GET WITH THE PLAN

Personal-finance professionals offer readers a financial road map

The situation

Geoff and Dorothy are ready to start saving and paying off substantial debt. After years of making sacrifices, the Morris County couple are finally benefiting from Geoff's salary as a physician. They want to pay off debt, save for retirement and college for their children.

Net worth

ASSETS	
Savings	$24,000
IRAs	$3,500
401(k)	$62,000
Home	$800,000
Personal property	$15,000
Autos	$15,000
TOTAL ASSETS	$919,500
LIABILITIES	
Mortgage	$592,500
Home equity loan	$50,000
College loans	$162,000
Car loans	$11,410
TOTAL LIABILITIES	$815,910
TOTAL NET WORTH	$103,590

Budget

ANNUAL INCOME	$235,000
MONTHLY EXPENSES	
Taxes	$5,500
Housing	$4,125
Loans	$1,500
Utilities	$780
Food	$900
Preschool tuition	$250
Personal care	$420
Transportation	$1,070
Medical	$790
Disability/life insurance	$120
Entertainment/vacations	$300
Gifts/charity	$300
Pets	$50

The way out

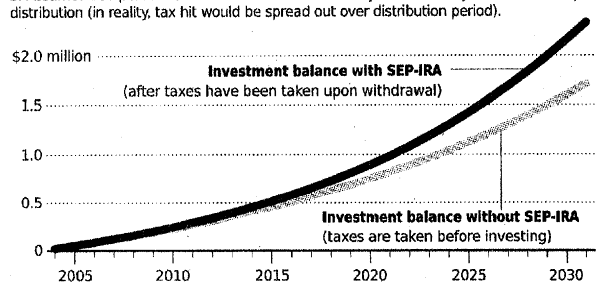
Before Geoff and Dorothy sock away funds for their long-term goals, they need to take care of some more immediate needs. For protection, they need to establish an emergency fund and increase their life insurance. Then, Geoff can establish an SEP-IRA and they can direct their discretionary funds there and for 529 plans for their kids' college educations.

ASSET ALLOCATION

The couple will accumulate significantly more if they save their retirement dollars in a tax-advantaged account, such as an SEP-IRA. This assumes they will save $30,000 in the first year and $41,000 each year thereafter until retirement. This chart assumes a 7 percent rate of return and a tax rate of 28 percent.

OTHER ASSUMPTIONS:

1. Assumes 100 percent of investment income is taxed at 28 percent annually. This is a very conservative estimate, since a portion of the investment income would actually be taxed at capital gains rates and/or qualifying dividend rates and a portion of the gain would not be taxable until sale.
2. Assumes after-tax amount of $29,520 is available to invest if the money is not invested in an SEP-IRA ($41,000 less 28 percent taxes).
3. Assumes 100 percent of SEP-IRA balance will be subject to ordinary income taxes upon distribution (in reality, tax hit would be spread out over distribution period).



THE STAR-LEDGER

SOURCE: Marnie Aznar, CFP

Writing a prescription for doctor and family

BY KARIN PRICE MUELLER
STAR-LEDGER STAFF

Geoff and Dorothy are entering another financial stage in their lives.

After years of medical school and training, Geoff is a full-fledged doctor. They have a healthy cash flow and they want to make the most of their money.

"My biggest financial challenge is making sure we have enough for retirement and college for the kids," says Geoff, 38.

Geoff and Dorothy, 47, whose names have been changed for publication, have four college educations to save for. But they also have student loans, home loans and other debt to consider.

They owe $162,000 in student loans, $592,000 on their mortgage, $50,000 on a home equity loan and $11,410 in car loans. In assets, they've saved $62,000 to 401(k)s, $3,500 to IRAs and $24,000 in a savings account. Now that Geoff's salary of $235,000 is here, the couple wants to establish a solid plan.

The Star-Ledger asked Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains, to help the couple get on track.

"Geoff and Dorothy should start out by focusing on building their financial foundation," Aznar says.

That means growing an emergency fund and making sure the couple has adequate life insurance pro-

DO IT YOURSELF:

Your life insurance needs will vary depending on debts and goals. To determine how much you need, check out the life insurance calculator at the **Life and Health Insurance Foundation** for Education's Web site at www.life-line.org.

The couple has $24,000 in a savings account, but Aznar says they need at least $35,000, or three months of living expenses, as a cushion. They should accumulate these funds by temporarily halting their retirement funding. Once they hit their goal number, they can concentrate on longer-term goals.

Geoff has a term life insurance policy of $1.5 million and Dorothy has $150,000 in term insurance. Aznar says Geoff should have $2.3 million and Dorothy, a total of $700,000, in part because Dorothy is a stay-at-home mom, and Geoff would need to find child care for four children should something happen to Dorothy.

Once this financial foundation is established, Aznar says the couple can turn their attention to retirement and college savings. Geoff was hoping to retire between ages 60 and 65, but habits won't get them there. To target a retirement age of 65, Geoff should establish an SEP-IRA and contribute the maximum each year, which would reduce their tax liability and give tax-deferral to their savings. In 2004, the maximum contribution is $41,000. Aznar says this might be too tight, given their cash flow this year, so they should shoot for a monthly contribution of $2,500, or $30,000 a year. After this year, though, they should be able to save $41,000 a year.

With those funds, Aznar suggests the couple have between 60 percent and 70 percent of their portfolio in equities. She recommends a low-cost, well-diversified portfolio with a fund family such as Vanguard, T. Rowe Price or Fidelity.

If they can afford it, they should also fund an IRA for Dorothy each year so she can build some savings in her name.

For college, they should set aside $500 a month, or $125 for each child, to 529 plans.

Get With the Plan involves readers anonymously divulging their personal financial information in exchange for free advice from a professional. The feature is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice. Readers who would like to participate can contact Karin Price Mueller at