



Reality Check: We make 90 grand a year and don't have any money!

These California twentysomethings have good jobs and aren't big spenders. So why, they wonder, are they living month to month with so little in savings?

By [Melanie J. Mavrides](#)

Not long ago, Holly and John Bragdon made a plea for financial help, via e-mail, that read:

"How is it that two professionals with a gross income of \$90,000 a year are still living month to month?" wrote 26-year-old Holly. "What are we doing wrong? Surely we shouldn't have to live this way. Please help."

The Bragdons seem to be voicing the battle cry of many upwardly mobile, middle-class professionals climbing the wage-earner's ladder: How can a family making more money than ever have little savings to show for it?

Even more curious: The Bragdons don't seem to fit the typical profile of an upstart twentysomething couple. They're not big spenders, for one. And the two mechanical engineers approach their finances much like their jobs at power plants: methodically. They pay bills promptly, contribute regularly to retirement and investment funds and keep a close watch on their discretionary income. "We rarely eat out or buy lots of new things," says Holly.

So what's missing? The Bragdons don't have a time frame, or a plan, for meeting their financial goals, says Brent Kessel, a fee-only certified financial planner and owner of Abacus Wealth Management, a Santa Monica, Calif.-based firm. With one, they'll gain assurance that they're on the right track. Here is the Bragdons' Reality Check.

Names: Holly, 26, and John Bragdon, 29.

City: Westwood, Calif., on the west side of Los Angeles.

Occupation: Holly is a mechanical engineer at a power plant on the campus of the University of California at Los Angeles. John is a contract mechanical engineer at the same power plant. He also does periodic stints for the merchant marines.

Salary: The couple has a gross income of \$90,000. John might take a two-month hiatus from his job this summer to earn money in the merchant marines. If he does, he expects to earn about \$10,000.

Assets: The couple contributes to two 401(k) plans that have a combined value of about \$6,500. They also have \$17,000 invested in **Fidelity Magellan** ([FMAGX](#)). They

have about \$1,000 in a savings bond, about \$4,000 in a savings account and about \$1,500 in a checking account.

Liabilities: The Bragdons have a 1993 BMW with a loan of \$16,000 that carries an interest rate of 9.9%. They pay \$340 a month on the car loan. They also have three student loans totaling \$15,000; one loan carries a 10.25% interest rate, and the other two have 8% and 5% rates, respectively. They pay \$249 a month on the student loans. Also, the couple has two credit cards with a balance of \$5,400 from their wedding expenses last October. Their biggest living expense is \$1,300 a month in rent plus utilities for a one-bedroom house. Overall, their expenses leave them with very little extra cash at the end of the month.

Financial goals:

The Bragdons have three primary financial goals: to reduce debt, to buy a house in a few years in their home state of Maine as they start a family and to continue investing for retirement.

Adviser's recommendations

Much to their surprise, Holly and John have been doing a pretty good job charting a steady course to meet all three goals, Kessel says. But there are a few details that need tweaking, he says.

Keep reducing debt, building credibility

Since moving back to Maine is a top priority, the Bragdons need to keep reducing debt and building savings so that, one day, applying for a mortgage will be an easy endeavor, Kessel says. Keeping their credit record clean is essential, he says. The Bragdons have been diligent, if not obsessive, about paying off the debt on two credit cards along with their car and student loans. But they haven't been as smart about getting credit cards with lower annual percentage rates (APR), he says.

For now, Kessel recommends that the Bragdons keep paying off each debt regularly, starting with the highest interest rate first. They should also look into getting a credit card with a lower interest rate, even if only for a limited time, he says.

Holly says she tried to get her current credit-card company to reduce its APR from 9.9% to 8.9%. Her request was turned down, she says. She eventually found a new credit card bearing a 3.9% introductory APR that lasts for one year. (She recently transferred the \$1,200 balance from a higher-interest card to the new one. "I intend to pay off that entire balance next month," she says.)

Kessel also recommends paying off the student loan carrying the 10.25% interest rate before starting to save significantly for a down payment on a house. "It's a lot of interest to be paying and I'd rather see them out of high-interest debt," he says.

Other debt, including a \$16,000 car loan for the couple's BMW, should be paid down regularly to keep their credit record in good standing, he adds.

Kessel calculates that the Bragdons can pay off the credit card with the highest interest rate in a few months. If John works the merchant marines summer job, the highest student loan could be paid off by August. And the 9.9% credit card with the \$4,200 balance could be paid off by October.

A lesson in saving

While the Bragdons have an exemplary record in paying bills, they are neophytes in saving money. In other words, they haven't learned the value of putting aside some money every month. Kessel recommends that the couple set aside \$100 to a new money market account as an exercise in getting used to the idea. "Write this check first before you pay any other bills," he counsels. "Once you have paid off all debts above 8%, increase your savings toward a house down payment with this exercise."

Both Holly and John agree that they'll try setting aside the \$100 a month for savings. But it's not going to be easy, Holly says.

"I'm not sure it's a valuable lesson. When I see that money sitting there, I may have the urge to pay something off with it," she explains. "I've been trying to make larger payments on credit cards and student loans, and not build up savings. But I'll try (the savings exercise) for a couple of months."

The Bragdons say they intend to follow another of Kessel's recommendations: Put \$1,500 that is languishing in a low-interest savings account into a higher interest-bearing money market account.

Keep maximizing retirement savings

After much thought, the Bragdons decided that they want to retire by age 55. To reach this goal, Kessel says, they should keep contributing the maximum amount they can into employer-sponsored retirement funds. Holly is a full-time employee of the power plant. John is a "casual, full-time" worker, or a contractor who is not yet eligible for the company's 401(k) plan. (He does, however, have a 401(k) plan from a previous job.) Kessel recommends that Holly continue to put the maximum amount into her 401(k). But she should reallocate her existing balances to different funds, he says.

Currently, Holly's 401(k) totaling \$3,390 is dispersed this way: She has 75% of her contributions invested in an IDS Growth Fund and 25% in the Templeton Foreign Fund. Kessel recommends a reallocation this way, keeping the same funds and adding one to the mix:

- 50% invested in **IDS Growth Fund** ([IGRYX](#));
- 20% invested in **IDS Stock Fund** ([IDSYX](#));
- 30% invested in **Templeton Foreign Fund** ([TEMFX](#)).

John should roll over his previous job's Dredge Operators 401(k) fund into an individual retirement account (IRA). The 401(k) has \$3,080 invested in Fidelity Magellan. Kessel

suggests reallocating the retirement fund from Magellan, a large-cap fund, to Vanguard small cap and international funds. The primary reason is to diversify the couple's portfolio (The Bragdons already have about \$17,000 invested in Fidelity Magellan in a separate account). He suggests using Vanguard, allocated this way:

- 33% should be invested in the **Vanguard Small Cap Index fund** ([NAESX](#)).
- 33% should be invested in the **Vanguard Small Cap Value fund** ([VISVX](#)).
- 33% should be invested in the **Vanguard International Value fund** ([VTRIX](#)).

Holly says that John has helped mold her somewhat frugal-minded approach to life. "He really changed my views on money. My parents always lived high off the hog and as a result may never be able to retire. I want a nice house and certain things in my life, but I want my future to be more secure. I don't want to be 70 years old and operating some power plant!" she says.

Earning extra money in a part-time job

Besides being a mechanical engineer at a power plant, John may use his ties with the merchant marines to transport cargo for about two months this summer; and he'll earn as much as \$10,000, he says. If he opts for this summer work, the couple will be able to pay off its high-interest debts by October, Kessel says.

"And they'll probably be moving to Maine by the end of 2000. If he doesn't work this summer, they could still get their debts paid off by March of 2000 and be moving to Maine in the summer of 2001," Kessel says.

Follow-up:

John says he's grateful for the financial advice, particularly because it made him and Holly recognize that they weren't doing such a bad job in controlling their finances.

"I realize we don't have much money after paying our bills, but now we know that we're not spending (frivolously) either. I think we needed confirmation on that," he says. "We also have some short- and long-term goals on when to get things paid off." Brent W. Kessel is a fee-only certified financial planner based in Santa Monica, Calif. His firm, Abacus Wealth Management, manages investments for individuals, businesses and charitable foundations. He is a member of the National Association of Personal Financial Advisors, and the Institute of Certified Financial Planners. He specializes in asset management and charitable estate planning.

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