

The Detroit News

Monday, May 23, 2005



Steve Pe

Jayme Ryerson, left, and Jerry Moerdyke are taking a pay-as-you-go approach to their wedding honeymoon, and Jerry already has started both an Individual Retirement Account and a 401(k) account, with Jayme set to start one as soon as she becomes eligible.

Money Makeover

Frugal couple on right path to financial stability

The engaged pair are wise beyond their years with steady jobs, \$38,000 in savings.

By Brian J. O'Connor / The Detroit News

Jerry Moerdyke and Jayme Ryerson aren't getting married until July, but the couple's balance sheet already beats those of many couples nearing their silver anniversaries.

The Wixom couple carries nearly no debt, lives well within their income -- only about one-third of their take-home pay goes for living expenses -- and has amassed an impressive cash reserve of about \$38,000.

They're taking a pay-as-you-go approach to their wedding and honeymoon, and Jerry already has started both an Individual Retirement Account and a 401(k) account, with Jayme set to start one as soon as she becomes eligible.

"We've had an eye set on after college ever since we met," said Jayme. She and Jerry met during their high school years, when they both worked at a Meijer near Grand Rapids.



The subjects

Jerry Moerdyke, 23

Occupation: Software engineer

Jayme Ryerson, 22

Occupation: Accountant

Their objectives: To buy a house by the end of the year, save for retirement, establish good financial habits and combine and organize their finances when married, and travel.

The planner

Keith Southwick is a certified financial planner and owner of StraitGate Financial LLC in Novi.

His advice: Live on 70 percent of income while putting the rest toward saving, investing and charity. Increase retirement 401(k) savings, adjust insurance coverage start an emergency fund and look for a house that won't bust the budget. And yes, they have enough cash for a trip to Europe.



Get a free financial checkup

The Detroit News is looking for readers interested in a free money makeover. Participants receive a consultation with a certified financial planner and agree to let The News publish financial information and photographs. If you wish to be considered, send your name, address and daytime phone number to MoneyMakeover@detnews.com. Please include a brief description of your money questions and goals.

▶ [Comment on this story](#)

▶ [Send this story to a friend](#)

▶ [Get Home Delivery](#)

With good jobs -- he's a software engineer with Cosworth Technology, she's an accountant with Plante & Moran -- and such a good financial start, the couple now is looking for direction on what to do next. Their goals include buying a home by the end of the year, direction for their retirement investments and establishing good financial habits as they combine their finances.

They'd also like to take a trip to Europe before starting a family.

"I don't have any recollection of anybody your age coming in with that much cash saved," marveled Keith Southwick, a certified financial planner in Novi.

His advice to the couple includes putting that cash to work for a home and their trip.

The couple also should start an emergency fund and stick with spending habits that will allow them to save for retirement, contribute to charitable causes and save for other goals and opportunities.

He also gave the couple tips on establishing credit and getting a handle on insurance and estate-planning issues.

Southwick's first piece of advice to Jayme, 23, and Jerry, 22, won't be hard for the frugal duo to follow - live on less than you make.

Southwick recommends his clients live on 80 percent of their income, 70 percent if they're charitably inclined. Of the remaining money, 10 percent should go toward retirement and "financial independence," 10 percent toward financial "opportunities" such as a real-estate deal or bargain buys in a down stock market and, for those who choose the charity option, a final 10 percent for good works.

With buying a home as their primary goal, the couple's living expenses will increase considerably, but if they stick to a house in the \$200,000 range, they'll still be below the 70 percent mark.

Initially, their 10 percent "opportunity" savings should be targeted toward establishing an emergency fund equal to three months' of living expenses, which comes to about \$10,000, including the potential mortgage and other costs. At a rate of \$785 monthly, the rainy-day fund is completely established in slightly more than a year.

Southwick's advice on where to park that cash is a point where the couple can improve. Right now, their cash is in a savings account earning 1.8 percent interest. Southwick recommends the couple move the money into ING Direct, a "virtual" bank offering accounts serviced online, through the mail and over the phone. The account there pays 3 percent, is fully FDIC-insured and an account can be linked to a local bank account for easy transfers of money.

Most importantly, ING Direct and other similar online accounts offer the main components any rainy-day fund must have: safety, liquidity and easy access in an emergency, while keeping the money separate from any personal checking or household accounts.

For retirement, Southwick recommends both Jerry and Jayme sock away 10 percent of their income in their company 401(k) plans. In this way, they'll receive not only the matching cash that their employers contribute to the retirement accounts, but they'll also cut their tax bill, since 401(k) contributions are untaxed until withdrawn.

Since they're young, Southwick advised they concentrate on investing primarily in stocks, with 25 percent in bonds. By rebalancing the portfolio at least annually to compensate for gains and losses, they'll be able to capture the profits from stocks and move them into the bonds.

Of course, as they get older, the balance will shift away from dicey stocks, which now offer the best chance for growth, especially since the couple has a long enough investing horizon to ride out the ups and downs of the volatile stock market. "The real risk is not losing your money," Southwick noted, "but outliving it."

He recommends distributing the money in the following categories:

- 25 percent in large-cap growth
- 25 percent in large-cap value
- 5 percent in small or mid-cap growth
- 5 percent in mid-cap value
- 5 percent in small-cap value
- 10 percent in foreign or international stocks
- 15 percent in high-quality bonds
- 10 percent in specialty bonds

With that solid base of saving, investing and reasonable spending, the couple is free to focus on their larger financial goals.

The first is a home of their own, which will make the first claim on their savings. Jerry and Jayme would like to buy a home this fall but might be better off waiting and saving another year in order to make sure

they won't be cash poor after paying for a move, closing costs and any of the repairs, new appliances or improvements that a new home inevitably needs, Southwick advised.

Either way, the couple should aim to keep their total housing costs -- mortgage, insurance, taxes and any other fees -- to less than 28 percent of their gross income, Southwick advised. When combined with other monthly payments, such as car loans or other debt payments, the ratio should be no more than 36 percent of income.

To stay within that range, Southwick recommended Jerry and Jayme look for a house in the \$200,000 price range, rather than the higher \$250,000-\$275,000 range they initially set. Even at that lower amount, they'd be putting down only 10 percent of the purchase price, which will require them to pay private mortgage insurance, or PMI.

PMI protects the lender by paying the costs of foreclosing on a house if the borrower stops paying the loan. It's typically required if the down payment is less than 20 percent but can be eliminated after the couple reaches a 75 percent level of equity in the home.

The good news is that the combination of the tax deferral from the increased 401(k) contributions combined with the deductible mortgage interest means the couple's effective tax rate will drop from 25 percent now to 15 percent when they buy a home.

For the longer-term goal of starting a family, they will be in good shape with an established emergency fund and will have to review changes for health, life and disability insurance.

Southwick also provided budget estimates for child rearing. In the first year, couples can spend an average of \$6,200 on cribs, strollers, baby clothes and other baby stuff alone, he noted. After that, the cost of raising a child starts at \$9,501 for a middle-income family or \$14,140 for a high-income household.

In addition, they'll need to weigh the costs of child care, transportation, taxes and other expenses in solving the question of whether one parent should stay home or work. Besides all that, once a baby arrives, the couple should start a 529 college savings plan, update their estate plan to include a guardian and make sure they don't sacrifice retirement savings.

On the final goal -- a trip to Europe -- Southwick had an easy answer for Jerry and Jayme: Go! With their savings plan and cash on hand, they have more than enough on hand to take the trip sometime during the summer of 2007.

"Don't forget to send us some pictures," he added.

About the only real mistake in their finances Southwick could find is a 5-year loan on a new Pontiac Vibe. "Never purchase a vehicle that requires five years to pay off," Southwick said. Instead, buy something that can be financed for three years, but drive it for seven. When the car is paid off, save that monthly amount for the next four years, and there should be enough money to buy a new ride with cash.

Other advice:

- With \$100,000 each in life insurance, the couple has adequate coverage. When they buy a home, they should increase the coverage so if one of them dies, insurance will pay off the mortgage and provide the survivor with a year of living expenses for "readjustment income." This can be either through work or an outside low-cost term insurance policy.

- On their auto insurance, the couple should be sure to carry liability coverage of at least \$500,000 per person, per accident. Deductibles on the policies should be \$500 and go up to \$1,000 later when they have more cash in reserve. In addition, they should carry uninsured and underinsured motorist coverage at the same limits.

Until they get a home, they should restructure their renter's insurance. First, the liability limits on this and all policies should be the same (\$500,000 in this case), and they should raise the deductible to \$500. Second, they should be sure to buy replacement cost insurance, which will give them more coverage for not much more expense.

- They need to establish an estate plan, with wills, living wills, durable powers of attorney and health care durable powers of attorney right away.

- Finally, their pre-wedding plans should include adding each other as beneficiaries to insurance accounts and retirement plans, as well as bank and investment accounts.