



Playing Catch-Up

To reach their retirement goals, Lee and Tayo Ferguson must save more and spend less
By Carolyn M. Brown

LEE AND TAYO FERGUSON HAVE ALL THE TRAPPINGS OF MIDDLE-CLASS success: two stable careers, a new home, and a young daughter they plan to send to college someday. However, the Fountain Inn, South Carolina, couple isn't where they need to be when it comes to their retirement savings.

Lee, 42, has \$14,000 in an IRA and \$12,000 in a 401(k). Tayo, 38, has \$36,000 in retirement savings. According to T. Rowe Price, couples and individuals should expect to live on about 70% of their preretirement annual income during each year of their retirement. The couple has a combined income of \$105,000, which means that they should aim to save enough to live on about \$73,500 a year in retirement. Unfortunately, based on their contributions and current savings and assuming they plan to retire at about 65 and will live off their retirement savings for 30 years, they will be able to replace only 12% of their annual income—six times less than what experts recommend. This means they will have only \$12,600 per year to live on. ▶

The Fergusons are far from unique. According to the Employee Benefit Research Institute, 29% of Americans say they have less than \$1,000 in their retirement plans. In total, more than half of workers (56%) report that the total value of their household's savings and investments, not including the value of their primary home and any defined benefit plans, is less than \$25,000. The sour economy has made saving more difficult. Families, in particular those that have suffered a job loss, are often forced to borrow from their retirement savings to cover living expenses.

Employment has not been an issue for the Fergusons. Lee works at Charter Communications as a sales supervisor, earning \$72,000 a year; Tayo is a customer service representative for Verizon, earning an annual \$33,000. However, the couple has had a hard time controlling their monthly cash

flow. Ideally, they should have \$2,000 in discretionary income every month. Their combined take-home pay is roughly \$5,000, and their expenses add up to about \$3,000. The couple can't always account for their money, though they sometimes face unexpected costs associated with Tayo's rheumatoid arthritis. Tayo's son from a previous relationship, 22-year-old Jatone Bryson, lives at home, but he is mostly self-sufficient.

The main reason the Fergusons are off-target: They aren't saving enough of their monthly income. Borrowing against their 401(k) plans two years ago to help finance their wedding didn't help matters either. Lee borrowed \$4,000, and Tayo took out \$10,000. Last November, the couple also used some of their savings on their first home, a four bedroom, three-and-a-half bath newly constructed house, that they purchased for \$258,410.

Lee and Tayo have paid less attention to saving because of their commitment to paying off their debt. Tayo has \$4,000 in credit card balances and Lee has \$6,500, plus a \$3,000 student loan and a \$7,000 car note on a '99 Lexus. "Once we get the credit card debt paid down, I will be really happy," says Lee. "I feel that we can save more money," adds Tayo. "We hope to have all the debt paid off in the next year and a half." To reach their goal, they are making extra payments on their credit card debt.

Financial Snapshot Lee and Tayo Ferguson Fountain Inn, SC

Household Income

Gross Income	\$105,000
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Assets

Primary Residence*	\$272,000
Checking	3,000
Savings	3,500
Money Market	10,500
Education Savings	5,000
401(k)/IRA	62,000
Cars**	19,775
Total	\$375,775

Liabilities

Credit Cards	\$10,500
School Loan	3,000
401(k) Loans	6,400
Car Loan	7,000
Mortgage	254,000
Total	\$280,000
Net Worth	\$95,775

*ACCORDING TO INDEPENDENT APPRAISER
**ESTIMATED TRADE-IN VALUE ACCORDING TO KELLEY BLUE BOOK

Lee should continue contributing to his IRA, especially since his company only matches his 401(k) contributions according to its profitability. If the couple can get their spending in check, they should be able to come up with an additional \$100 or \$200 a month, which would allow Tayo to contribute to an IRA account, ►

The Advice

Reducing debt is one of the Fergusons' important personal goals, but their priority should be boosting their savings and creating a plan to protect their money and pass it on. To accomplish that, they'll need to establish a budget, draft their wills, and acquire life insurance. Michelle E. Oliver, a financial adviser with Virginia Asset Management L.L.C. in Midlothian, Virginia, and BLACK ENTERPRISE designed a plan to help the Fergusons grow and safeguard their assets.

■ **Adhere to a budget to reduce overspending.** Lee and Tayo don't stick to a budget, and one of their biggest money wasters is random grocery shopping. "They both go to the grocery store two or three times a week, which means they're blowing some of their discretionary income just by not planning ahead," says Oliver. They need to create a budget and set limits on their monthly grocery bill. They also need to take advantage of coupons, using sites such as Smartsources.com and Coolsavings.com. If they use coupons effectively (by matching store sales with manufacturers' coupons), they could potentially see immediate savings of 50% to 75% in their weekly budget, says Oliver. As a result of Tayo's condition, the couple faces additional and variable costs for medications, which can be expensive. Tayo should look into patient assistance programs such as the Partnership for Prescription Assistance (www.pparx.org) and RxAssist.org, which offer free or low-cost medications to eligible patients.

■ **Reduce debt more efficiently.** The Fergusons are paying more than the minimum due on their credit cards each month, to accelerate paying off their total debt and to pay less in interest. However, Lee is paying more on the balance of his credit card with the lowest interest rate—13%. Instead, he needs to apply more money toward the balance of his highest interest rate card, which is at 29%. Oliver recommends that he pay just the minimum to the card with the lowest rate. "Once those debts are paid off, apply more money toward the cards with the next highest rate, and so on, until all the cards are paid off." To save money and accelerate paying off your debts, the key is to pay off the credit card with the highest interest rate first, Oliver says.

■ **Boost retirement savings.** Right now some of the \$300-plus the couple contributes to their 401(k) accounts every month is going toward paying off the money they borrowed.

suggests Oliver. The couple should avoid tapping into their retirement accounts for loans in the future and instead rely on emergency savings. They should use the \$2,000 Financial Fitness Contest winnings to start that fund.

■ **Increase 401(k) contributions.** Lee and Tayo contribute 3.5% and 6% respectively to their employer-sponsored retirement plans. They should increase their contributions to at least 10% each as long as it does not exceed \$16,500 each, per year. Since they're both behind, at the age of 50 they should make catch-up contributions, which will let each of them put \$22,000 a year into their retirement accounts.

■ **Draft two wills and form a trust.** Because the couple has a minor child, each of them should draw up a will, the only document by which one can nominate a legal guardian, says Lori Anne Douglass, partner, trusts and estates at Moses & Singer L.L.P., a law firm

in New York. In their will, the Fergusons can set up a trust into which they put all their assets, and name 5-year-old Sanai as the beneficiary. Since minors can't inherit assets outright, the Fergusons must also appoint a financial guardian for their daughter. (The legal and financial guardian can be the same person or two different people.) The designated beneficiary on their retirement and other financial accounts can be the surviving spouse, but an alternative must be named in the event something happens to both parents. The couple must appoint alternative executors and can designate more than one trustee—as many as three—to provide checks and balances. Douglass also recommends that each of them execute financial powers of attorney and medical directives, or healthcare proxy.

■ **Obtain life insurance.** Both Lee and Tayo should purchase term life insurance policies.

Tayo's medical condition may require her to pay higher premiums—if she's insurable. All the more reason for Lee to have at least a 20-year term life insurance policy worth at least \$2 million. Even though the rule of thumb is that adults should be covered for 10 times their annual salary, Lee needs essentially income replacement equivalent to 14 years, or until his daughter is 18. The coverage should factor in additional funds to cover his daughter's college education should he die prematurely, Douglass explains. If Tayo can purchase coverage for herself, she should secure a term life policy worth \$1 million.

■ **Sell one vehicle.** Since the family rarely uses their '94 Acura Legend, they should sell it and put that money in their emergency fund. Since the car is in good condition, they should expect to get at least \$4,000, according to Kelley Blue Book. ■■



To apply for the Financial Fitness Contest, go to www.blackenterprise.com/financial-fitness-contest.

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