
A Story about Bill

I'd like to tell you a story about Bill. Bill is a fictitious thirty-six year old in upper management with a major corporation. However, it wouldn't matter if Bill was a physician, a small business owner, a lawyer, a farmer, a teacher, or an employee of any company large or small. Though figures would differ, the story would be the same.

Bill's current annual salary is \$150,000. This is the only company he's worked for since he graduated from college (with honors I might add) and in the fourteen years he has been with this company, he has worked his way up from the front lines due to his faithful and diligent effort. He arrives early and is often the last to leave. He's a company man that everyone respects, and he's sought out for advice from both those who report to him as well as his superiors.

Bill has been married to Marcy for 9 years. Together they have three young children – Lori 6, Billy 4, and Scott 1. He loves his kids and though he doesn't get as much time with them as he would like, he wants what's best for them and is willing to help them in any way, including financially. He hopes that each of them will

study hard, go to college (a cost he is planning on paying, just as his father had for him), and find a solid job with a great company, just as he was fortunate to find. Secretly, Bill hopes that one or all of his kids will follow in his footsteps and become future employees of his current company.

Bill's company has a wonderful 401(k) program that he has contributed to faithfully since the beginning of his employment. When he first started with the company he heard a presentation by a financial professional who told him the best place to invest his money was in his company's sponsored 401(k) for three reasons.

First, the presenter said that the company would match up to \$1500 per year. This was free money. All he had to do was contribute. That sounded good to Bill. He'd take all the free money he could get.

The second reason he was told this was the best place to save money for his future was that all the income he contributed was tax deferred. At 22, Bill didn't know what that really meant, but the individual went on to explain that all the money he contributed would avoid tax in the year it was put into the plan. So if he made an annual income of \$30,000 and contributed \$1,500 to the 401(k) he would only be taxed on \$28,500. And no tax was owed on the money until he took it out at retirement. The more he contributed the more tax he saved.

The third reason the presenter gave him as to why this was such a great investment method was that when he began withdrawing the money in retirement he would be in a lower tax bracket. Since he would be in a lower tax bracket, he would pay less tax. Again, another exciting prospect in Bill's mind.

Bill has always been good at seeking advice from other professionals so he went to see his CPA as well as one of the top executives of his company.

His CPA told him that investing in his company's 401(k) was a wonderful idea and that it would indeed lower his tax bill each year. The CPA encouraged him to save as much as he could in his 401(k), even while his income was small.

The executive Bill visited (who had been a long time family friend) gave him similar advice. He told Bill that the 401(k) had been the single best investment choice he had ever made. As a matter of fact, it had been the only investment that had really made him money. The executive laughed out loud as he recalled some other investments he had made on "tips" from others – across the board all had been losers.

Bill was really excited to begin his investing career. He had done his homework, he had sought advice, he could avoid taxes now and he didn't have to pay a penny in tax until he began to withdraw money from his account at a *lower* tax rate. What could be better than that?

After these two visits, Bill made a commitment to contribute as much as he could afford to his 401(k), even if it meant he would have to stretch in other areas. During his fourteen years with the company, Bill had been a diligent saver and had accumulated \$145,000 in his account. Since his income was meager in the early years, and the demands of his young family were growing, Bill was not able to contribute as much as he had wanted, but he is now proud of his growing nest egg. Now that his current income is much more significant, Bill is able to contribute the full maximum his retirement account will allow. At this rate, and with this continued funding, his benefit statement shows a projected value of \$2,669,414 at the age of 62, which is the year Bill hopes to retire. Since he is contributing so much to his 401(k), he is not able to save any additional money, including money toward his children's college education. This concerns Bill, but he figures that with his current income he and Marcy can cut back on some of their extra

living expenses when the kids hit college and just pay for each year as the tuition comes due. Bill is 36 and he feels good about his financial future ... a financial future that will come to greet him all too quickly.

Let's take a peek at his future, at least in some possible ways it might play out for this shrewd, hard-working individual.

Time has passed quickly. Bill is now 50 and his oldest daughter Lori is a junior in college. It has been a great two years seeing his daughter flourish in a small private university. He has contributed the maximum allowed to his 401(k) every year for the last eleven years. Bill is proud of his wise savings because his 401(k) now sits at \$848,819 ... he is almost a millionaire.

However, the finances have been far tighter than Bill had expected. Though his income has blossomed to a whopping \$259,751, a 4% increase per year, school costs have escalated far more quickly – a rate near 7%. That means that what was once a \$30,000 price tag for a year of private tuition now demands a whopping \$77,356. He never imagined that one child's college tuition could demand almost 30% of his gross income and almost 40% of his net income. Bill and Marcy have been scrambling for the last two years to try and pay for Lori's tuition out of pocket, but it just wasn't happening. Bill and Marcy have managed to live right up to their increasing income. They have been able to make some cuts, but not enough to pay the entire bill, or even half of it for that matter. Bill doesn't want to tell Lori that she can't attend the college of her dreams, so he knows he'll figure out a way to make it happen.

They have tried looking into financial aid, but with Bill's healthy income they don't qualify. *How can anyone afford to send their kids to college?* Bill wonders.

After they had been rejected by the financial aid office, Bill decided to call the benefits department at his company to inquire

