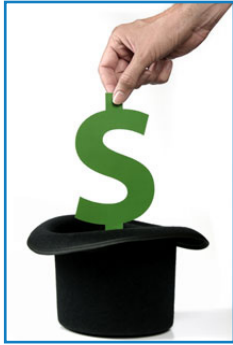


SECOND OPINION



On Track for a Good Retirement

Q: My husband and I would like your opinion on our current financial picture. We both turned 50 this year. We have a 17-year-old son who will graduate high school in May 2008. He works part-time and is low maintenance for us. He is undecided about college vs. the military. His grades and SAT scores could merit some scholarships, but I see school loans in his future if he goes the college route.

Our net monthly income is \$6,500 (jobs and 17-year annuity), with expense payments (mortgage, utilities, vehicles, charity) at \$3,500. We each contribute 15% to our 401(k)s (\$15,000 year). We are paying an additional \$2,400 a year toward our home mortgage balance.

IRA and 401(k) balances are \$180,000. Our home value is \$170,000, with a \$110,000 mortgage. Savings at a local bank is \$20,000. Your thoughts would be much appreciated. - L.D., by e-mail

A: Hold your current course and you'll be fine.

Here's the broad-stroke picture. First, your additional mortgage payment should have your mortgage paid off before you turn 65. Your current total savings of about \$200,000 appears to be about two years of your gross income. It could grow, on its own, to about \$800,000 over the next 15 years. Your \$15,000 in 401(k) contributions could grow to another \$400,000 if you earn 8%. And Social Security is likely to replace a bit over 40% of your combined earnings, or about \$40,000 a year. (To get a less casual estimate, visit www.ssa.gov and use one of its calculators.)

Put it all together and you've got some margin for error. The big question is the

quality of your 401(k) plan.

Remember, it is entirely possible for a working couple to start with practically nothing at age 50 and put themselves in good shape for retirement by age 65. In your case, your existing assets and established savings pattern give you a powerful running start.

Q: I have a traditional 30-year mortgage that has 25 years remaining. I went to an investment seminar this week about converting to interest-only mortgages. I am seriously considering converting, due to the tremendous tax advantages and the ability to set up a separate after-tax investment account to have my home equity invested in no-risk tax-free funds. Also, I'll have the flexibility to use that money if needed, for future emergencies (loss of job, illness, etc.).

What are your thoughts about the benefits of an interest-only mortgage vs. a traditional mortgage? - J.W., Rockwall, Texas

A: Interest-only mortgages can be good short-term tools for self-employed individuals who need working capital for their businesses. In that context, I think they can be used by mature, prudent and financially savvy individuals.

That's not a big group.

For the vast majority of homeowners, an interest-only mortgage is a really dumb idea.

Why? Because it is very beneficial to plan to have your mortgage paid off by the time you retire. Remember, the standard mortgage is for 30 years, and the vast majority of what you pay in the early years is just interest. For instance, if you took out a \$100,000 mortgage for 30 years at 6.5% today, you would not have paid off 10% of the loan until November 2014. That's just more than seven years from now. While paying down that \$10,000, you would have paid \$44,976.91 in interest.

(You can check this out and experiment with the impact of additional principal payments by using the mortgage calculator on the Bankrate.com Web site. Here's the link: www.bankrate.com/brm/mortgage-calculator.asp.)

When financial advisers tell you they think your mortgage payment money should be invested in "no-risk tax-free funds," they are about to sell you a cash value life insurance policy, and they will be the biggest beneficiary because they will earn a large commission. Remember, if you pay your home mortgage down or off, you can always have a home equity credit line up to \$100,000 to deal with emergencies.

SECOND OPINION

When push comes to shove, it is very, very difficult to beat the benefit of owning your house free and clear because it is delivering genuinely tax-free income in the form of housing services. You will be receiving those services whether your house is financed or not, but the cash flow requirements of financing can be a major burden.

(Questions about personal finance and investments may be sent by e-mail to scott@scottburns.com or by fax to 505-424-0938. Check the Web site: www.scottburns.com. Questions of general interest will be answered in future columns.)

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