

Financial Priorities

Tomas and Jenny, a hypothetical couple in their late 30s, have two kids, ages 8 and 10. Their oldest boy will enter college in just eight years, so they want to start saving with a 529 college savings plan.

Talking it over

To get started, Tomas and Jenny listed their financial goals. They agreed that 529 plans were a great idea, but only after meeting some other obligations, including saving for retirement. The kids could always apply for loans, grants or scholarships, but Mom and Dad are responsible for their own retirement.

Putting needs in order

Together, the couple ranked their financial goals:

1. Contributing enough to their workplace retirement plans to earn their employers' matching contributions.
2. Paying down non-deductible, high-interest debt so that monthly payments don't divert money that might otherwise go toward retirement or college savings.
3. Establishing an emergency fund so they won't need to tap their savings to meet unexpected expenses.
4. Investing the maximum in a tax-deductible IRA to enhance their retirement savings.
5. Establishing 529 plans for each child.

Making progress

After achieving the first four milestones, the couple will begin saving for their kids' education. They will contribute a little each month, and add windfalls such as tax refunds and bonuses to each child's 529 savings plan. Friends and relatives will make special contributions on birthdays and holidays, too. By putting retirement first, Tomas and Jenny are building a solid financial base for their entire family.

Fictional people are used in this hypothetical example, which is for illustrative purposes only and does not represent any specific product or advice.

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