

Making Money Work

Financial Basics

In response to alumnae requests, the *Quarterly* has planned a series of articles on making your money work harder. In this issue, financial planner Eleanor Hotchkiss Blayney '73 presents a basic financial plan for 1997 alumna Faizun Kamal. In upcoming articles, we will feature more alumna-to-alumna advice on saving, credit and loans, and handling unexpected financial events.

BY MIEKE H. BOMANN



Get a money makeover
Young Professional
Faizun Kamal '97

MONEY. It frames our daily lives and shapes the way we live, work, and play. Women, traditionally skilled in stretching a household dollar, now often face the complex responsibilities of securing a mortgage, planning for retirement, handling savings and investments, and running sizable households. For young professionals, and retirees living on modest pensions, making ends meet in an increasingly pricey world poses a considerable challenge.



Student loans and credit-card debt are tops on the list of “things to get rid of” for many young professionals. Buying a house is often the primary financial goal. How to do these things simultaneously usually involves a bit more work than forgoing the daily latte or bringing your lunch to work—although those are good first steps. What follows is the story of one alumna’s financial goals, and recommendations from a professional planner, also an alumna, on how to get there.

Making a Dollar Holler

Faizun Kamal '97 leads a full, if uncluttered, life. The Baltimore resident lives alone in a one-bedroom apartment, rises early to meditate, works full-time as a program officer at JHPIEGO, an international health care organization affiliated with Johns Hopkins University, and also is going to Hopkins part-time to get her MBA.

Although Kamal lives frugally—few clothes, no gym membership, no hairdresser or nail splurges—she has \$19,000 in credit-card debt, some of which is being paid off at a rate of 30 percent. A dedicated shopper? Hardly. Unlike many other young professionals, Kamal, born in Bangladesh, lacks a spendthrift sensibility. “My mother could make a dollar holler!” she says of her pragmatic upbringing, and Kamal has a pretty good understanding of what she needs to do to get her financial life on track.

But her past financial support of a friend has left her paying off considerable debt while at the same time hoping to buy a house. What she needs are specific strategies to reach her goals, says financial planner Eleanor Hotchkiss Blayney '73 (eleanor.blayney@theharris.com; www.sbsinc.com), managing director at Sullivan, Bruyette, Speros & Blayney, a subsidiary of the Harris Private Bank, and she agreed to provide that blueprint.

Foundation for Success

“Faizun has just about everything it takes to be financially and personally successful,” says Blayney, who is based in McLean, Virginia, and interviewed Kamal at length by phone. “She has intelligence, discipline, a good sense of where her money goes each month, and a well-articulated vision for her future. This is a young woman who will undoubtedly achieve her goals.”

She also has a huge heart: Kamal has started a business venture to import clothing and household items made by women in her native Bangladesh, and then return the proceeds to help educate and provide nutrition for the craft women’s children. But Kamal’s first priority is to eliminate her own debt and improve her credit score so she’ll qualify for a home mortgage. Evidence of her determination is the fact that she has paid down \$5,000 in debt in the past year.

Assets and Liabilities

While Kamal currently has a negative net worth of approximately \$7,500—the value of her retirement fund and automobile minus her car and student loans, and credit-card debt—her long-term financial outlook is promising. “Once her human capital is factored in, namely, her earning potential as a result of her education, international experience, and tremendous ambition, the financial picture is considerably brighter,” says Blayney.

Kamal makes between \$45,000 and \$60,000 annually. She would like to continue in her present position, since it affords her \$5,600 in annual tuition reimbursement that she puts to good use with her MBA classes. On a cash-flow basis, notes Blayney, she is making ends meet, although there is no room for any unexpected expenses. Kamal’s one indulgence is buying books, a cost she offsets by using a discount card.

Faizun Kamal's Current Monthly Expenses

Rent.....	\$700
Utilities.....	50
Food	150
Car payment.....	206
Car insurance	225
Gas	50
Cell phone.....	80
Cat food and supplies.....	30
Books.....	20
Personal (toiletries)	30
Credit-card payments	465

Anything left over at the end of the month, Kamal applies to her highest-interest credit card.

Recommendations

After reviewing Kamal's financial situation, Blayney made these recommendations:

- She should sign up for her employer's disability program. Since her earnings potential is her biggest asset, she needs to protect this against any accident or illness that might prevent her from working.
- She currently contributes \$250 a month to her retirement plan, but does not know if Johns Hopkins makes a matching contribution. She needs to find this out, and contribute as much as is needed to get the full match. She also needs to investigate what a recurring \$10.26 charge represents every pay period. Is this eye or dental insurance coverage?
- She should consider buying renter's insurance. While she has very few personal possessions, the cost of this insurance is far below the replacement cost of these items.
- The cost of Kamal's auto insurance appears excessive. It turns out that she is rated an "inexperienced driver" because she only got her license last year. After three years of driving experience and no accidents, this rating should go away. Her policy shows no discount for anti-lock brakes, nor a "good student discount." Kamal should investigate whether she is eligible for these. If possible, she should also make her premium payments every six months, rather than monthly, avoiding a \$4 surcharge each month. There is also a possibility that she is being charged higher rates as a result of a suboptimal credit score. (Some insurance companies do this.) Any steps taken to improve her score may reduce her premiums.
- Kamal's withholding for federal taxes is 60 percent higher than it needs to be; she is also overwithholding for state taxes. While many taxpayers think it is great to get a refund, it is usually a big mistake. In Kamal's case, she is lending \$3,200 interest-free to the government, while struggling to

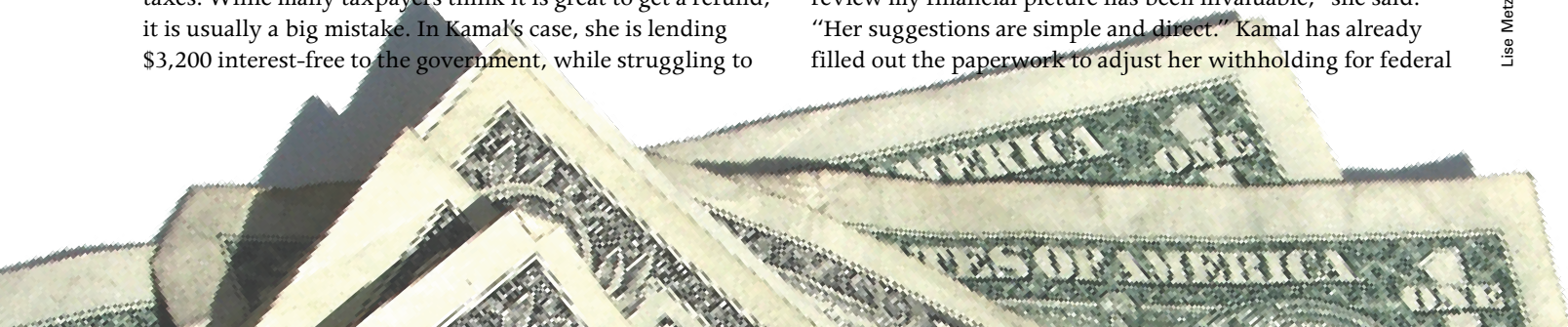


Blayney

pay off her high-interest debt. She should immediately adjust her withholding to increase her take-home pay, and use the excess to pay down her debt.

- Kamal mentioned that her father is willing to give her some money to help with her credit-card balances. She is reluctant to accept this offer because she wants to be financially autonomous and responsible. She might, however, consider a bona-fide loan from her father, on which she would make regular interest and principal payments, just as she is doing with her car loan. The difference, of course, would be that the interest rate could be far lower, even if it is set at the normal market rate between unrelated parties. If he could lend her, say, \$2,000, the loan might be structured at 6 percent, amortized over five years. The monthly payment for such a loan would be approximately \$39. She could then use the borrowed funds to pay off the high-interest Chase card. Then Kamal needs to aggressively attack her MBNA credit-card balance. If she were to pay approximately \$425 each month to MBNA (this is the amount she was paying monthly to both Chase and MBNA minus the \$39 she will now be paying to her father) her MBNA card would be at a zero balance in about 4.5 years, assuming no further purchases are made on the card. Better still, however, would be if Faizun were to add some of the extra cash she will have as a result of lower withholdings to her MBNA payment. By adding \$250 to the monthly payment, bringing it up to \$625, her MBNA card would be paid off in three years and seven months.
- There is a possibility Kamal might find another credit card that has a lower rate than her MBNA card (which charges 10 percent), and transfer her balance there. However, this may result in another black mark on her credit score, since frequent balance transfers from one credit company to another is generally viewed negatively.
- If Kamal can aggressively pay down her card debt by paying considerably more than the minimum required, her credit score should increase to the point where she can consider a home purchase and mortgage. Without an increase in her salary, she could consider a purchase of approximately \$200,000 with \$10,000 down. This may limit her to a small condo in the Baltimore area, but it is important that she get her start as a homeowner, both for personal and financial reasons. As her salary increases—which it undoubtedly will—she can buy more house.
- For her 403(b) retirement-fund allocation, Kamal should keep it simple, long-term, and growth-oriented. I would recommend a 70–80 percent equity allocation (50 percent US and the remainder in international equity funds), with the balance in a high-grade bond fund.

Kamal was thrilled with the review process. "Having Eleanor review my financial picture has been invaluable," she said. "Her suggestions are simple and direct." Kamal has already filled out the paperwork to adjust her withholding for federal



and state taxes, which produces immediate results. She plans to sign up for disability insurance at work. Finding better credit-card rates and determining the fund allocation in her retirement account will take a bit of research. But the exercise has given Kamal hope.

"It is ironic that those who need financial help usually do not have resources to get such help," she says. "So this was serendipitous. I will continue to aggressively monitor my situation until I get to the place I want to be. Thanks, Eleanor." □

For more information about Faizun Kamal's clothing and accessories from Bangladesh, contact her at Faizunk@yahoo.com.

HOW TO EDUCATE YOURSELF ABOUT MONEY

WEB SITES

www.wfn.com
www.smartmoney.com
www.money.cnn.com
www.bankrate.com
www.troweprice.com (includes calculators for investment, education, and retirement planning)

BOOKS

Smart and Simple Financial Strategies for Busy People, by Jane Bryant Quinn, Simon & Schuster, 2006.

On Your Own: A Widow's Passage to Emotional & Financial Well-Being, by Alexandra Armstrong and Mary Donahue, Dearborn, 2000. (although written for widows, advice is applicable to any woman seeking financial independence)

CABLE TELEVISION

Nightly Business Report, PBS

RADIO

Marketplace on NPR

NEWSPAPERS

Wall Street Journal

MAGAZINES

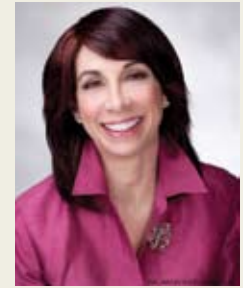
Fortune
Money
Kiplinger's Personal Finance
Barron's

WEB EXTRA

This May, alumnae financial-planning professionals offered a "back-to-class" session during reunion on financial planning for young alumnae. You can download the forty-five minute video, chock full of practical advice, from our Web site at alumnae.mtholyoke.edu/reunions/2006/index.php.

SEVEN STEPS TO FUNDING YOUR DREAMS

By Lili A. Vasileff '77



1. Find your passion and do it well.
 - Jumpstart your career.
 - Uncover opportunities.
 - Make your pitch.
 - Mark your territory.
 - Expand your network.
2. Invest in yourself first and foremost.
 - Pay yourself first.
 - Ratchet up your savings and
 - Do it with discipline.
 - Save at least 10 percent of your net income.
3. Max out your retirement savings.
 - Invest the max.
 - Max out your employer's contributions.
4. Get out of debt.
 - Elect "plastic surgery" by cutting up those credit cards!
 - Lower your rates.
 - Tackle those balances.
5. Invest smarter.
 - Do your homework.
 - Understand the risk-reward relationship in investing.
 - Get professional help if needed.
6. Spring for a spending plan.
 - Cover the fixed costs first.
 - Target some realistic goals.
 - Pick a prize to splurge on and make it real —put a price tag on it and buy it!
 - Stay on track with your spending plan.
 - Realize that a spending plan is about making good choices.
7. Delete the "Prince Charming action hero" from your thinking.
 - Be successful in your own right.
 - Be independent financially.
 - Share and share alike!

Lili A. Vasileff is a Connecticut-based certified financial planner and registered investment advisor. Her Web site is divorcematters.com.