

What to Do When You Can't Do It All

With all the demands on your money—your kids' needs, your parents' needs, not to mention your own ambitions—it often seems like there's not enough cash to go around.

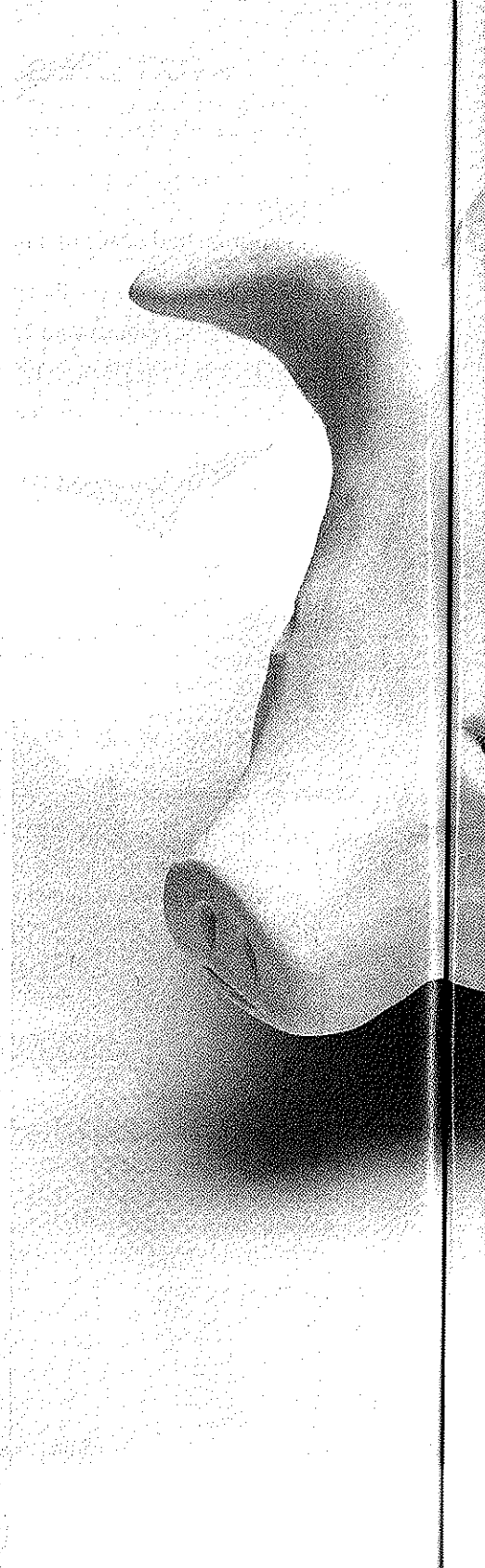
The solution: Set priorities that are flexible, but not too flexible. BY GEORGE MANNES

YOU KNOW WHAT YOUR FINANCIAL priorities are *supposed* to be: Max out retirement savings. Build a cash cushion for emergencies. Get rid of any credit card debt. Save for your kids' college education. Pay off the mortgage before you retire.

Problem is, for most of us there doesn't seem to be enough money to fully fund all those purposes and put dinner on the table. (Baltimore financial planner Tim Maurer calculates that for a couple with two kids, just saving the ideal amounts for retirement, college, and emergencies would require \$72,000 a year.) Complicating matters are the legitimate demands of everyday existence—your kid needs a computer, your parents

need help with bills, your car needs tires—as well as your aspirations. Wouldn't it be nice if Junior could go to his dream school or you could finally complete that kitchen renovation you've been talking about for ages? In light of all the pressures on your money, it's understandable that you can't always follow the standard advice to the letter.

Balancing reality against the conventional wisdom requires tough choices and compromises, as well as insight into the forces that deter you from hitting your marks. Follow the steps laid out here to set high but achievable goals while giving yourself flexibility to handle the intrusions known as real life.





Retirement

VACATION

EMERGENCY
FUND

COLLEGE

ELDER
CARE

Master the Musts

The starting point for addressing infinite desires with finite funds is knowing what advice you really can't ignore. While financial planners (and MONEY editors) have exhaustive ideas for allocating your resources, they can chop down the list quite a bit in a tight spot.

Marjorie Fox, a Reston, Va., financial adviser, tells her clients there are three non-negotiables: Contribute enough to a 401(k) to get the employer match (typically a quick 50% to 100% return on your money, depending on your company's plan), accelerate pay-down on credit card debt so that high finance charges don't drain your resources, and work on building adequate emergency savings (see page 103). "Everything else," says Fox, "becomes, 'Well, it depends.'"

Granted, putting only up to the match in your 401(k) won't get you to Easy Street at age 65. But this bare minimum approach ensures that you will always be saving for retire-

ment—your most costly goal—no matter what other forces are at play for your money.

Sort Out the Rest

It's no small task ordering the rest of life's priorities. (The world's great religions have spent millennia on the effort.) But start by writing down everything you want that requires money you don't have—anything from retiring at 60 to taking a two-week European vacation.

Next step: Pare it down. Pittsburgh financial planner Kathryn Nusbaum advises pursuing no more than five financial goals at one time; as she says, "once you go beyond that, it's too much to get your head around." That means adding between two and four goals to your non-negotiables, depending on whether you have credit card debt or adequate emergency savings.

The "Set your financial priorities" calculator on our website, at cnmmoney.com/tools, can help you narrow your options. You enter up to 15 goals, and

after asking you a series of questions, the tool rearranges the list in order of importance to you. The exercise isn't foolproof, but it can help you realize that a goal that has taken on urgency because it just came up—a visit to the mechanic has you wondering about a new car—isn't as important as something you hadn't thought about in a while—that 25th-anniversary trip to Europe. A lower-tech way of ordering your goals: Simply ask yourself which of them you'll regret the most if they don't get completed.

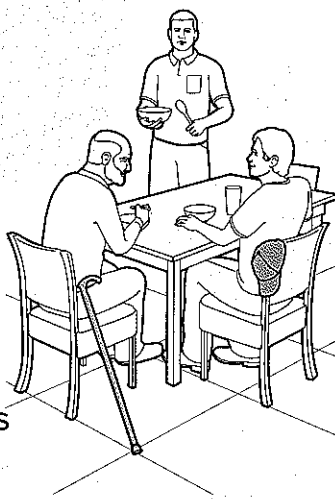
Put the Plan Into Action

Once you've trimmed your list, decide the amount you'll stash each month. Jill Gianola, a financial planner in Columbus, suggests structuring your savings plan in increments of three to five years. "It isn't instant gratification, but it's see-able," she says. So instead of intimidating yourself with the big number you'll need for retirement, you might aim to have added, say, \$50,000 between now and 2015.

Quiz: How Do Your Priorities Stack Up?

Test yourself to see how your financial pulls and pushes match those of your peers.

Illustrations by Chris Philpot



1

What percentage of well-off older boomers are currently providing support to both a child and an aging parent?

- A. 5%
- B. 12%
- C. 21%
- D. 31%

(D) Nearly one in three of those between ages 50 and 64 are being pulled in both directions, according to a Merrill Lynch survey. Meanwhile, 75% of these sandwiched boomers are—perhaps not surprisingly—worried that their assets won't last the whole of their lifetimes.

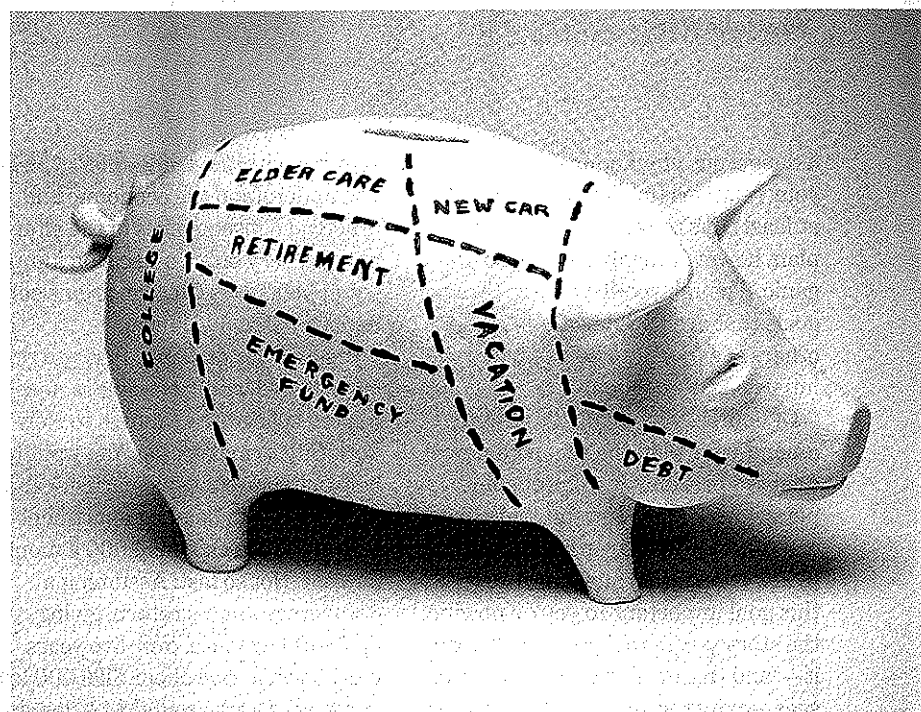
2

For these pre-retirees stretching to help their families, which of these is the most common impact on their finances?

- A. They've cut back on luxuries.
- B. They're contributing less to a child's college education.
- C. They're saving less for retirement.
- D. They're buying more lottery tickets.

(A) Some 44% of those surveyed in the Merrill poll say they've cut back on the finer things. About one in four are saving less for retirement, and 12% are putting less toward college. Untold numbers are playing the lotto in desperation.

Put those savings on autopilot: Have the money automatically transferred each month from checking to dedicated accounts. That way, inertia works in your favor—you'll have to take action to undo your plan. You might also link your ho-hum long-term goal (socking away extra money in an IRA, say) to a pulse-pounding short-term one (such as a ski vacation). Set a rule that for every dollar you put into the vacation, you have to put 50¢ into the IRA. Because more of your money is going to something immediate and fun, you're making saving for retirement more pleasurable, says Carnegie Mellon economics and psychology professor George Loewenstein.



Prepare for Interruptions

No matter how well laid your plans are, you can be sure life will intervene—probably in the form of family members. You may have imagined a world in which once your kids graduated from college, you were off the hook financially. And until the day

arises when your folks need help, you probably won't have listed "providing parental aid" as one of your long-term goals. But, in fact, nearly a third of affluent older boomers are assisting *both* their children and aging parents financially, according to the Merrill Lynch Affluent Insights

survey. That's not to say that it's always other people who screw up the priorities: Sometimes your own circumstances or desires change. (Remember that visit to the mechanic?)

So what's the solution when something arises that calls your priorities into question? Well, it's not to drive



3 In a MONEY survey, only 45% of men guessed that their wives thought retirement savings was a priority. What percentage of wives actually ranked it as a key goal?

- A. 32%
- B. 43%
- C. 68%
- D. 87%

(C) And that was just one area in which men underestimated spouses' money concerns. Others: saving for emergencies and paying off debt. Do you know what your spouse thinks is important? Other than your taking out the trash, that is...

4 What percentage of a child's private college costs does the average parent pay through income, assets, and borrowing?

- A. 62%
- B. 43%
- C. 33%
- D. 10%

(B) That comes out to about \$16,600 a year, according to a Sallie Mae and Gallup study. Another 19% is paid through the student's income, savings, and loans. Parents get off the hook more cheaply at public colleges, paying an average \$8,500 per year. Go State!

5 How much did affluent families plan to spend per person, on average, for a summer 2010 vacation?

- A. \$2,200
- B. \$1,600
- C. \$1,200
- D. \$600

(B) The average budget was \$1,600, reports American Express. Some 73% of those surveyed planned to take a vacation, and of those who were not going on holiday, 44% said it was because they hadn't saved up for it.

a dangerous clunker or to cut off your relatives (for financial reasons, at least). It's to remember that your plan, however firmly set, is also organic. Though you have up to three goals that are non-negotiable, the others are meant to be flexible to the intrusions of real life.

Of course, you shouldn't rush to amend your plan the second a new demand presents itself. Get some perspective first. Towson, Md., financial planner Phil Dyer finds it helpful to ask clients this question: Why is this goal important to you? Knowing the story you're telling yourself about it—"and there's always a story," Dyer says—can shed some light on whether it's truly worth pursuing.

Attach \$\$\$ to Diversions

The assessment doesn't just end there, however. You'll also want to figure out the true cost of changing your plans, and not just in current dollars and cents, but also in terms of what you'll have to give up. Can

you live with the trade-offs? "Once you understand the economic and practical consequences of the alternatives, very often, a decision jumps out at you," says Chicago area wealth manager Donald Duncan.

Imagine, for example, that you're 50 years old, and your child, a newly minted college grad, moves to New York City to make it big. You want to help out your struggling artist—and avoid visiting a flea-bag apartment—so you offer to chip in \$1,000 a month for rent. Not so fast: Assuming a 6% average annual return, giving up \$1,000 a month, over five years, means you'll have about \$126,000 less at age 65. That's around \$420 less in monthly retirement income, at a 4% drawdown. If you've got a nest egg of \$1 million-plus, maybe the rent money really is no big deal. But if you've got, say, \$200,000 saved, helping your kid out with rent now may mean postponing retirement or making serious sacrifices in your standard of living in those nonworking years. You can do

similar back-of-envelope math on how money you're sacrificing might grow using the "Quick savings calculator" at cnmmoney.com/tools.

A less math-intensive way to assess the costs of a diversion is to look to the money you're currently directing to your goals—starting with the lowest on your list and working your way up—to see how many of them would have to be scratched if you chose to do the new thing. Put a mental picture to whatever you'd have to give up. If you would have to put off buying a new car, imagine yourself driving your current one in 2015. If you'd lose five grand a year in retirement, think of it as an annual vacation or a country club membership. This exercise will help you fairly compare the new—and very vivid—demand to the other things on your list, which may not be so clear to you. Attaching a picture to a goal "gives the money concreteness," says University of Toronto marketing professor Dilip Soman, who has done research on this topic.



6

Nearly 60% of the oldest boomers have given money to adult kids or grandkids in the past five years. What's the median amount doled out in that time?

- A. Less than \$10,000
- B. \$22,000
- C. \$30,600
- D. Nearly \$60,000

(C) The median is \$30,600, reports the MetLife Mature Market Institute. But the average is \$59,000, meaning that high-end givers have really coughed up.

7

When Grandma and Grandpa provide financial assistance to their grandchildren, what's the money most often earmarked for?

- A. General support
- B. An event like a bar mitzvah
- C. College education
- D. Medical bills

(A) General support accounted for 40% of gifts, according to MetLife; education was in second place at 26%. The median gift given over the past five years was \$3,000.

8

The average wedding is budgeted at \$28,000 these days. How much of the tab is typically picked up by the bride's parents?

- A. \$28,000
- B. \$21,000
- C. \$13,000
- D. \$5,000

(C) The bride's parents pay 46%, on average, says The Knot; the groom's folks pony up 12%. The band alone runs \$3,300—but who can put a value on a live performance of the chicken dance?

Translating Your Priorities Into Numbers

You'll probably want to allocate a significant portion of your savable income toward your retirement, your child's college education, and your emergency cushion because of the sheer amounts you'll need to save for these.



RETIREMENT

How much you'd need to put away per month if you earn \$100,000 a year and want to retire by age 67, with 60% or 70% of your current income:

IF YOU ARE...	AND YOU'VE GOT...	FOR 60%, YOU SHOULD STASH...	FOR 70%, YOU SHOULD STASH...
age 45	\$200,000	\$780	\$1,430
age 55	\$400,000	\$810	\$2,200

NOTES: Assumes tax-deferred savings, a 6% annual return, 3% company match, and a 30-year retirement in which you collect Social Security but not a pension. Salary and savings figures increase 3% per year for inflation. SOURCE: T. Rowe Price



EMERGENCIES

How many months' worth of living expenses you should have in cash (though access to a low-interest HELOC could make up some of this):

A SINGLE WORKER WITH NO KIDS	A TWO-INCOME COUPLE WITH KIDS AND STABLE JOBS	A ONE-INCOME FAMILY OR TWO SPOUSES WITH UNSTABLE JOBS	A SELF-EMPLOYED COUPLE WITH KIDS
3 months	3-6 months	6-9 months	9-12 months



COLLEGE

How much you'd need to start stashing away a month assuming you want to pay for one-third the cost of the education from savings:

IF YOUR CHILD IS...	PUBLIC COLLEGE	PRIVATE COLLEGE
an infant	\$160	\$310
age 8	\$370	\$740
age 12	\$690	\$1,390

NOTES: Assumes you have nothing saved so far, college cost increases 5% a year, and you earn a 6% annual return. Average cost of college for four-year private and public in-state school includes tuition and fees, room and board, and other expenses: \$19,388 per year for public, \$39,028 for private. SOURCES: College Money, College Board

Learn the Art of Compromise

Okay, but what if these exercises make you realize that you can't afford to pay for a home health aide to take care of Dad without doing serious damage to your own retirement plans? Rather than letting guilt subsume you, think about whether you can "massage your goal, and fulfill your need in a more creative way," suggests Nusbaum.

Is there another way to get to the same end result? If the goal is to get Dad the care he needs, you might look into whether he's eligible for government programs that would defray the costs; you might ask siblings to share

the burden with you; or you might help him arrange a reverse mortgage.

Alternately, is there another solution that won't cost as much? Return to the story behind whatever it is you want to spend money on, and see if there's a different way to satisfy your motivation. Say, for example, the reason you'd like to take the whole family on a European cruise is because various members have been through pretty rough times lately and you want to give them a chance to relax. Well, there are plenty of less expensive ways to meet that same aim: How about a Caribbean cruise instead, or a trip to an all-inclusive resort?

You may also find that a halfway measure will do. Maybe you can't swing a loss of \$1,000 a month for your child's living expenses in New York. But if the reason you want to help is that you're afraid she'd have to live in a bad neighborhood to get by on her own budget, you might consider instead providing half that much—along with logging hours to help her find a decent apartment. That way, not only will you be helping your daughter now, but you'll also be making it less likely that one day she'll need to reorder her own priorities to help you out in retirement. A sound goal indeed. ■