

Soon-to-be homeowner must curb urge to splurge; 38-year-old woman has the income to save

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"I'll be honest with you," confided Veronica Griffin. "I have a shoe fetish."

The 38-year-old Oak Park woman, soon to be a new homeowner, laments her fiscal past as she contemplates her future budget.

"I'm an impulsive shopper," she said. "I could easily have \$30,000 or \$40,000 in the bank if I'd been saving as I should have.

"It makes me sick to my stomach to think about it."

Whoa, said certified financial planner Nina Preston, don't be so hard on yourself. She pointed out that in a brief period of time Griffin has put aside enough to make a down payment on a \$93,000 Detroit bungalow -- and still have a cash cushion worth six months of expenses left over.

"For someone who started saving two years ago, this is good, this is really good," Preston said. "To go from never investing to saving a down payment, building an emergency fund and putting a good amount in your 401(k) -- atta girl!

"You don't have to scrimp on everything."

That said, Preston asked Griffin to hand over her checkbook. Leafing through the register, entries for high-end shops like L'Occitane and Sephora raised her eyebrows. "And Tiffany?!" she exclaimed.

"That's my hairdresser," not the famous jewelry boutique, Griffen hastened to explain. But she acknowledged a weakness for clothing, pricey beauty aids, music CDs and especially shoes.

Frequent splurges account for the mystery leak in the budget, Preston said, and it must be plugged before Griffin closes on her house in the coming month. She pointed out that living with her mother and aunt, as Griffin does, has allowed her to save rapidly, but hasn't prepared her for the increased costs of utilities, maintenance and repairs that a house will entail.

"Can I even afford to move out?" Griffin asked.

Not only can she afford it, Preston said, she also can save more than she does now -- if she curbs her appetite for consumer goods.

"The money is definitely there" Preston said. "Of course, you'll be using Jergen's lotion instead of Sephora, but that's OK. You just need to stop letting money slip through your fingers."

Griffin takes home, after taxes and her 401(k) contribution, \$2,240 from her work as a customer service representative for SBC Communications Inc. and a part-time job as a Ford Field usher.

Preston estimated that Griffin's monthly mortgage payments will be \$756, including taxes and insurance, and that household utilities will run about \$250.

Allowing for phone, entertainment, gasoline, auto insurance and other odds and ends -- plus charitable giving and a reasonable \$50 for clothing and \$80 for grooming -- Preston figured Griffin's total monthly outlay should run around \$1,658, leaving \$582 for additional savings.

"I didn't think I'd be able to save once I moved," Griffin said.

"There is a learning curve, but you just have to budget and learn to say no," Preston said. "You have to distinguish the wants from the needs."

A new roof would be a need, she said, but replacing the unsightly floor tile in Griffin's new kitchen will have to wait until she can pay for it without tapping credit cards or her emergency cushion.

It helps to have a big-picture goal in mind, she noted. For example, Griffin's dream is to own a home in the Southfield neighborhood where her grandparents lived. "That's where I want to end up," she said. "I only want to move one more time in my life."

If she can set aside \$300 a month of that \$582 excess, Preston said, in five years she could have \$25,000 toward a down payment on the Southfield dream house. (Assuming a 5-percent annual return on the savings.)

Moving to Southfield is Griffin's intermediate-term goal, while retirement at age 55 or 60 is a long-term aim. But is that doable for a woman who just started her 401(k) savings in 2001?

"Well, how do you feel about age 62?" asked Preston. "That's more realistic."

That's because Griffin will be eligible to collect early Social Security benefits at age 62, Preston said. Based on her current salary, the monthly benefit amount would be \$897.

Meanwhile, if Griffin continues her \$130-per-pay-period contribution to her 401(k), plus the generous company match of 80 cents to the dollar, that amounts to \$5,358 per year. If she continues to save at this rate, and earns an average of 7 percent returns, her nest egg will grow to more than \$356,000 by age 62.

Drawing out 5 percent of her savings a year will give Griffin additional monthly income of \$1,483. Added to Social Security, that's \$2,380 a month.

The snag: Preston figures that Griffin's monthly expenses, adjusted for inflation, will run about \$3,216 in 2026. Under today's scenario, she's looking at an \$836 shortfall.

But there is hope. For one thing, Griffin already is vested in SBC's pension plan, though the size of her monthly benefit will depend on how long she continues to work there and other variables. If she stays with SBC until age 62, the pension amount could be as high as \$1,400 a month.

Furthermore, Preston said, it's highly likely that Griffin's income will continue to rise, and her retirement savings along with it. So the gap between retirement income and expenses likely will close as she nears the end of her working years.

"You are going to be fine," Preston said.

Other recommendations:

* Griffin should continue paying the budgeted \$100 a month toward her \$1,300 credit card debt -- most of which is attributable to last winter's Christmas-present splurge. To avoid a repeat, Preston said, Griffin and her family should talk about which parts of the holiday celebration are most worthwhile.

"Two years ago, what did your auntie buy you? Three years ago, what did your mother buy you?" Preston asked. "Hurry, hurry."

Off the top of her head, Griffin couldn't recall. She noted that the holiday meals, conversation and champagne were indeed more memorable than the presents, and said she will look into changing traditions as she begins to host family holidays in her new house.

* Griffin should reallocate her 401(k) contributions, which currently are devoted to a single income-oriented mutual fund. For more diversification, she should divide at least 60 percent of the money equally among the available large-cap, mid- and small-cap, asset allocation and international funds in the plan.

* While Griffin yearns for a new car -- her current model is 10 years old -- Preston wants her to postpone the purchase for two or three years while she settles into the house. (If a real auto emergency occurs, she should consider paying cash for a used car.)

Preston urged Griffin to draw up a list of major house-related expenses -- laundry equipment, furniture, window treatments, etc. -- and determine which must be incurred now and which can be deferred until her budget smooths out. She also needs to keep in mind that spending on services such as snow removal, yard work and repair persons may have to be worked into the budget.

"I thought financial planning was for millionaires," Griffin said. "But it really helps to break all of this down into layman's terms -- Nina really opened the door for me.

"I feel so much better."

The Subject

Veronica Griffin, 38

Occupation: Customer service representative

Her objective: To afford homeownership and still have money left over for treats such as salon visits and jazz CDs.

The Expert

Nina Preston

Nina Preston is a certified financial planner with the Society for Lifetime Planning in Troy. She is co-director of the firm's Women's Education Program and hosts a weekly radio program, "Thinking About Money," at 4 p.m. Thursdays on WPON-1460 AM.

Her advice: Griffin can easily juggle home ownership expenses and long-term savings if she curtails her spending on luxury items.