and expenses for a month to determine the extent of negative cash flow.

- Prepare a spending plan based on her reduced income. Consider ways to increase income and reduce expenses. One idea to increase income is to charge her adult child room and board.

- Stop credit card purchases immediately to avoid incurring additional debt.

- Contact creditors and her landlord immediately to inform them about her layoff and request reduced payments until she finds another job or gets increased hours at her two part-time jobs. Creditors are generally easier to work with when you let them know about your situation before you get behind.

- Purchase a renter’s insurance policy to protect her personal property. Disability insurance should also be considered once she is re-employed.

- Prepare a will and change the beneficiary designation on her IRA to someone other than her ex-husband. Naming a contingent beneficiary is also recommended.

- Contact her local Cooperative Extension office for a PowerPay analysis to accelerate the repayment of existing debt. As each creditor is repaid, its monthly payment gets applied to a remaining creditor.

- Reach out for support services during this time of need. Community resources include the unemployment office, the state Homelessness Prevention Program, the county Division of Social Services, and the Consumer Credit Counseling Service. In addition, she might also benefit from local workforce preparation and computer literacy courses.

- Keep up with information about her future pension plan benefits. Read the plan’s “Summary Plan Description,” which is a required document that explains what benefits are due her and when. Since she was in a union at the factory, contact the union for information and assistance with her pension.

Case Study #12: Widower With Poor Credit Score

The Situation:

John Berka, 50, a widower for a little over a year, is concerned about two financial problems: a low credit score and his rapidly diminishing IRA and 403(b) plan balances. A teacher for 25 years, Berka had planned to retire in 2008 at age 55. "Now, I'll be lucky to retire at 80," he wrote in the "comments" section of his questionnaire.

Actually, things aren't really quite that bad. As a school employee, Berka participates in a defined benefit pension plan. His future benefits will be determined by the following formula: years of service divided by 60 multiplied by the average of his highest three-year's salary. He'll also be eligible for employer-paid health insurance, which will save him the cost of having to buy an individual policy. All in all, he has two very valuable benefits that many workers in the private sector don't receive.

Berka's net worth is $353,760, $200,000 of which was received from life insurance benefits following his wife's death. He freely admits to living beyond his means for many years, as well as charging over $40,000 of uninsured medical bills, from a total of over $350,000, for his wife, who died of ovarian cancer. "I miss my wife terribly," he notes. "However, the life insurance money gave me the ability to repay over $100,000 of consumer debts and invest the remainder." He plans to close a lot of his old credit card accounts.

On the asset side, Berka has $1,200 in checking; $4,050 in savings; $5,000 in CDs currently paying 1.9%; $89,000 in his 403(b) plan (down from almost $130,000 in early 2000); $26,482 in an IRA; $15,028 in three growth mutual funds; an $18,000 car; a $190,000 house; and personal property worth $50,000. His only debt currently is $45,000 remaining on his mortgage.

Unfortunately, years of overspending and late credit card payments have damaged Berka's credit history. He recently checked his credit score on www.myfico.com and received a mediocre rating of 580 (scores range from the 300s through the 800s, with those over 720 considered excellent). He also learned that it will take seven years from the date that his late bills were originally due for negative information to drop off his record.

Berka earns $62,000 annually, plus $12,000 from a part-time business that he plans to expand after retirement. He thinks his monthly expenses average $4,000 but he is not really sure. The largest are a $1,228 mortgage payment, a $529 car payment, and $420 in child support for a 17-year old child from a previous marriage. He also deposits $650 monthly into his 403(b), which is invested equally in the three stock funds and two bond funds offered by the provider.

Berka has no will and a $250,000 term life policy that still names his deceased wife as sole beneficiary. "I know I need to do something about this," he explains. His homeowner's and auto policies both carry $300,000 liability limits and his employer provides comprehensive major medical coverage. He lacks disability coverage except for short-term state benefits.

Like most investors today, Berka is coping with portfolio losses. At one point, he had 100% of his 403(b) plan deposits going into stock funds. He has since scaled the percentage back to 60% and recently took an adult education course to learn more about investing.

Suggested Financial Strategies:

- Track income and expenses for several months to get an accurate picture of cash flow.
- Calculate the savings required for retirement using the *Ballpark Estimate* calculator at www.asec.org or with the assistance of a certified financial planner.
- Prepare a will and update the beneficiary designations on the life insurance policy, as well as his IRA and 403(b) plan, immediately.
- Starting this year, because he has turned 50, take advantage of the additional catch-up savings amounts available for both his IRA and 403(b) plan.
- When the child support obligation ends in a year, reallocate all or part of this money to additional retirement savings (depending upon arrangements made for his child's college education expenses).
- Consider purchasing an individual disability insurance policy that will replace at least 60% of his salary through retirement age.
- Continue to pay credit bills on time, as about 35% of a person's credit score is based on their debt repayment history. Also avoid canceling a lot of credit cards that have been held for a long time because about 15% of the score is based on the length of a person's credit history.
- Add a statement of up to 100 words to the credit files maintained by Equifax, Experian, and Trans Union to explain that his previous credit problems and the fact that all of his debts have all been repaid.
- Remember that investing in stocks and stock funds requires a long-term perspective. Volatility and stock market downturns are to be expected. To assess his tolerance for investment risk, visit the Rutgers Cooperative Extension Web site www.rce.rutgers.edu/money/riskquiz.
- Consider starting a Simplified Employee Pension (SEP) plan with self-employment earnings.
- Continue learning more about investing. For additional information, visit the Web site www.investing.rutgers.edu.

Case Study #13: Coping With Cost of Flood Damage

The Situation:

"It was the best of years and the worst of years." That's how Gary and Barbara Zabeck, 51 and 48, describe last year. On the plus side, both spouses received promotions and raises at their "day jobs," bringing their respective salaries to $49,000 and $54,000. Both also do freelance work "on the side" which nets them another $18,000 after expenses.

On the negative side, two unfortunate things happened. First, the Zabecks sustained $70,000 of uninsured repair and clean up costs due to a flood. They withdrew $45,000 from a taxable account (stock index fund) earmarked for retirement and took out a $25,000 low-interest government-backed bank loan to cover the remainder of the cost. The bank charges them 6.5% for the seven year loan, which costs the couple $371.25 per month. "We certainly hadn't counted on having to make these payments," explains Gary, noting that the couple reduced their 401(k) plan contributions accordingly.

The second bad thing that happened is that Gary's employer switched from a traditional defined benefit pension plan to a cash balance plan. A cash balance pension often hurts workers Gary's age because it doesn't provide as generous a payout for long years of service as a defined benefit pension plan. Gary estimates that this change has set his pension accumulation back at least ten years from what it would have been otherwise. The Zabecks had planned to retire when Gary turned 60 but now they are not so sure.

The Zabecks have no children living at home. Gary's grown son from a previous marriage lives with his mother out of state. Their two top priorities right now are getting their home looking attractive again for an eventual resale and saving for retirement. The couple plans to retire in a warm southern state and was counting on their home equity, and the difference between current living costs and their new state of residence, to provide them with needed cash.

The Zabeck's net worth is $420,700. Their assets total $571,000 and include $2,000 in checking; $10,000 in two CDs; $98,000 and $63,000, respectively, in 401(k)s; $32,000 and $36,000, respectively, in IRAs; $15,000 remaining in the stock index fund; their $275,000 house (its value before the flood and what they hope it will be worth again after repairs), and two cars and personal property worth $40,000.

The couple's debts total $150,300. They include a $120,000 mortgage balance; $24,500 remaining on the flood loan; and $5,800 owed on three credit cards. They are anticipating a large tax refund, partly due to their flood losses, and plan to apply it toward their outstanding balance.

The Zabecks have adequate auto insurance and a $1 million umbrella liability policy. They thought that they had adequate homeowners insurance before the flood but, of course, found out- like many others- that flood damage was not covered. They are unsure about purchasing flood insurance now, however. "If it truly was a 100 year flood, as they reported" says Gary, "we won't be alive for the next one."

Life insurance coverage appears to be adequate: $150,000 individual term policies, plus additional term coverage through their employers. Gary also has disability insurance through his employer.

What the couple lacks, however, are current wills. Barbara has never prepared one and Gary has an old one that names his ex-wife as executor and beneficiary of his estate. The couple has also never drafted any other estate planning documents such as a living will or power of attorney.

Suggested Financial Strategies:

- Track monthly income and expenses to determine if there are other ways, besides reducing 401(k) plan contributions, to "find" the money to repay the flood loan.
- If possible, try to make the maximum 401(k) contribution ($12.000 in 2003 + $2,000 catch up for workers age 50+), or at least the maximum that their employers will match (e.g., 6% of pay).
- Take advantage of the IRS non-business casualty loss deduction on schedule A of their tax return. Generally, a casualty loss is defined as the decrease in value or adjusted basis (i.e., original cost reduced by casualty losses) of a destroyed property, whichever is less, reduced by the amount of any insurance recovery. The first $100 of a loss is nondeductible. The remainder of an unreimbursed loss is allowed only to the extent that it exceeds 10% of a taxpayer's adjusted gross income. Since their out-of-pocket losses totaled $70,000 and ten percent of their adjusted gross income is about $11,600, the Zabecks definitely qualify for a large tax deduction. A good source of additional information is IRS Publication #584, "Nonbusiness Disaster, Casualty, and Theft Loss Workbook." They'll also need IRS Form 4684 to report their losses.
- Prepare a retirement savings needs analysis to determine what they need to save after withdrawing $45,000 of their retirement nestegg and due to the changes in Gary's pension plan. A simple retirement planning tool is the Ballpark Estimate at www.asec.org.
- Purchase a disability insurance policy for Barbara. She earns about half the couple's income and her earning power needs to be protected in the event of an accident or illness.
- The Zabecks should also prepare current wills as soon as possible and consider funding Simplified Employee Pensions (SEPs) for tax-deferred savings on their freelance income.
- Contact their insurance agent to make an informed cost-benefit analysis of flood insurance.

Case Study #14: Downsized Worker Worried About Finances

The Situation:

Roy Bemmer, 54, has lots of concerns about his finances. Attached to his questionnaire were over a dozen questions such as "should I chance taking $5,000 and investing it aggressively?" and "How well am I able to retire at age 60 or 62?"

Bemmer is also very concerned about unemployment. His income last year was $83,866, but he expects to earn only $27,000 this year. Earlier this year, he was downsized and took early retirement in order to keep his medical benefits. He was also laid off previously eight years ago.

Bemmer is currently working in a series of temporary jobs with variable hours, so his monthly income is unpredictable. His financial goal for the near term is to save as much as possible for retirement and accumulate liquid assets in case he becomes unemployed again. Within ten years, he wants to purchase a new $25,000 vehicle and take vacations costing $3,000 to $5,000 per year. After that, retirement is on the horizon. Bemmer would like to live off his investments and Social Security.

Fortunately, Bemmer has accumulated significant assets to help achieve his goals. His net worth is $700,200. This includes $406,172 in a former employer's 401(k), $102, 413 in seven different mutual funds, $5,750 in savings and checking accounts, and $25,865 in 14 certificates of deposit.

Approximately 90% of Bemmer's portfolio is invested in growth or growth and income mutual funds, including five different Vanguard funds and five different Fidelity funds. Bemmer's $110,000 house is owned free and clear, along with $30,000 of property and a $20,000 car, and he has no other debts.

Bemmer's monthly expenses were not listed. He did note, however, that he put 15% of his salary, when he was working, into a 401(k). Currently, he invests all surplus funds in two Vanguard index funds. Bemmer's financial data was meticulously presented in a series of computer-generated tables.

As for insurance, Bemmer seems to have fairly adequate coverage. He has $14,000 of life insurance, which is adequate for a single person without dependents. His former employer pays all but $24 a month toward the cost of major medical health coverage and he has $500,000 of auto and homeowner's liability. One weakness, however, is a lack of disability insurance to provide income if he is unable to work. He also asked "Why would someone need umbrella liability insurance?" Umbrella policies provide coverage above standard auto and homeowners policy amounts and are usually sold in $1 million or $5 million amounts.

Bemmer has a will that was last reviewed in 1994. No other estate planning documents were noted. One concern that was mentioned, however, was long term care/nursing home insurance. As a single person, Bemmer wonders if this is something he should look into.

Suggested Financial Strategies:

- Do a retirement savings needs analysis with the Ballpark Estimate form on www.asec.org. This will help him determine whether he is financially able to retire. The worksheet includes factors such as a person's expected retirement age and life expectancy and desired lifestyle (percentage of current income).

- Once steadily employed, consider purchasing disability insurance to cover the risk of loss of income due to accident or illness for his six to eight remaining years of employment. Check with several insurance agents to obtain price quotes. The policy should replace at least 60% of his income.

- As for the question of investing $5,000 aggressively, Bemmer certainly has the resources to do so. Any investment he selects should be carefully researched. Don't rely on hot tips or get caught up in stock manias. A company's long-term earnings history still matters most.

- Bemmer describes himself as "moderately aggressive" and his portfolio reflects this. Currently, about 90% of his portfolio is in stock-related assets (e.g., growth mutual funds). This exposes him to a great deal of market volatility. Only Bemmer himself can determine his tolerance for risk. If he once started out being comfortable with much less in stocks and just let his asset allocation get more stock-heavy over time, it is time to rebalance his portfolio by selling some stock or placing new investment money in other asset classes (e.g., bonds).

- Bemmer had several specific questions about the percentage of assets to withdraw in retirement and how to make retirement plan withdrawals. A consultation with a certified financial planner (CFP) is advisable. For a couple hundred dollars in fees, Bemmer could save much more in reduced taxes or improved investment performance. For the names and phone numbers of local CFPs, call 1-800-282-PLAN.

- Bemmer also raised questions about the appropriateness of his mutual fund selections. Between his 401(k) and taxable accounts, he owns 13 different funds. Many appear to have similar investment objectives. Bemmer should check the Web site www.findafund.com to determine how similar the funds are in objective and composition. This way, he can avoid duplicate portfolios. Some people own so many funds that they basically duplicate the portfolio held by a stock index fund, but at a much higher cost.

- As for long-term care insurance, Bemmer appears to have sufficient resources to "self-insure." However, he may want to explore various policy costs and options. Persons in their mid- to late-50s are ideal candidates to purchase long-term care coverage before premiums escalate sharply. Check with an independent life/health insurance agent.

Case # 15: Preparing To Retire

The Situation:

Daniel and Wilemena Peg, 56 and 54, are thinking seriously about retirement. They'd like to retire in when Daniel is 65 and "maintain our current lifestyle." A big concern is that they won't have employer-provided health insurance then and will need to purchase it on their own.

The Pegs have two things going for them: a $395,913 net worth and nine more years, at peak earnings to save. With an average return of 8% on their money, their savings would double in nine years, as calculated with "The Rule of 72" (72 divided by 8 = 9).

The Pegs have absolutely no debt. Their $185,000 home is owned free and clear. Other assets are $57,215 in CDs, $21,418 in money market mutual funds, $6,500 in savings, and $38,334 in IRAs. They also have $19,527 in a Ginnie Mae (mortgage-backed security), $5,624 in a stock index fund, a $15,995 tax-sheltered annuity, $1,000 of stock, $27,300 of life insurance cash value, two cars worth $8,000, and $10,000 of personal property.

The Peg's short-term goals are college expenses for three more years ($40,000), a "new used" car ($10,000), and a kitchen floor ($4,000). Within ten years, they expect to buy another new car and pay for a daughter's wedding. No long-term goals were listed.

Daniel works full-time and, Wilemena, part-time. Together, they earn $85,700, including $11,400 from Daniel's sideline consulting work and $3,700 in investment income. No amount was listed for the total of their monthly expenses.

The Pegs have adequate property insurance, including a $1 million umbrella liability policy. Daniel's employer provides health insurance, including a PPO, dental, and vision benefits. Wilemena has $54,1000 of life insurance and Daniel has $262,600, including $175,000 of term coverage through his employer. The couple's biggest insurance weakness is that they have no disability insurance to protect against the loss of income due to accident or illness. It was unclear whether Daniel's employer provides paid sick leave and allows him to accumulate "sick days."

The Pegs have a will that was drafted in 1978. They have not updated it since. They have no other estate planning documents and say they can't remember whether they've listed contingent (back-up) beneficiaries on their IRAs and tax-sheltered annuity.

Last year, the Pegs itemized their tax deductions and received a small refund. Their taxable income was $60,783, placing them in the 27% marginal tax bracket. They would like to reduce their taxes further, if possible.

Suggested Financial Strategies:

- See an attorney and update their wills. It has been over 20 years since they were first prepared and a lot has changed including the use of self-proving affidavits in New Jersey, the amount of the Peg's assets, and, perhaps, the persons that they've designated to be executors of their estates. The Pegs also need to name contingent beneficiaries in their will and tax-deferred retirement plans. Their plan administrators can tell them who is currently named and they can decide if a change is needed.

- While the Pegs are revising their will, they should also consider preparing a durable power of attorney and a living will and health care proxy form. Living wills provide direction regarding a person's feelings about continuation of medical care and a health care designee would communicate this with medical personnel if the Pegs were unable to do so.

- Track income and expenses for a month to determine household cash flow. It was unclear how much of their spending was unaccounted for. Forms to track expenses are available through county Cooperative Extension offices, as well as forms to calculate the amount of savings needed for retirement and other goals, such as new cars and a wedding.

- Another resource for retirement planning is the *Ballpark Estimate* worksheet on the Web site www.asec.org. To calculate retirement savings, the Pegs will need an estimate of their future Social Security and employer pension benefits. Social Security estimates are sent automatically to all workers and provide estimates of benefits due at ages 62, 65, and 70.

- Contact the SHIP (State Health Insurance Program) office of the county Office on Aging for information about health insurance that can be purchased as a supplement to Medicare. The Pegs should also consider the purchase of long term care insurance policies to cover the risk of future nursing home or home health care costs.

- The Pegs should analyze their risk exposure due to a lack of disability insurance. If Daniel has lots of accumulated sick leave, a disability policy at his age may not be necessary. On the other hand, the Pegs may want to explore the cost with an insurance agent to determine the costs and benefits.

- The $6,500 in bank passbook accounts should be moved to a higher-yielding cash asset (e.g., CDs or money market fund). The Pegs are probably losing purchasing power after taxes and inflation.

- The Peg's exact asset allocation is unknown but appears to be weighted heavily toward cash assets. The couple says they are willing to assume some investment risk and should increase their stock exposure, consistent with their risk tolerance level.

- The Pegs might also reconsider tapping $40,000 of their assets for college expenses. This would make a big dent in their savings. When faced with a choice between college and retirement, retirement should be funded first. After all, banks give loans to students but not for old age.

Case Study #16: Coping With Investment Losses

The Situation:

Joe and Pat Ise, 56 and 55, are rethinking their retirement plans. Originally they had planned to retire this fall and move two hours west to Pennsylvania, where the cost of living is cheaper. Both presently commute over an hour a day to Bergen County, NJ and New York City, respectively, and their long commutes are taking their toll. They get up at 4:30 every workday to arrive at work on time. The couple has one adult child, age 27, who is married and living on his own.

The problem is that the value of the Ise's retirement investment portfolio has been substantially reduced during the past two years. In December 1999, they had $520,000 saved and today their portfolio is worth $395,000, despite steady deposits over the last few years.

The Ises admit to making all the classic investment mistakes: investing too much in the technology sector and employer stock in Joe's 401(k) plan, not carefully researching investments by reading annual reports and prospectuses, relying on "water cooler tips," and selling in a panic when the stock market tumbled. "We should have stayed in bonds or CDs," says Joe, but we got greedy."

Even with their recent losses, the Ises have an impressive $758,000 net worth. Their assets include $50,000 in CDs, $30,000 in a bank money market deposit account; $120,000 in eleven growth mutual funds; $117,000 in Pat's 401(k); $105,000 in Joe's 401(k); $53,000 in IRAs; two cars worth $28,000; a $300,000 house; and $50,000 of personal property. Their debts include $8,000 owed on five credit cards; a $72,000 mortgage balance; and a $15,000 home equity loan.

Neither spouse has any other retirement benefits (e.g., company pension). Joe's company has just stopped matching 401(k) deposits due to the slow economy and halted all health coverage for retirees. Pat's company matches up to 3% of her pay in her 401(k) plan and charges retirees $500 per month for coverage.

Together, the Ises earn $147,000. Joe is skilled in antique auto restoration and has been itching to start a small business after retirement. To date, he has simply been too busy. He currently has a client, however, who will pay him $10,000 this year to restore a car and is willing to wait for as long as it takes to finish.

The couple has adequate property insurance, a $1 million umbrella liability policy, $500,000 of term life insurance apiece, and disability insurance that provides each with a $3,000 monthly income benefit. They are currently considering the purchase of long-term care insurance.

The Ises also have a will that names their son as beneficiary and Joe's brother as executor. Joe's brother is very ill, however, with advanced stage prostate cancer so they are considering other options. No contingent executor or beneficiary is presently named.

Suggested Financial Strategies:

- Total current monthly income and expenses and make a projection of what they will be after retirement.
- Contact a certified financial planner (CFP) for assistance with retirement planning. With a three quarter million dollar net worth, it would be well worth it to pay, maybe, $300 to $500 for a few hours of "Q and A" with a professional advisor. Names of local advisors can be obtained by calling the Certified Financial Planner Board of Standards toll free hotline: 888-CFP-MARK (237-6275) or from the Web site www.cfp-board.org.
- Pay off the $8,000 credit card balance with cash assets. It is unwise to earn less than 2% on savings while paying double-digit interest on credit cards. This is a symptom of a common financial error called "mental accounting" (dividing one's money mentally into separate "compartments").
- Prune the mutual fund portfolio. Get rid of any funds with a high expense ratio (e.g., over 1.4% for growth funds) and sustained poor performance worse than peer funds and market indexes. There is probably a lot of duplication in the Ise's fund portfolio, which reduces diversification.
- Consider a "total stock market" index fund that tracks a broad market index called the Wilshire 5000. Its performance will mirror the market which, over long time periods (10 + years), has always favored stocks. This is a "low maintenance" approach for folks with limited time to research investments.
- Joe can start a SEP plan with the auto restoration earnings for additional tax-deferred growth. The Ises should also try to take advantage of the increasing contribution limits for IRAs and 401(k)s and the catch-up provision for workers age 50 and over.
- Revise the will. Name a new executor if Joe's brother is too ill to serve and a contingent executor and a contingent beneficiary. Perhaps their son is old enough to take on this responsibility now, alone or with a financial institution as co-executor.
- Contact the county SHIP (State Health Insurance Program) office for information about long-term care insurance and policies that are available in their state of residence.

Case # 17: Struggling Divorcee'

The Situation:

Jean Kitching, 57, is feeling the financial fallout from a divorce. Her lifestyle has dramatically changed with the loss of her husband's income and she fears retirement looming on the horizon. She plans to work until age 70 in order to play catch-up. Then she wants to move to a cheaper location in Virginia or the Carolinas to retire.

Kitching earns $29, 573 ($2,479 monthly) and noted that she has two adult children. She also noted that a long-term goal was "someone to care for me when I am unable to care for myself," but the specifics were unclear. Other financial goals in the short and intermediate term are a $1,800 cruise, $2,000 of home improvements, pre-paid funeral expenses, and "money to live on $3,500 per month."

Another concern is health insurance. After her divorce, Kitching felt that she could not afford to pay her ex-husband's employer over $5,000 annually for coverage. She lives in fear of a major illness or disease (e.g., cancer) because her current employer does not provide health benefits.

Kitching has been gradually spending money received from her divorce settlement to make ends meet. The simple fact is that she can't afford her lifestyle and her savings is running out. She estimates that there is at least a $500 per month gap between what she earns and what she spends. No specific monthly expense figures were provided, but she listed car insurance as a major concern.

Asset and debt figures were listed, however. Kitching's net worth is $121, 293. Her major asset is her $145,000 home. She also has $206 in checking, $1,960 in savings, $5,786 in two bank CDs, a $2,625 money market fund, $4,602 in mutual funds, $3,514 in stocks, and $20,000 of personal property.

On the debt side, Kitching owes $56, 032 on her home, a $28,759 mortgage and a $27, 273 home equity loan. Other debts are a $4,611 personal loan and $1,760 owed to a friend. Kitching is concerned that her debt load has been rising. Her house needed a number of repairs last year , which resulted in her taking out the home equity loan.

Kitching has no will to indicate her estate planning wishes. "I don't have enough to worry about, she notes. She has a $20,000 whole life policy that could pay funeral costs and $300,000 of liability coverage on her car. She has no earmarked retirement savings such as a 401(k) or IRA.

Suggested Financial Strategies:

- ♦ Track monthly spending for a month or two down to the last penny. This will identify the true extent of the gap between income and expenses and costs that could be reduced. Forms to record household expenses are available through county Cooperative Extension offices.

- ♦ Prepare a will as soon as possible. Contrary to her statement, Kitching does have property to pass on and family members to leave it to. Without a will, the state will make these decisions for her. Cost should not be an issue. Some attorneys charge as little as $50 to $100 to prepare a will if a client brings a computer file with all of their distribution decisions listed.

- ♦ Consider ways to bring income and spending in line. Are there ways to increase income such as a second job or overtime or freelance work? Or programs with benefits in lieu of cash? On the expense side, variable expenses, such as food and entertainment, should be scrutinized carefully.

- ♦ Analyze whether she can still afford to live in the house. Painful as it is, Kitching may need to acknowledge that she simply can't afford to maintain it. This happens to many people after a divorce. Compare the monthly costs of staying put (e.g., the two home loans, taxes, insurance) to the cost of renting. Also consider whether refinancing, or a new consolidated home equity loan, could reduce monthly carrying costs. Some banks charge less than $100 to process home equity loan paperwork and these loans pay for themselves very quickly.

- ♦ Consider a new job that provides health and retirement benefits. If job training is needed, contact a local community college or women's center for assistance. It's simply too dangerous to go without health insurance, especially as a person gets older. If Kitching were to have a serious illness, such as cancer or a heart attack, it could cost tens of thousands of dollars out-of-pocket for medical care. As it is, she is probably ignoring important screenings (e.g., annual physical, mammogram, Pap test) that could save her life through early detection.

- ♦ Instill a savings habit, even if it's only $5 or $10 per week. Better still, try to fund an IRA for retirement. Retirement has been defined as a "three-legged stool": Social Security, pension, and individual savings. Kitching already lacks a pension. Without some savings, she'll be totally dependent on Social Security, which will greatly reduce her living standard.

- ♦ Take a course or start reading personal finance publications to increase investment knowledge. Kitching seems unsure of the return earned on her stock and the type of mutual funds in her portfolio and needs to understand what she owns.

- ♦ Invest the time necessary to build a strong personal support system of friends and family. This will help address the concern about obtaining care in her old age. One way to do this is to become actively involved in family, neighborhood and/or community activities. Providing for a secure retirement requires social/relationship resources as well as financial assets.

Case Study #18: Planning For Retirement

The Situation:

Mary and Harry Reser, 57 and 62, are looking ahead to retirement early next year. They are thinking about heading south to a cheaper and warmer state but haven't made a firm decision. Harry is the sole breadwinner and earns $64,543, plus an additional $8,169 from investments.

The Reser's two main concerns are longevity and taxes. "We want to take income from investments with the least amount of tax liability and make the money we have accrued last as long as we do," notes Harry. He also noted a concern about taking money out of tax-deferred plans in the correct manner to avoid IRS penalties.

The Resers can be considered "millionaires next door," with an impressive net worth of $1,065,951. They have absolutely no debt and the following assets: $32,000 in a 2% bank passbook account, $347,365 in telephone stock; $224,901 in Harry's 401(k); $31,000 in an annuity; $202,685 in mutual funds; $23,000 in whole life insurance; their $190,000 home; and $15,000 of personal property.

No information was provided as to the type of mutual funds or the 401(k)'s asset allocation (i.e., the percentage of the account in different types of assets like stocks and bonds). Harry contributes 15% of his salary to the 401(k) and appears to have been doing this for many years. Neither spouse has an individual retirement account (IRA), however.

The Resers estimate that their monthly expenses total $1,500. The are concerned about the future cost of health care and note that, in retirement, "the biggest expense not in our current budget will be medical insurance." Currently, Harry shares part of the cost of health coverage with his employer but this coverage will end after he retires. His employer also provides short-term disability coverage and matches his 401(k) contribution up to the first 8% of pay.

The Resers appear to have adequate property insurance, which could be strengthened with the purchase of umbrella liability coverage. Their car and home have $500,000 and $300,000 of liability coverage, respectively. The Reser's are thinking of tapping their $23,000 of life insurance cash value. "We do not feel that we need life insurance any longer," says Harry, "and will most likely cash them in."

Taxes were mentioned several times as a major concern. The Reser's taxable income of $54,543 placed them in the 27% tax bracket in 2002. It was unclear whether they would drop down to the 15% bracket in retirement. If their adjusted gross income exceeds $44,000, 85% of their Social Security benefits will be taxed. Tax on Social Security is calculated on an income figure that includes all earnings, pensions, dividends and interest from investments, including tax-free municipal bonds, and half of a person's Social Security benefit.

The Reser's have wills, but they were reviewed last in the 1970s. No children were listed on their questionnaire so it is unclear who their heirs are. No other estate planning tools, such as a power of attorney (POA) or living wills, were noted.

Suggested Financial Strategies:

- ♦ Reposition the $32,000 in passbook savings. In the 27% tax bracket, the Reser's keep less after taxes than recent inflation rates. In other words, they are losing purchasing power on their money. Higher-yielding cash investments include Treasury bills and money market mutual funds. The Resers could also consider purchasing a laddered portfolio of CDs with different maturity dates. No more than $500 should be kept in the 2% bank account.

- ♦ Determine the asset allocation portion of their portfolio. There appears to be a healthy percentage of assets in growth-oriented assets, which will help stretch the Reser's income. However, the portfolio lacks diversification. Fully a third of their assets are invested in the telephone industry. This is dangerous and can lead to extreme portfolio volatility. A better choice for some of this money might be a broadly diversified stock index mutual fund.

- ♦ There appears to be substantial monthly income unaccounted for. The Resers should track monthly spending by amount and category. The results can then be used to develop a "retirement budget" by listing anticipated income sources (e.g., Social Security) and changes in spending (e.g., no more 401(k) plan contributions but new payments for supplemental health insurance).

- ♦ The Resers should also consider contributing the maximum allowed annually to Roth IRAs. This will provide additional retirement income. Roth IRA earnings can be withdrawn tax-free after age 59 ½ if the contribution is left untouched for at least five years. Another way to "stretch" retirement income is to make "tax-efficient withdrawals." This means withdrawing funds from taxable accounts first and leaving tax-deferred accounts, including Roth IRAs, to grow for as long as possible.

- ♦ New wills are a must. There have been many changes in state and federal estate tax rules in the last three decades. In addition, the Reser's assets have grown substantially over the past 30 years and this needs to be factored into estate distribution plans.

- ♦ The Resers need to consider how they'll obtain health insurance until they are eligible for Medicare at age 65. A good source of information about senior health care programs is the State Health Insurance Program (SHIP), affiliated with county Offices on Aging.

- ♦ As for withdrawals from Harry's 401(k) plan, the most important rule to know is that minimum distributions must begin by April 1 of the year after a person turns 70 ½ or you will be severely penalized (50% of the amount that should have been distributed). Good sources of specific information about withdrawals from tax-deferred plans are IRS publication #590, the Web site www.irs.gov, and uniform distribution tables (finalized in early 2002), available from many retirement plan administrators.

Case # 19: Preparing To Retire

The Situation:

Fred and Doreen Kutara, 60 and 58, are planning to retire in the not too distant future. Both federal government employees, they expect their sources of income to include a pension, private savings, a small Social Security benefit, and withdrawals from a 401(k) plan at a previous corporate employer. "We want to maintain our current lifestyle, but do more traveling," says Fred.

The Kutaras listed their short-term financial goal as "develop financial independence so that we can retire in 3 to 5 years." They also want a new car and a new roof on their home. Further out, their goals are world travel and a new home. No details about the cost for these goals were provided.

Questions on the Kutara's questionnaire centered on investment asset allocation and minimizing income taxes. Another concern is long-term care insurance. The Kutaras are exploring the purchase of such a policy.

Monthly income for the Kutaras is $9,712 ($116,555 per year). In addition, they earn about $4,500 on their investments, which they estimated as a 20% annual return over the last ten years. Their net worth is $425,250. Assets for the couple include: $15,000 in passbook savings and checking, $26,000 in a money market fund, $1,250 in a tax-free money market fund, $75,000 in mutual funds, $187,000 in unspecified retirement accounts, a $290,000 home, and $13,000 of personal property.

The Kutara's only debt is a $182,000 mortgage. They pay $2,200 monthly for principal, interest, taxes, and property taxes on their home. They estimate that they save $1,500 monthly and spend $4,000 on household expenses. This leaves about $4,300 monthly unaccounted for, including deductions for income taxes.

The Kutaras have a will that was last updated in 1992. Their property tax coverage is adequate with $500,000 of liability on their home and car. Fred has $250,000 of term life insurance and both spouses receive disability insurance as an employee fringe benefit. Their health insurance and dental plan are also provided through their jobs.

Suggested Financial Strategies:

- Track cash flow for a month or two to see where their money is going. There is a considerable about of income unaccounted for. Forms for recording household income and expenses are available through county Cooperative Extension offices.

- Using their current cash flow figures, develop an anticipated spending plan for retirement by adjusting the figures for expenses that will end (e.g., commuting costs) and those that will increase (e.g., travel and health care costs). It will also help them determine how much money will need to be withdrawn from investments to supplement their pensions and Social Security.

- Review updated benefit estimates for Social Security (these are now mailed automatically or you can request one by calling 1-800-772-1213) and their pensions.

- Make withdrawals from taxable accounts first and leave tax-deferred accounts growing as long as possible to stretch their funds. Mandatory withdrawals from tax-deferred accounts are required, however, after age 70 ½.

- Move about $12,000 from low-interest bank accounts to a higher-yielding money market fund or a laddered portfolio of certificates of deposit (CDs). This means buying CDs at varying maturities with different returns. For example, four $3,000 CDs that mature in 6, 12, 18, and 24 months. This, plus another $3,000 in checking for current expenses, is an adequate emergency reserve.

- Savings for a new car and home repairs can be planned for like any financial goal. Simply list a time deadline and a dollar cost. If they need, say, $20,000, in four years, this breaks down to $5,000 per year or $192.30 per bi-weekly paycheck. Funds in their money market funds can also be used for these goals.

- The Kutaras are good candidates for long-term care insurance, both age wise and asset wise. They are young enough to not be charged the high rates that people a decade older pay and have assets to protect, but not a tremendous amount of money that they can self-insure.

- The Kutaras also need to look into a post-retirement Medicare supplement policy. It was unclear whether their employer health coverage would continue.

- To reduce income taxes, the Kutaras could consider variable annuities. The interest that is earned is tax-deferred until withdrawal. Look for a low-expense provider such as Vanguard or TIAA-CREF.

- The Kutaras should do a thorough review of their portfolio's performance. They listed the return on their mutual funds as "about 20%" but this is way above historical averages. They need to be sure that this figure is correct (it probably isn't) and track the performance of their investments as market conditions change.

Case # 20:Disabled Retiree

The Situation:

Joy Ruper, 61, is concerned about her finances. Specifically, she is concerned about some health problems (she is disabled) and whether her retirement nestegg is sufficient to maintain her lifestyle. She is also considering a move to another state to be closer to family members and to reduce living costs. This was her only listed financial goal.

Unfortunately, Ruper left a lot of blanks on her financial questionnaire, including her sources of income, monthly expenses, and exactly where her money is invested. What is known is that her monthly income is $1,822 per month, plus $278 of Social Security disability (about $25,000 annually). She has no outstanding debts.

Ruper's net worth (all assets) consists of $80,000 in a savings account earning 2.15%, $27,000 in a bank IRA (certificate of deposit) earning 5.05%, $76,000 in mutual funds from two investment companies, her $200,000 home, and $20,000 of personal property.

As for insurance, Ruper has a $2,000 whole life policy. She also has health insurance coverage and qualifies for Medicare health benefits. Medicare pays health-care bills for disabled persons under age 65 who qualify for Social Security disability and have been disabled at least two years. Auto and homeowners policies were also listed but the extent of benefits is unknown.

Ruper estimates that her mutual funds earn 6.75%. Combined with the low return on her cash assets, she averages about a 5% return. With a 5% return, her savings and investments, which total to $183,000, would last 14 years if 10% ($18,300) were withdrawn annually. If Ruper withdrew only 7% of her assets per year ($12,810), they would last 25 years to age 86, which is approximately the average life expectancy today for women. Ruper has recently become aware that research indicates that no more than 4% to 5% of one's portfolio should be withdrawn annually, especially if retirement begins during a bear market.

It was unclear how much money was actually needed from investments to supplement her other sources of income. Ruper considers herself a very conservative investor and providing for her retirement is her major financial concern.

Suggested Financial Strategies:

- Track income and expenses for a month to determine spending patterns. It was unclear if Ruper's expenses are greater than her monthly income. If this is the case, a list of exact expenses will help her identify expense categories that can be reduced.

- Do an analysis of current living costs versus the other state she is considering moving to. A helpful resource for relocation decisions is the "salary calculator page" on the Web site www.homefair.com. It matches a person's income in an "originating" city and state with the amount needed to maintain the same lifestyle in a "destination" city and state.

- Reposition the $80,000 currently held in savings. The return on her money is less than one percent after subtracting taxes and inflation. Given her conservative risk tolerance, she would probably want to place this money in fixed-income securities. If she stays with her bank, Ruper should keep about three months expenses in a money market deposit account and place the rest in a CDs with various maturities and rates of return. This strategy is called "laddering" and takes advantages of changes in interest rates while also providing liquidity if cash is needed.

- Other fixed-income securities that Ruper could also consider include a laddered portfolio of Treasury securities, high grade corporate bonds and unit investment trusts (UITs) consisting of high grade bonds or Ginnie Maes (mortgage-backed securities). Treasury securities can be purchased directly from the Federal Reserve System at no cost while individual bonds and UITs generally require a broker.

- Ruper might also consider some equity exposure in her portfolio to hedge inflation. She might consider, for example, a broad-based stock index fund such as a "total stock market" fund that tracks the Wilshire 5000 stock index of over 7,000 U.S. companies or a balanced fund that includes both stock and bonds.

- Ruper noted that she has a will and trusts. She should consider completing her estate planning provisions with a living will and a durable Power of Attorney. This is especially important because she is disabled, lives alone, and has no family nearby. An attorney specializing in estate planning should be contacted to prepare these documents.

Case # 21: Preparing To Retire

The Situation:

Ben Badenhop, 63, plans to retire in three years and probably move to a lower cost area. Of his lifestyle expectations after retirement, he wrote, "they are very modest due to modest resources." Before retiring, Badenhop's other short-term goals are to invest $6,600 in his 403(b) plan during the upcoming year, pay off $6,200 of credit card debt, and decide how to invest a $104,000 inheritance, currently invested in stock and bond mutual funds.

Badenhop earns $57,186 annually and last year paid federal income taxes on a taxable income of $35,849. This places him in the 27% marginal tax bracket for single taxpayers. He contributes approximately $7,000 per year to a 403(b) plan, which is a tax-deferred retirement savings account for employees of schools and non-profit organizations.

Badenhop earns $57,186 per year ($4,765 monthly) and pays a $700 monthly mortgage payment. Other household expenses were not itemized. He owes $70,000 on an original mortgage of $85,000 with an interest rate of 9.5%. One of Badenhop's questions was whether he should use his inheritance money to pay off the mortgage, thereby freeing up more money monthly to invest.

Badenhop's net worth is $242,000. His assets include $21,000 in a bank passbook account, $2,000 in checking, $58,000 in his 403(b) plan, $104,000 in stock and bond funds, a $20,000 interest in a commercial property, a $4,000 IRA, a $95,000 home, and cars and personal property worth $18,000.

On the debt side of his finances, Badenhop owes $70,000 on his mortgage, $6,200 on credit cards, and $3,800 on a loan. The interest rate on the credit cards is 18% and above. He has been investigating credit cards that charge less interest.

Badenhop has life insurance through work with a death benefit three times his salary. His employer also provides major medical and partial dental coverage. He has $500,000 of liability on both his home and two cars and his home is insured for $102,100, which is adequate.

In good health currently, Badenhop is thinking ahead to future medical costs. One area where he hasn't done any planning yet, however, is the preparation of a will. "I don't have a clear idea of how I want my estate divided," he explains. He has also never completed a retirement savings calculation to determine whether he will have enough to sustain his lifestyle.

A $25,000 inheritance is a possibility within the near future. Badenhop says he is willing to assume some risk to earn the higher return that has historically been associated with stocks over the long term. Currently, Badenhop has approximately $50,000 in stock mutual funds. Unfortunately, they all have high expense ratios (i.e., expenses as a percentage of fund assets) and 12(b)1 marketing fees, which reduce their return to investors. He purchased these funds from a commissioned salesperson shortly after receiving the inheritance and admits that he didn't investigate lower-cost options.

Suggested Financial Strategies:

- Prepare a will as soon as possible. Without one, the state will make all of Badenhop's property transfer decisions. If he lacks family members to bequeath assets to, charities or schools can be beneficiaries. The beneficiary designation on his 403(b) plan should also be checked to make sure that it's current and a contingent beneficiary added, if necessary.

- The $21,000 in the bank passbook account should be transferred to a higher-yielding cash asset such as Treasury bills, CDs, or a money market fund. Badenhop is probably loosing purchasing power currently after taxes and inflation.

- Payment of the $6,200 credit card balance can be accelerated using Cooperative Extension's PowerPay computer software program. The principle behind PowerPay is that, as soon as one debt is paid off, its monthly payment is added to the amount paid to a remaining creditor.

- Track income and expenses for a month to determine household cash flow. A substantial amount of spending was unaccounted for. Forms to track expenses are available through Cooperative Extension, as well as forms to calculate the amount of savings needed for retirement.

- Another resource for retirement planning is the *Ballpark Estimate* worksheet on the Web site www.asec.org. To calculate retirement savings, Badenhop will need an estimate of his future Social Security and employer pension benefits. Social Security estimates are sent automatically to all workers and provide estimates of benefits due at ages 62, 65, and 70.

- If possible, increase the amount saved in the 403(b) plan to the legal maximum. Badenhop should also ask about the special "catch-up" provision in 403(b) plans that allows an extra $3,000 of tax-deferred and tax-deductible savings by workers getting a late start in saving.

- Contact the SHIP office of the county Office on Aging for information about health insurance that can be purchased as a supplement to Medicare after retirement. Since he is single and has no children, Badenhop might also wish to purchase long-term care insurance to cover the risk of future nursing home or home health care costs.

- Consider better-performing and less expensive mutual funds. A place to start is a "total stock market index fund" which tracks the Wilshire 5000. This index measures the performance of U.S. companies of all sizes. Funds without a 12(b)1 fee are also preferable. This information is contained within a mutual fund prospectus in the section that describes fund expenses.

- As for the decision to pay off the mortgage with his recent inheritance, there is no one "right" answer. A lot depends on what economists call "opportunity cost." In other words, what would be Badenhop's alternative use of the $70,000? Could he earn a better after-tax return elsewhere? Clearly, his 9.5% interest mortgage is high, however, and refinancing is in order. Another option is to prepay principal so that the mortgage is repaid by the time Badenhop retires in three years.

Case # 22:Preparing To Retire

The Situation:

Jon and Nancy Casel, 64 and 62, are getting ready to retire on February 1 of next year. Jon works full time and Mary works part time and, together, they earn $73,500. Their financial goals for the next few years are to purchase a "new used" car and to spend approximately $5,000 a year on travel. "We want to keep pace with inflation over the next 15-20 years and die broke with great memories," says Jon.

The Casels are also considering the purchase of a $15,000 to $20,000 sailboat and a move to Cape Cod. They wonder if they could carry a mortgage of between $65,000 and $100,000. Another looming concern is how to take Jon's pension distribution. A variety of options are offered, including 5-, 10-, and 15-year term certain and annuities that pay the surviving spouse 100%, 66%, or 50% of the single life benefit amount. Figures have been provided by Jon's employer to assist him with decision-making.

Net worth for the couple is $517,330. Their assets include $1,000 in checking; $221,633 in Jon's 401(k); $121,497 in IRAs for both spouses; a $225,000 home; three vehicles worth $15,000; and $20,000 of personal property. Their 401(k) is invested in Vanguard mutual funds (mostly bond funds) and their IRA is in annuities. Their only debt is $86,800 remaining on their mortgage.

The Casels have done a number of things right to manage their finances. Both Jon and Nancy have disability insurance, to provide income if they are unable to work, and have already purchased long-term care insurance to provide funds for nursing home care or home health care, if needed. They have adequate property insurance and a $1 million umbrella liability policy. The Casels also have current wills, which were recently revised, and they set aside money regularly in their IRAs and Jon's 401(k).

The Casels would like to maintain their present lifestyle in retirement and estimate that their household expenses total $2,800 to $3,000 monthly. They would like to withdraw enough each month to equal $3,000 minus their Social Security and pension payments. They are concerned, however, about not running out of money during their lifetime.

Suggested Financial Strategies:

- Track cash flow for a month or two to get an exact figure. Then prepare a "retirement budget" by estimating which of their current expenses are likely to end or decrease (e.g., commuting expenses) and which will get larger (e.g., health expenses).

- Determine if post-retirement health insurance is available through either of their employers and, if not, make plans for coverage. A good resource for information about Medicare supplement policies is the county SHIP office, part of the area Office on Aging.

- Consider increasing the percentage of their portfolio in equities (e.g., stocks or growth funds) to hedge inflation. Their investment time horizon is probably 20 plus years, which will reduce their volatility. One recommended strategy is to set aside up to five years of expenses in "safe money accounts" (e.g., money market funds) and invest the balance of their portfolio in stocks. Replenish the safe money account periodically to maintain an adequate balance.

- To help make decisions about Jon's lump sum distribution and the amount of annual investment withdrawals, the Casels should consult a certified financial planner (CFP). It is well worth it to pay, maybe $500 to $1,000, for several hours of a professional's time to run through various asset allocation and investment withdrawal scenarios. To obtain the names of local CFPs, call 800-282-7526 or check the Web site www.cfp-board.org. A key factor in the pension payment decision is providing adequate funds for Nancy should Jon predecease her.

- One weakness in the Casel's planning is putting annuities in an IRA. IRAs are already tax-deferred and most variable annuities have high expenses. If a surrender charge is not in effect on their current annuity, they might want to consider a "1035 exchange" to a low-cost annuity provider such as Vanguard or TIAA-CREF.

- The move to Cape Cod appears feasible. The Casels would probably clear about $135,000 upon the sale of their current home and could probably afford a mortgage of, say, $30,000 to $50,000. To better understand cost of living differences between U.S. cities, check the salary calculator link on the HomeFair Web site at www.homefair.com. The car and sailboat could be saved for over a few years or financed with small loans.

- No mention was made of the Casel's future Social Security benefits. They should obtain a current benefit estimate and contact the local field office about three months before they retire.

- The Casels have a skimpy emergency fund. They should keep about three month's expenses ($9,000) available for emergencies. The money can be placed in money market funds or short-term CDs or Treasury bills to get a better return than bank accounts.

Case Study #23: Widow Making Life Changes

The Situation:

Sara Ensle, 64, is about to move to "the country" within the next two months. A widow and currently a resident of a large city, she is moving west to be closer to an adult child and to reduce her living costs. She will also be semi-retiring and reducing her income substantially from $75,000 to an unknown amount, probably the low $20,000s, to be earned from a new business venture.

Ensle is unsure about how to best run a business. For example, she wonders how much to charge for her services. She is even more unsure about how to invest the approximately $400,000 profit that she will receive from selling her expensive big city house. "My late husband and I bought the house for $15,000 in 1961 and, 40 years later, it is worth about $500,000," she explains.

Ensle currently spends just about every penny that she earns. Her only retirement savings is a contribution of 3% of her salary to a tax-deferred 401(k) plan. She also invests $50 a month in a stock index fund. She does not contribute to an IRA. Her net worth, most of which is currently tied up in her home, is $548,700.

On the asset side, in addition to her house, Ensle has $20,000 in a bank savings account, $1,000 in checking, $48,500 in her 401(k), $14,000 in her mutual fund, a $14,000 car, and personal property worth $20,000, for a total of $617,500 in assets. Ensle's debts are $59,000 remaining on her mortgage and $9,800 in credit card debt (four different credit cards), more than half of which was incurred paying debts for her children.

Another issue of concern is Ensle's adult children. The one who lives in "the country" is financially independent and responsible but two others live at home and do not contribute toward their room and board. They are not happy about Sara's move because they say they can't afford to live on their own but also do not want to commute a long distance to their jobs. Sara tried to get them to pay a portion of their living costs a few years ago but met stiff resistance and did not pursue the issue.

Ensle has adequate ($300,000) property insurance limits. She currently has employer-paid health insurance, which will cease upon her retirement. She is looking for a policy that will supplement Medicare at age 65 and is also considering long-term care insurance.

Ensle's will divides all of her assets equally among her three children. She does not have any other estate planning documents, such as a living will. She recently reviewed the beneficiary designation on her 401(k) and named her children in place of her deceased husband.

Suggested Financial Strategies:

- Total monthly income and expenses now and after her retirement and relocation to the country to determine spending patterns. Forms for tracking expenses are available from county Cooperative Extension offices.

- Contact a certified financial planner (CFP) for assistance with the investment of her house sale proceeds and planning of future investment withdrawals. Names of local advisors can be obtained by calling the Certified Financial Planner Board of Standards toll free hotline: 888-CFP-MARK (237-6275). Generally speaking, retirees should withdraw no more than 4% to 5% of their invested assets annually in order to avoid prematurely depleting their money.

- Continue investing $50 a month in the stock index fund. This is a recommended strategy called dollar-cost averaging. When share prices are down, Ensle will be purchasing more shares with her $50 deposits. Over time, dollar-cost averaging lowers the average cost of shares.

- Have a "heart to heart" conversation with the two children that live at home. If they decide to live with Ensle in the country, she should charge them room and board equal to about a quarter of their salaries. Not only will this provide Ensle with needed funds to supplement her soon-to-be-reduced salary, but it will prepare her children for a time when they will eventually pay rent to a landlord.

- Contact Cooperative Extension for a PowerPay analysis to accelerate the repayment of her credit card debt. As each debt is repaid, its monthly payment is added to the payment made to remaining creditors.

- Contact the county SHIP (State Health Insurance Program) office to obtain information about Medigap insurance features and companies licensed to do business in her state of residence.

- Contact the county SCORE (Service Corps of Retired Executives) office for assistance with small business planning. SCORE volunteers provide free or low-cost counseling to prospective business owners.

- Be aware of the Social Security earnings limit that affects people under age 65 who collect benefits and have earned income. Once Ensle turns 65, she will be allowed to earn any amount of money without affecting her benefits.

Case Study #24: Dissatisfied With Financial Advisor

The Situation:

Ruth Serbo, 72, is worried about her finances. She has known for some time that she spends more than she earns and has steadily seen her account balances decline. Worse yet, she does not understand the investments that she owns. An investment advisor at a bank supposedly repositioned money previously held in CDs into a money market fund but it appears from the data provided that it is actually a stock fund. The fund has a high expense ratio and a back end load if shares are sold within six years. Its change of value with market conditions has also made Serbo very nervous when she gets a monthly statement and sees the balance decline.

Serbo is also dissatisfied with the investment advisor but doesn't know how to extricate herself from her current investments. She feels that she has been taken advantage of and that her investments were selected simply to earn her advisor a commission. The advisor also told her that her investment income would not affect her eligibility for a PAAD card (prescription drug coverage for low-income seniors). Yet, it did and now she is responsible for paying her own prescription drug costs. Serbo also noted that she felt "brushed aside" when she tried to ask this advisor questions.

Like many seniors, Serbo also has questions about the minimum withdrawal required for her IRA now that she has passed the age of 70 ½. She finds herself increasingly worrying about her finances instead of enjoying retirement. It is also hard to afford small luxuries like day trips or restaurant meals.

Last year, Serbo withdrew $4,800 from her invested assets. Her only other source of income is $902 a month (net after Medicare Part B) from Social Security. She has a net worth of $291,843. Her assets include $2,547 in checking, a $23,597 CD, $57,000 in a variety of mutual funds, a $54,000 IRA (also in mutual funds), a $6,000 car, and a $150,000 home. Her only debt is $1,301 on a credit card.

Serbo did not indicate a monthly total for her expenses but did indicate that some of her largest expenses are property taxes and health insurance. She pays over $6,000 annually for a Medicare supplement policy. As much as she hates to do so, Serbo is considering the sale of her home to free up equity, but wonders if it will really lower her costs compared to renting an apartment.

Another financial concern is several loans totaling $30,000 to family members that have not been repaid. She frets that this money may never be paid back or that family members may not talk to her if she presses them for repayment.

Suggested Financial Strategies:

- Track monthly income and expenses to see exactly where her money is going. From there, Serbo can develop a spending plan where expenses equal income. To make ends meet, she should look for ways to increase income (or products and services provided in lieu of income) and/or reduce expenses.

- Never invest in securities you don't understand. Serbo clearly has invested beyond her knowledge and risk tolerance level. Even though she will be nicked for a back end load, it may be well worth it to sell the high cost mutual fund shares. Some more conservative places to reposition her money include a CD ladder (CDs of varying maturities), investment grade bonds or bond mutual funds, and Treasury securities.

- A good source of information about IRA minimum withdrawals is IRS Publication 590, "Individual Retirement Arrangements." Call 1-800-829-1040 to obtain this and other IRS tax publications. Publication 590 includes several tables with life expectancy figures for single individuals and couples, which are used to determine minimum withdrawals.

- Sever the relationship with the broker. Simply establish an account elsewhere and transfer the funds. If you don't trust an advisor's motives and don't understand his or her recommendations, there is cause for concern.

- Consider a reverse mortgage to free up home equity without having to move. These loans provide borrowers a line of credit or monthly payments based on the value of their home, their age, and prevailing interest rates. Counseling by a HUD-certified counselor is required prior to a loan.

- Serbo needs to address the family loan issue head on. Otherwise, it will continue to be a source of worry and chances of repayment will decrease. Unfortunately, she did not draw up any kind of repayment contract with her relatives. This is a mistake. It is always wise to put family loan terms (e.g., monthly payment, and time deadline) in writing. If Serbo's relatives cannot repay her immediately, she should draft a document that states a mutually agreed upon monthly payment (e.g., $150 per month) and begin collecting it.

Case # 25: Widow Concerned About Long-Term Care

The Situation:

Amy Branch, 74, is a widow with four adult children. Her sources of retirement income include $31,956 from her pension and that of her deceased husband, $11,578 from Social Security, and $2,562 from investments ($46,096 total). Branch is concerned about living comfortably during the remainder of her retirement and about the future costs of long-term care.

Fortunately, Branch has a number of resources to assist her in the years ahead. In her own words: "I am fortunate to have good health, family, friends, and faith." Branch also has a $450,817 net worth. Her assets include $17,211 in bank accounts, $25,164 in a money market account, $6,000 in stock, a $45,855 IRA invested in 7% mortgage securities, and $1,550 in U.S. savings bonds. Also, $102,840 in municipal bonds, $13,000 of personal property, and two homes, one in New Jersey and the other in the southwest, worth $240,000 ($451,620 total).

Branch's bank accounts pay less than 3% interest. She earns between 4% and 4.5% on the municipal bonds and 2.45% on the money market account. Her only debt is an $803 credit card balance. Branch currently makes minimum required withdrawals from her IRA. To do so, she divides her life expectancy (according to IRS tables) into her account balance on December 31 of the previous year.

Branch says she has ample time to manage her finances and is willing to assume some risk to achieve financial gain. She currently incurs a $500 monthly loss on her second home and is considering selling her New Jersey house to ease the strain on her finances. Other concerns are the affordability of both long term care insurance and living in a continuing care retirement community. She wants to explore both options, as well as reduce her income taxes.

Insurance coverage appears adequate with $19,000 of life insurance, NJ State health benefits as a supplement to Medicare, and $500,000 of auto and homeowner's liability coverage. Branch also owns a $1 million umbrella liability policy. She recently changed auto insurers and realized " a big savings" and is now researching the cost of various homeowners and umbrella policies.

Branch's will was revised last in 1992. No other types of estate planning documents were indicated. Branch is worried about the effects of inflation and tries to save $400 monthly as a "cushion" against future price increases.

Suggested Financial Strategies:

- ♦ Call the county SHIP office for information about long-term care (LTC) insurance. Branch's "over 70" age bracket will likely make such coverage very expensive, however. Look for a policy that covers both nursing home care and at-home care. The policy should be purchased in the state that Branch plans to permanently reside in.

- ♦ Branch also has the resources to adequately "self-insure" for long term care. Most nursing home stays last five years or less. Even at a cost of $60,000 a year, Branch could pay the bill out-of-pocket. Of course, this would mean limited funds for her heirs. A growing trend today is adult children sharing the premium for their parents' LTC insurance to preserve their inheritance.

- ♦ As for a continuing care retirement center (CCRC), Branch should inquire at the county Office on Aging or her other state of residence, if she permanently relocates there. Many CCRCs require a large up-front fee, sometimes as much as $500,000, in exchange for the promise of lifetime housing and health care. Again, Branch probably has adequate funds to consider a CCRC, especially if "peace of mind" about future health care costs is a major concern.

- ♦ Branch should move the $15,000 currently in savings accounts to a higher-yielding product such as CDs, Treasury bills, or a money market mutual fund. Currently, she is barely "breaking even" after taxes and inflation. In addition, she should pay off the credit card, which is likely charging 18%.

- ♦ Another suggestion is to review her will to make sure that all persons named within are still alive and that the will still reflects her estate distribution desires. Also advisable are a living will for health care decisions and a durable power of attorney to name someone to manage her finances in case she is unable to.

- ♦ The date on the face of Branch's U.S. savings bonds should be checked to make sure that they haven't reached final maturity (30 years). Many people make the mistake of holding on to U.S. savings bonds long after they've stopped paying interest.

- ♦ If Branch sells her $140,000 New Jersey home, part of the proceeds should be invested for growth to hedge inflation. Some attractive options include a total stock market stock index fund, balanced fund, and/or equity income fund. Index funds pay out few taxable capital gains. She might also consider a low cost variable annuity offered by companies like Vanguard and TIAA-CREF.

- ♦ It was unclear which home is currently Branch's primary residence. If it's the one in New Jersey, and she meets the criteria for the capital gain exclusion, she'll receive her profit tax-free. Branch should consider hiring a CPA to assist with taxes to pay the least amount of capital gains tax upon the sale of her home.