

# THE PLAIN DEALER

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## ASK THE EXPERT

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**Credentials:** Certified Financial Planner, Certified Public Accountant, Certified Investment Management Analyst

**Experience:** 15 years

**Assets under management:** \$244 million

**Question:** *I'm contributing about 20 percent of my income to my 401(k). I'm a single mom with an elementary-school-age daughter. I'm thinking of pulling back on my 401(k) to build up my savings account because I don't have much in my savings. My question: Am I better off doing this or should I continue to contribute and just borrow from my 401(k) if I hit an emergency? I can't cut my expenses any more, so don't suggest that.*

**Advice:** Now is a great time to take a step back and revisit your financial goals and objectives. Once these have been sorted by importance and time frame (think short-term and long-term), you are ready to formulate a successful strategy to achieve them.

Based on your submission, saving for retirement appears to be your No. 1 objective. While securing your long-term future should be a high priority, ensuring your current financial security should be your primary short-term goal. Building an emergency fund is a crucial first step. This will better prepare you to handle any of the inevitable potholes that you encounter on the road of life.

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accurate amount needed, we recommend that you track all of your expenses for three months. This exercise will also provide insight on where your money is being spent. Oftentimes, our clients are surprised to learn what their spending habits reveal.

Although you suggest your expenses cannot be further reduced, we advise to think creatively about your current bills. For instance, are you getting the best deal on your auto, homeowners and life insurance or telephone and cable/broadband service package? Conducting a thorough investigation could uncover several hidden sources of additional savings. Once your current financial footing is solid, it's time to make provisions for a comfortable retirement.

Your employer-sponsored 401(k) plan is an excellent funding vehicle that offers several benefits. Specifically, current contributions reduce your federal and Ohio taxable income and investment earnings are also tax-deferred.

In addition, many companies offer to match a portion of your savings (up to 50 percent of the first 6 percent contributed is typical). It should be noted that your current savings rate of 20 percent is commendable. However, to your question, we recommend temporarily ratcheting down your contributions (to the minimum level that captures the total company match) until your emergency fund requirements have been met. At that point, we suggest resuming your current contribution rate to maximize the future value of your nest egg.

While borrowing from your 401(k) is an option if you run into hard times before your emergency fund is in place, we recommend avoiding this tactic if at all possible — especially considering the depressed stock prices you would be selling at and the potential tax-deferred compounding you would forgo on the withdrawn amount. As an alternative, we would suggest tapping a home equity line of credit.