SPECIAL FINANCE GUIDE

MAKE YOUR MONEY GROW

BY JANE BRYANT QUINN

OK, GEN-XERS, forward march. You've done parties and credit cards, hookups and unemployment lines. Now it's time to get serious about your money. You won't have as much fun today as we all had years ago, when any dummy could get rich in stocks. But with troubled markets in a world gone nuts, getting a grip on your finances is more important than ever.

There's only one real requirement when working out a financial plan. You have to live on less than you earn. If you don't, it's useless to talk about saving and investing because you don't have the bucks—or the will—to do it.

The first thing people wonder is where to start. Pay off student debt? Open a college fund for a toddler? Buy a house? Invest for retirement? There are so many daily needs (such as food, cell phones and four pairs of spring shoes, in yellow and pink) that major goals sound out of reach. But look at it this way: everyone before you has figured it out, and you're smarter than they were.

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How much of my income should I be saving?
Ten percent, at least. Start with 5 and work up as fast as you can. By middle age, you may want to be saving a full fifth of your earnings.

You have to set priorities. Some of them will overlap, but think of that as financial multitasking. Here's a road map to get you going:

First, make a budget. How much money is coming in, how much going out and for what? You have to capture extra cash before you can even pretend to have a plan (OK, only two pairs of shoes this spring).

Put a line in your budget that will eventually build a cash cushion worth $5,000 or more. On your priorities list, this comes even before debt reduction, because cash on hand can save you from piling on even more debt in an emergency. I don't care that banks are paying only 2 percent. This isn't your investment fund, it's part of your safety net. Use your cash cushion for such things as vacations, car and home repairs, moving to a new apartment or paying income taxes due. If your job is at risk, save a whole lot more. The best way to build cash: have your bank switch a fixed sum from checking to savings every month.

PHOTO ILLUSTRATION BY MICHAEL ELINS, DIRT PHOTO BY SIEDE PREIS—GETTY IMAGES

Next, look into your credit history. When people first get credit cards, they usually have no idea that they're being tracked by the Great Computer in the Sky. Every account you open, every transaction and payment is reported to one or more of the three major credit

FINANCIAL LIBRARY

BALANCE THE BOOKS

These books can help you plot your first million or survive the going-bust blues:
The Motley Fool Personal Finance Workbook by David and

Peter Di Teresa and Russel Kinnel. A basic intro to mutual funds.
Common Sense on Mutual Funds by John C. Bogle, of the Vanguard mutual-fund monolith.

$39.90 at **transunion.com**, **800-493-2392**. A top score is generally 720 and up. As it drops, the rate you're charged for mortgages and credit cards gradually goes up. Those who score under 500 may not get any credit at all.

Your next job is to eliminate consumer debt. Hammer away cash toward the consumer debt that's eating you for lunch.

Even though you're still in your 20s, start saving for retirement. On the job, sign up for the company 401(k) or 403(b) plan. If you're self-employed, start a SEP-IRA (Simplified Employee Pension) through a mutual-fund group. Just go to your favorite fund's Web site and download the forms. The earlier you start saving, the more valuable those savings are, because they have so many years to grow. Nevertheless, if you're deep in credit-card debt, hold down your 401(k) contributions, putting in just enough to get the full company match (if there is one). Clean up those cards, then add to the money you're putting into the plan.

As soon as you're ready to settle down, buy a house. Use that cash account to accumulate the down payment. You'll find mortgages with down payments of 5 percent or less, which means $10,000 on a $200,000 home. But houses are costly to keep up, so make the commitment only when you know you'll stay there for several years. A house is more than an investment; it's a lifestyle choice.

So ... pursuing your lifestyle, you decide to have a baby. A sweet little bundle of future col-

GEN X: A SNAPSHOT

TALKING 'BOUT MY GENERATION

Who doesn't have piles of credit-card debt when they're young? It's practically a rite of passage. But many Gen-X households are also buried under car loans and student loans—a third carry an installment-loan balance of at least $9,500. More worrisome: nearly 12 percent have fallen seriously behind in their payments. Think your finances are above average? Here's how you stack up against your peers. —DORI R. PERRUCCI

RETIREMENT

AGE 31 TO 40	
Percentage whose employers offer a 401(k) plan	54%
Percentage who contribute	39%
Median balance	$12,279
Percentage with a loan outstanding	11%
Average loan balance	$4,861
Percentage with IRA or Keogh in their own names	14%

CREDIT CARDS

AGE 25 TO 34	
Percentage who do not know their credit-card interest rate	41%
Percentage who don't review their monthly statements	24%
Percentage who try to cut back or stop excessive spending	55%
Percentage who feel a mood change before or after a purchase	53%

AGE 25 TO 34
Average income (before taxes) of single men:
$36,766

Average income (before taxes) of single women:
$31,640

HOUSEHOLDS HEADED BY AN 18- TO 34-YEAR-OLD
Median household net worth:
$11,600

Ratio of debt payments to income:
17%

YEARLY EXPENSES

SINGLES, AGE 25 TO 34	MEN	WOMEN
Average annual expenditures	$28,925	$28,267
Percentage with their own home	31%	28%
Percentage who rent	69%	72%
Average rent	$6,091	$6,640
Food at home	$1,405	$1,278
Food away from home	$2,351	$1,709
Apparel and services	$555	$1,053
Percentage who own or lease a vehicle	85%	80%
Gasoline and motor oil	$960	$761
Vehicle insurance	$501	$571
Vehicle leasing, rental, license	$577	$534
Personal-care products and services	$247	$494
Telephone services	$745	$889
Entertainment	$1,625	$1,203

HOUSEHOLDS

HEADED BY AN 18- TO 34-YEAR-OLD	PERCENT	BALANCE
With a retirement account	45%	$6,600
With a CD	6%	$4,000
With a savings bond(s)	13%	$300
Owning stock	17%	$5,700
With credit-card balances	50%	$2,000
Borrowers against a life-insurance policy, pension or margin account	9%	$2,000

AGE 25 TO 34

Men with college degrees:	Women with college degrees:
29%	**33%**
Age when men first marry:	Age when women first marry:
27	**25**

SOURCES: FEDERAL RESERVE, 2001 SURVEY OF CONSUMER FINANCE; EMPLOYEE BENEFIT RESEARCH INSTITUTE, 1998 STATISTICS, RELEASED 2002; BUREAU OF LABOR STATISTICS, 2000-2001; MYVESTA, A FINANCIAL COUNSELING SERVICE, 2002; U.S. CENSUS BUREAU, 2002. PHOTOGRAPHS BY ARTVILLE LLC.

lege costs. You're already maintaining a cash cushion, reducing debt and building retirement savings. Where do you get the money for a tuition fund and still keep the lights on and food on the table? At this point, you probably don't—you just hope the besotted grandparents will kick in. You might put aside your bonuses for tuition and any tax refunds from the IRS. But you have to save for retirement first. Your kids can borrow their way through college, but no one lets grayhairs borrow their way through old age.

A great place to save for college is your state's 529 plan (below). To my mind, the best investments there are the "age-based" accounts available in most states. They put your money into a portfolio of stocks, bonds and cash, with the mix depending on how old your child is. Young children's accounts will lean toward stocks. As the child gets older, the plans shift money into bonds and cash. By the time tuition is due, your stash should be protected from any serious loss.

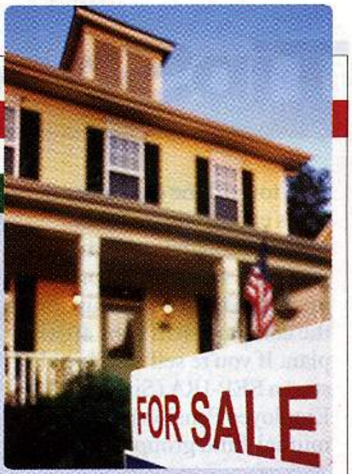
In real life, parents more or less muddle through the college years. You'll have some savings, plus money from your current paycheck, plus loans, plus your child's summer earnings, plus whatever grants you qualify for, plus a budget tight as a corset. Ask any older parents: they have no idea how they got their kids through school, but somehow those B.A.s arrived.

Now the big question for people starting to invest, whether through a 401(k) or in a separate account. Where do you put your money today??? The answer used to be obvious—throw it all in stocks. But we may be approaching a time when it's hard to make money in stocks or anything else. Some 401(k)s and mutual-fund groups offer "lifestyle" funds, which simplify your choice. They contain a mix of stocks, bonds and cash appropriate for your age and willingness to take a risk. They're one-decision funds. Put all your money there and get on with the rest of your life.

Stay away from individual stocks. You have no idea which one will suddenly collapse from

BUYING YOUR FIRST HOME

A FOOT IN THE DOOR



Want to be master of your domain? Low interest rates make it seem doable, but prices are soaring. Relax. You might have to stretch, but it's one of the best investments you'll ever make.

■ SHAPE UP Start saving. *Now.* Stash your cash someplace safe, like a money-market mutual fund. Check your credit score, the number lenders live by, at **myfico.com**. Figure out how much house you can afford at **bankrate.com**.

■ BE REALISTIC Make a dream-house wish list, then a reality list of the things you can't live without, says Ilyce Glink, author of "100 Questions Every First-Time Home Buyer Should Ask." Start shopping on **realtor.com**. Get a broker who does a lot of business in your neighborhood of choice.

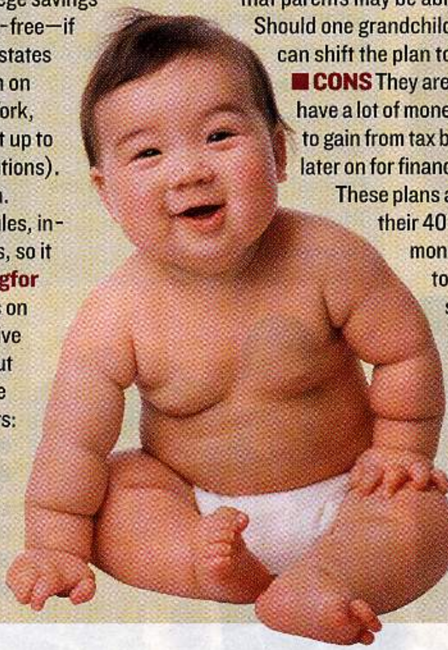
■ GET THE CASH Don't stress about a 20 percent down payment; the market is flooded with mortgages that let you put down 5 percent or less. Mortgages themselves are on sale right now; shop sites like **quickenloan.com**, **eloan.com** and **lendingtree.com**. Check with **www.hud.gov** for first-time home-buyer programs like tax breaks, down-payment loans and grants from housing nonprofits. But hurry. You may be old and gray before mortgage rates are this low again.

—LINDA STERN

SAVING FOR COLLEGE

BABY WANTS TUITION PAYMENTS

Diapers, $11.39, check. Soccer shoes, $55, check. Four years in a private college circa 2021, $345,000. Gaak! No wonder panicking parents are flocking to 529 college savings plans. Money grows in them tax-free—if it's used for college—and some states give you an additional deduction on money you contribute (in New York, for example, couples can deduct up to $10,000 a year in 529 contributions). Every state has at least one plan. There's a wide variety of fees, rules, investment returns and tax breaks, so it pays to investigate. Go to **savingforcollege.com**, a site with details on every plan and a handy interactive program that helps you figure out which one is best for you. Before you jump in, a few broad pointers:



■ PROS The 529 plans are great for parents who can afford them because of their tax-free growth (but make sure you max out on your retirement-plan contributions first). They're even better for grandparents who want to help. The 529 stays in Grandma's name and doesn't interfere with financial aid or education tax credits that parents may be able to take down the road. Should one grandchild not need all the money, they can shift the plan to the next grandchild in line.

■ CONS They aren't great for people who don't have a lot of money because they have the least to gain from tax breaks, and also might qualify later on for financial aid without a 529 plan. These plans are still a gamble, too. Just like their 401(k) cousins, they can lose money. And your child might not go to college, or might win a full scholarship and not need the 529 money. Without a sibling to pass the money to, you could get stuck liquidating the account for noncollege purposes and paying taxes and a 10 percent penalty. But don't stress too much about future tuition bills. Most families muddle through when the time comes.

—L.S.

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We just had our first baby. How much life insurance should we have?

Seven times your family income, plus $100,000 for college. Apportion it fairly, so that a spouse earning 60 percent of the income carries 60 percent of the coverage.

PHILLIP SPEARS—GETTY IMAGES (TOP), PENNY GENTIEU—BABYSTOCK an accounting mess or government investigation. The deflating bubble hasn't yet run its misery-making course. Consider selling the stocks you own (most of them '90s companies that won't excel in the decade ahead) and reinvesting in a well-diversified mutual fund.

Don't ignore bonds. When interest rates rise, the value of bond funds will fall. But high-quality, intermediate-term corporate bond funds are paying a reasonable yield (about 4.5 to 5 percent). Tax-free municipal funds are yielding about as much as taxable Treasuries—really amazing. Stocks do better in the long run, but how long a run are you willing to take? Bonds roughly matched or outperformed stocks from 1966 to 1982 and 1990 to 2002, and with less risk. They belong even in a Gen-X portfolio to give you a lift whenever they outperform again. Subtract your age from 110; put that percentage of your savings into stocks with the rest in bonds. If you're 30, for example, bonds would make up 20 percent of your retirement fund.

Don't get discouraged just because today's market stinks. Markets do, from time to time, and this is the first bear market that you've ever seen. Eventually, each cycle turns back into peaches and cream. That's a nice thing about being young. You have time to wait. ■

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Should I move my credit-card balance to a zero-interest-rate card?

Sure, but avoid cards with high transfer fees (up to 3 percent). And check the rate once your "teaser" period expires. While you pay off the zero-rate balance, you'll still run up interest costs on new splurges.

FOR 40- AND 50-YEAR-OLDS

WERE YOU LATE TO THE PARTY?

If you're pushing 50 and haven't saved, I hope you'll inherit a bundle. Otherwise, you'll have to get tough with yourself—right now. There aren't any magic fixes, but here are five ideas:

■ **TIGHTEN YOUR BELT** Yes, it's a bit obvious. But you have to start spending less. There's really no option. The weather forecast doesn't call for raining money.

■ **SOCK IT AWAY** Start making the maximum contribution to your 401(k) or other retirement plan. Invest conservatively. At this point, you can't afford a big loss.

■ **HANDS OFF THE HOUSE** Quit tapping your home equity for cash. You'll need that money to buy a smaller place when you're old and gray.

■ **CUT THE CORD** Stop helping your kids. I know it makes you feel good to contribute to down payments or college costs. But will the kids pay your mortgage in 20 years? Tell them they'll have to look out for themselves.

■ **AN APPLE A DAY** Get plenty of exercise and eat more vegetables. Starting now, you absolutely must take good care of yourself. How else will you stay healthy enough to work into your 70s? -J.B.Q.

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