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income they earn are tax deferred, the Dowds' savings can increase at a faster rate.

For retirement savings, the first priority is to place 10 percent of their incomes into these 401(k) plans. Their net paychecks will not be reduced by 10 percent because these funds are not subject to current tax, and the plan contributions will result in reduced withholding taxes. This may seem a big burden to accomplish all at once, but the Dowds appear to have enough discretionary income that it shouldn't be too painful. In our experience, after six months, they will hardly notice its absence, but they will appreciate that it is helping to accomplish their long-term goals.

Realizing that a 401(k) plan contribution is a good idea, the Dowds then asked us, "How should we invest any 401(k) contributions?." Because they likely have 20 years or more before retirement, the majority of their contributions should be invested *in growth assets, typically stock*-based funds. Over time, stocks have far outpaced the returns of other alternative investments.

The only exception to this advice would be if they plan to change employers. If so, a more conservative investment approach should then be taken, since the account might have to be liquidated upon termination, which might result in short-term losses. In next month's article, we will discuss the process of asset allocation among investments in retirement plans.

A positive aspect of the Dowds' spending habits is that they are not inclined to finance purchases. The mortgage on their house is their only debt. This is a good self-imposed "brake" on their spending, which keeps them from getting into serious cash flow problems.

Tuition planning

An additional strength is that they had the foresight to begin educational funding several years ago, when they established college funds for their daughters. Their youngest daughter has a Michigan Educational Trust (MET) contract. This can cover four years of tuition at an in state public university.

They also have two mutual funds in uniform gifts to minors accounts (UGMA). They should continue to add regularly to these funds designated for educational expenses, but they should reconsider whether to accomplish this savings in UGMA accounts. With UGMA accounts, the savings are titled in the name of the donor for the benefit of the child.

At age 18, that child is entitled to receive the assets in the UGMA account outright. It is possible that these children will qualify for financial aid for college expenses. If so, funds placed in the children's names work against then. Thirty-five percent of any assets in the children's names must be used before they would be eligible for financial aid, but only 5 percent of assets kept in the parents' names must be used for each year of college. If even a possibility of financial aid exists, parents should almost always keep assets out of the children's names.

A particularly important weakness, which we often see, is that Bill and Sue are under-insured for life insurance purposes. Each of their incomes are important for their savings and spending plans and should be protected in the event of a death or disability. Bill and Sue may want to consider investing in disability insurance for this purpose, and should also strongly consider additional life insurance coverage.

Under-insured

They currently have $100,000 of life insurance coverage each through their employers. In addition, Bill has a personal life insurance policy with a face value of $200,000 and Sue has a policy with a face value of $100,000. If they supplement their current coverages with $150,000 to $250,000 of term coverage each for the next 10 to 15 years, this should cover most of their potential needs. At that point, the children will be mostly grown, and hopefuly the Dowds' assets will have grown sufficiently to take care of any family needs.

The Dowds have seen to their estate planning needs, and this is unusual in a couple so young. They have executed wills and a trust that can protect their daughters in the event both of them should die. We strongly suggest that they and others have their estate planning reviewed every three to five years and updated as family situations, assets and tax laws change.

With good planning and discipline, the Dowds can provide for their long-term goals and still provide for many, but perhaps not all of their short-term goals.

Dan Boyce, a certified financial planner at the Center for Financial Planning in Southfield, has been recognized by Money magazine as one of the top financial planners in the nation. Alan Ferrara is a partner in the Farmington Hills law firm of Couzens, Lansky, Fealk, Ellis, Roeder & Lazar.

DATEBOOK

■ MCNAMARA SPEAKS
Wayne County Executive Ed McNamara will pesent an insightful discussion during a luncheon held by the Southfield City Center Optimist Club at noon on Thursday, Dec. 17. McNamara will discuss the strategies thay been instrumental in helping him gain his prominent role in Michigan, both as a politician and citizen.

■ NAWBO MEETS
Ruth Holmes, handwriting analyst and document examiner, will address the National Association of Women Business Owners at 5:30 p.m. on Thursday, Dec. 17, in Southfield. Information: 851-8270.

■ EFFECTIVE HABITS
The Community House, the Michigan League for Human Services and the Southfield base consulting and accounting firm Plante & Moran are sponsoring the "Seven Habits of Highly Effective People." There will be two identical sessions; the first beginning January 6, from 8 a.m. to 4 p.m. with subsequent classes Jan. 13, 20, 27 and Feb. 3 and 10 from 4 to 8 p.m. The second session begins Feb. 23 from 8 a.m. to 4 p.m. with subsequent classes March 2, 9, 16, 23, 30 and from 4 to 8 p.m.

■ DIRECT MARKETING
Direct Marketing Association of Detroit will hear George Cohan, president of the Chicago company that bears his name at 11:30 a.m. Thursday, Jan. 7, in Southfield. He will discuss what marketers can do to create secure futures regardless of political or economic climates. Luncheon fee: $16 for members, $19 for non-members. Registration $3 at the door. Information: 258-8803.

■ BUSINESS CONSORTIUM
Oakland County Business Consortium will hear presentation on the "American Road" Saturday, Jan. 9, in Southfield. Non-member fee: $5. Information: Annette, 443-0777.

■ PC PROBLEMS
"Identify and Fix Pesky PC Problems . . . Without Calling a Repairman" presented 8:45 a.m. to 4 p.m. Friday, Jan. 29, at the Holiday Inn Chambertin in Dearborn. Fee: 145. Sponsor: Padgett-Thompson division of the American Management Association, 1-800-255-4141.