

Spending Insanity

By

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Our parents' generation were "savers". They squirreled away every spare penny they could manage. When they did buy something, they mainly paid with cash not plastic. Our generation is rightly called the Consumer Generation, we are obsessed with the next thing we want to buy – those new shoes or a home remodeling project or a vacation. Are you salivating at the thought of being able to buy a Porsche? Credit card debt is running at an all time high.

The recent destruction of an American city by hurricane Katrina has had a sobering effect on many of us. The infrastructure of our society appears very fragile. It is not uncommon for me to meet families who live frighteningly close to the edge of bankruptcy. Outwardly, they appear very successful with expensive homes and cars, but the extent of their debt and lack of savings means there is no safety net.

Here is a challenge for you – review your checkbook register and credit card receipts over a 30 day period and categorize your major expenses. Are you surprised by money that is frittered away on items that you have already forgotten about? Most of us can save more and spend less.

I recommend having at least three different types of savings accounts. Strive to have at least three to six months of living expenses in an easily accessible account to cover unplanned emergencies like being laid-off. A second account is your fun savings, for example your dream vacation. A third account for your retirement savings, which for most investors will be an employer sponsored account like a 401(K) account. For the following reason you should plan to save the maximum amount currently allowable (\$15,000 for 2006), if at all possible. Your deferred income elections are not subject to income tax withholding at the time of deferral, and they are not reflected on your Form 1040 (personal tax return) since they were not included in the taxable wages on your Form W-2. However, they are included as wages subject to social security, Medicare, and federal unemployment taxes. Therefore, your savings accumulate tax-deferred but you also reduce your tax bill.

There are many different ways to save for retirement but the key points are to save as much as you can afford and not be tempted to withdraw it especially when changing jobs! Remember any money you withdraw prior to age 59½ will be subject to a 10% tax penalty in addition to ordinary income tax. Prior to retiring, calculate how much you will need to accumulate as a target to work towards. (To make this calculation consult a financial advisor or use one of the many web-based retirement calculators.)

For those of you with children still college bound, start saving as early as possible. Experts estimate that the cost of a public college education for a child born in 2005 will be close to

\$200,000.¹ It makes sense to take advantage of education savings accounts which allow tax-deferred growth and tax free withdrawals.

What effect do you think your spending habits have on your children? Many of our attitudes that we have towards money we learned from our parents, directly or indirectly. You may not be aware that you still hold those attitudes or from where they come. Teach your children how to save. Piggybanks have gone out of fashion but for small children they are still a very physical way of watching savings accumulate. Encourage your children to save towards college by putting away part of the money that they receive as birthday gifts. Open a bank account in their name, which you retain control over, and teach them the value of systematic saving. Hopefully, the next generation will not adopt our bad habits towards money but learn the sense of achievement that comes from buying something you have saved for diligently.

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¹ Source CollegeBoard.com