

DCC DOLLARS & \$ENSE

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Special points of interest:

- Understanding your debt-to-income ratio.
- Savings account growth previews.
- Ask DCC

Ask DCC

Question: I'm 27 years old looking to start saving for retirement. I have a couple of thousand dollars in the bank but want to put it somewhere that will actually net a return. I'm looking at IRAs and 401(k)s, which is the best option?

Jack C. Denver CO

Answer: The primary difference between the two is that in a 401(k) a company will generally make a contribution every time you do. Example; for every dollar you put in, your employer would contribute .50 cents. Essentially this is "free money" for your retirement. IRA, Individual Retirement Account, is just that, a retirement account for individuals. If you have an option with your employer where they will match part of your contribution, it's the best way to go. An individual account will be strictly your contribution and in some cases the funds will be post-tax

Considered Savings?

There have been several articles written on the subject of savings and how to do it. I'd like to try and not give so many options on where to place savings, or even too much on where to find the money to save. I'd rather give some examples of how with small adjustments to a weekly budget, or even just by making small contributions can improve your retirement income. By retire I'm referring to no longer working...at any form of job, the way retirement should be

Most consumers would agree that they could afford to put a dollar per day towards their long term savings. Some would even be able to place more than that amount. The following is just an idea of what a few dollars a week could do for your retirement account.

Amount	Years	Total
\$1.00	30	\$67,815
\$2.00	30	\$135,629
\$3.00	30	\$203,443
\$4.00	30	\$271,258
\$5.00	30	\$339,073

The fact is, when it comes time to retire, many consumers are living off their Social Security. The problem is Social Security was not meant to be the primary source of income for retired persons. The monthly income for a person retiring at age 65 is \$1,784 per month. This is pre-tax, subtract 12% in tax and you'll receive \$1,569. Most consumers cannot afford to live on \$392 per week.

The following table represents the amounts that your investments would yield on a monthly basis at the time of retirement. This illustrates the additional benefits that the interest on your savings would provide without ever touching the principle of your savings.

Now, to take a look at...

Total Invested	Average Annual Gain	Monthly Interest
\$67,815	9%	\$508.62
\$135,629	9%	\$1,017.22
\$203,443	9%	\$1,525.83
\$271,258	9%	\$2,034.44
\$339,073	9%	\$2,543.05

Ratio of Debt-to-Income

We've all heard the phrase "your-ratio of debt-to-income". What exactly does this mean? Your debt-to-income-ratio, simply stated, is the amount of income that you have compared to your total expenses. Typically this is measured over one months.

Your debt-to-income ratio is a factor which tells lenders how much of your income is going toward your existing debt, and whether or not additional credit can be managed effectively For example, a person that is paying 97% of their income toward their bills, is not a good candidate to

Savings Cont.

... where we can find that extra few dollars a day. Most consumers could subtract a dollar a day from their weekly budget without even noticing it. And the fact that it would be withdrawn pre-tax from your check and you'd never even see it to miss it, makes it even easier. To initiate a dollar a day contribution you would simply ask your employer to set it up for you, they would handle the rest.

Most consumers could do \$7.00 a week contribution without needing to look for the money. \$14.00, \$21.00 and \$30.00 make it a little more difficult. On a monthly basis this could be as much as \$150.00. Certainly enough to impact the budget each month. If you can look at your budget and see that you can afford one of these options, you may not need to look for ways to cut expenses. However for the rest of us, living from paycheck to paycheck, we need to find a way to eliminate non-essentials and establish a way to consistently put a few dollars a day towards our retirement.

The best place to look for these funds will be in your weekly discretionary income. This being the cash in

pocket that you allow yourself each week. If you order out for lunch each day and do not have the money to set aside for savings, your search is over. Take the \$7 you spend on lunch for one day and you have your savings for the week. Or, pack a lunch and put away \$5 a day for a much larger nest egg. Of course we don't all order lunch but these are the things that we want to look at. Most of us can find at least one daily expense that we could eliminate to find the necessary funds. A soda at lunch is a \$1 a day expense. Coffee and a bagel in the morning is a \$3 a day expense. The trick is to break it down into short term view. Weekly, \$7 is not too much on an average income, even \$35 a week can be manageable with the right spending adjustments.

For information on creating your budget to determine your discretionary income, please visit our website at www.delraycc.com or contact customer service at 800-982-8445, any of our counselors will be able to assist you.

Calculations for savings done on www.cnn.com

Ratio of Debt-To-Income Cont.

lend additional monies to. It shows the amount of discretionary income you have available that could be applied towards another monthly expense. At 97% debt-to-income, there is not much room for any other expenses. (97% of \$4,000 monthly net is only \$120 per month in discretionary income)

The way to determine your debt-to-income ratio would be to total your net monthly income and all of your monthly expenses. Include all of your expenses. If the payment amount fluctuates, try to get the average over the last year. Once you have the totals for each category, income and expenses, divide your expenses by your income. (Example: Total Income \$4,000 divided by Total Expense \$3,500 = 87% ratio of debt-to-income)

This information is important for consumers to know prior to applying for a large purchase such as a home or car. Lenders will look at your debt-to-income ratio so it's best to know where you stand. Improving your debt-to-income ratio will take some time, but this way you have a chance to make some

changes prior to submitting your application. Realistically, the only way to improve your debt-to-income ratio is to eliminate debt, or increase income. Presuming that increasing income is not an option; If a consumer is faced with a high debt-to-income ratio, their first step in improving it would be to take any funds that are not allotted to your bills and apply them to one. Simply, take any additional monies and put them toward outstanding debt. At this time a consumer may not be increasing their savings above and beyond what they budget, but this will improve your debt-to-income slowly and your savings will continue to grow on schedule with your budgeted amounts each month.

Once you know what your debt-to-income is, you can accurately assess where you stand financially. Ideally a consumer would have a 60-70% debt-to-income ratio. This leaves just under half of their income discretionary which can be applied towards retirement accounts, short term savings or to take on additional financial draws such as a mortgage.