THE WALL STREET JOURNAL. ONLINE

Article Search Quotes & Research

Advanced Search Symbol(s) Name

Other Journal Sites As of Tuesday, April 27, 2004 LOG OUT

Home
News
Technology
Markets
Personal Journal
Opinion
Leisure/Weekend

The Print Edition
Today's Edition
Past Editions
Features
Columnists
In-Depth Reports
Discussions
Company Research
Markets Data Center
Site Map
Corrections
My Online Journal
Portfolio
Personalize My News
E-Mail Setup
My Account/Billing
Customer Service
The Online Journal
The Print Edition
Contact Us
Help

BARRON'S Online

FISCALLY FIT EXCHANGE

By TERRI CULLEN

ADD TO PERSONALIZED HOME PAGE

With College Bills Behind Them, Readers Enjoy Some 'Me' Time

April 27, 2004

Some readers are playing catch up on their retirement savings, while others are enjoying welcome downtime from their careers.

Judging by the response to Thursday's Fiscally Fit column, it appears that parents of college grads or soon-to-be grads who put their kids through school are finally getting a chance for some long-awaited "me" time to focus on their own finances.

Readers offered ideas on to how to best use the cash that's freed up when the youngest child in the family graduates from college. Others wrote in with insight on ways to use newly available income now to make retirement comfortable later. (Have some thoughts of your own or questions you'd like to share? Write to me at fiscallyfit@wsj.com.)

* * *

Once you've checked off "Pay for College" on your mental list of financial goals, there's usually only one or two big long-term objectives left – "Retire" is probably one of them. As parents assess their overall financial pictures, many find that maxing out tax-deferred contributions to retirement accounts will come next on their financial to-do lists. Reader Maynard Lowery has checked off that box, too.

He writes: When our son graduated we upped our 403(b) contributions to the maximum allowed, funded our Roth IRAs at the maximum, and used payroll deduction and direct deposit to our brokerage account. It's amazing how the money adds up. We haven't upgraded to the finest house in the neighborhood, but we do enjoy traveling when we have the time. And occasionally we send our son (now a graduate student) and his wife (recently finished with graduate school) a little financial surprise to help them toward their financial goals such as purchasing a house.

What we got out of this long-term regimen is some discipline for saving. But, more importantly I see some of the same characteristics already in my son and his wife. They already have tax-deferred savings (IRA, Roth and 403(b)), which will help them have a comfortable lifestyle as they reach our point in life.

* * *

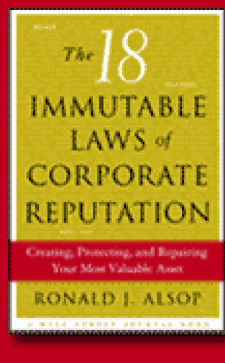
EMAIL PRINT MOST POPULAR

RECENT FISCALLY FIT EXCHANGES
April 9
• Readers Offer Money Lessons for Kids
March 26
• Homebuyers Get the Shaft Again
MORE

SEARCH PAST EXCHANGES
Search for these words:
Display all columns

advertisement
Key Issues in Insurance
Featuring archived stories from

Your company's most valuable asset is also its most vulnerable.



"Every executive will benefit from reading this book."
—Ronald Sargent, President and CEO, Staples, Inc.

(CLICK HERE)

Advertiser Links

Free Schwab Guide to Investment Advice

Lind-Waldock - Commodity Broker

Extend your small business bills

1-800-FLOWERS.COM blooms with Oracle E-Business Suite.

More Insights. Better Decisions. Visit The Business Insight Center.

Korea & NE Asia Business Conf.

Attend NYC's Leading Enterprise I.T. Event - FREE

As I noted in last week's column, when your youngest child leaves home for good, it may spark the urge to make radical changes in your work habits and lifestyle. Putting the brakes on an overly stressful workload is one way parents use their improved cash flow. One reader tells how he and his wife did just that.

Bob Garland Jr. writes: My wife and I were fortunate to be able to put our four sons through college using the "pay-as-you-go" method while continuing to save for retirement. As a pharmacist, I averaged about 46 hours a week during those years until the last child was about to graduate. But over the last year, I have cut work hours back to 40 hours, then 36, and am now working 32 hours a week. At age 59, I realize that my time to spend with my wife and family is my most valuable asset. It's ironic that all of that spending for college taught us how to live on much less than we earn.

* * *

While most readers wrote in to tell how their focus has shifted to shoring up their own finances, there was one exception – parents of daughters, who have college costs behind them but wedding bills ahead. As reader Steve Ganis notes, the price of a typical wedding can easily top annual college costs at an Ivy League university.

He writes: As parents who finally have supported two children through college, your column did omit one possible further large cash expenditure: the wedding. In the New York City metro area, that affair can cost upwards of $50,000 in no time. Traditionally, the bride's parents pay, but that rule has been changing lately. Still, it's a large expense and I feel pressured to make sure I don't have to borrow the funds, and thus we are delaying investing for retirement.

As costs for even modest wedding receptions in many regions of the country have soared, there's a greater strain on family finances. The expenses can be particularly painful for parents who are a decade or less away from retirement, when the loss of savings may mean postponing retirement. One solution is to decide on a cap for your contribution to the "big day." For example, the bride's parents offer to foot all bills up to a certain sum, say $20,000, and tell the engaged couple they will have to pay for all costs over that amount. Setting a limit also may have the welcome side-effect of prompting your child to shop around for the best deals. For some ideas on how to keep wedding costs in check, click here.

* * *

Reader Joel Kelley, a fee-only financial planner, notes that many people miss out on long-term tax-advantaged savings in retirement by not converting their Individual Retirement Accounts to Roth IRAs. Many IRA holders don't convert to Roth IRAs because they don't meet the eligibility requirements -- your income, single or married, must be $100,000 or less, and if you're married you must file jointly. But others don't convert to a Roth because they simply can't afford to pay the taxes on it. Mr. Kelley suggests to parents of graduating seniors that now may be the perfect time to take their newly disposable income and use the money to pay taxes on a Roth conversion.

He writes: I have seen situations where 50- and 60-something-age individuals have significant traditional

ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" column every Thursday for the Wall Street Journal Online, in addition to Ages & Stages and other weekly personal-finance articles and features you can find collected at Cullen Corner.

Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best national financial columnist. Terri also is a contributor to the book, "The Wall Street Journal Online's Guide to Online Investing," which was published in 2000.

Send your comments about "Fiscally Fit" to Terri at fiscallyfit@wsj.com.

RELATED INDUSTRIES

- Financial Services & Insurance
- Real Estate

Personalized Home Page Setup
Put headlines on your homepage about the companies, industries and topics that interest you most.

Order Free Annual Reports

Order Free Fund Prospectuses

Get Oracle Database for less than Microsoft SQL Server.

Get tips for working smarter with Microsoft Office System Webcasts

Financial Experts: Chance to win an HP IPAQ

Your perfect vacation@Incredible India

Financial HP Workstations at PC Prices

Give the perfect gift: The Online Journal

IRA accounts or self-directed rollover IRAs from previous employment. When I project retirement plans, the Roth makes a huge difference in the years after 70 1/2, when minimum required distributions would otherwise have to begin with a traditional IRA. (With a Roth IRA, there is no minimum required distribution.)

With people living longer and thus having retirement income needs for longer periods, the Roth can continue to grow and compound. The income freed up by not having college expenses could permit significant incremental Roth conversions.

Great point! It's always a better idea to avoid using IRA-account money to pay taxes when converting an IRA to a Roth IRA. Not only do you miss out on future tax-advantaged growth, but if you're younger than 59½ you'll have to pay a 10% penalty the money that was used to pay the taxes. There are some distinct drawbacks to Roth conversions, however, particularly if you're nearing retirement. Just ask anyone who converted to a Roth before the tech bubble burst, then watched their savings account dwindle to less than the amount of taxes they paid to convert. Read more *about the benefits and potential drawbacks of converting your IRA to a Roth IRA.*

* * *

Owen Mohan writes: If a big chunk of change suddenly freed up in my budget and I could spend or invest it anyway I'd like, I would buy a comprehensive long-term care policy. Based on demographics, statistical risk, the cost of care, medical inflation -- never mind the burden care-giving places on family -- only a fool would self-insure against this catastrophic risk. In fact, The Wall Street Journal article "Cracks in the Nest Egg" labeled failure to plan for long-term care as the No. 1 "crack."

It's true. Most people think about planning for retirement in terms of their savings -- not their health. But financial planners generally agree that long-term care insurance is unnecessary for people with savings and assets of more than $2 million (who can afford to self-insure) or people with assets of less than $50,000 (who will be covered by Medicare). For those who fall in between, however, long-term care insurance can keep your family's finances from being ruined by a debilitating illness. I took a look at long-term care insurance in a recent Ages & Stages.

Write to Terri Cullen at terri.cullen@wsj.com

EMAIL THIS FORMAT FOR PRINTING MOST POPULAR ORDER REPRINTS

Return To Top

Log Out Contact Us Help E-Mail Setup My Account/Billing Customer Service: Online | Print

Corrections Privacy Policy Subscriber Agreement Mobile Devices News Licensing About Dow Jones

Copyright © 2004 Dow Jones & Company, Inc. All Rights Reserved