

# Millionaires in the Making

Justin and Emily Bergman

– By Keisha Lamothe, CNNMoney.com staff writer



**Ages:** Justin 25, Emily, 28

**Occupations:** Navy officer and administrator at a computer consulting firm

**Salary:** About \$60,600 combined

**TSP:** \$9,300

**Roth IRA:** \$4,500

**529 plan:** \$8,500 combined

**Mutual fund:** \$15,200

**Emergency Fund:** \$2,300

Auto expenses: \$820 combined per month

Groceries: \$360 per month

Tithe: \$450 per month

Life insurance: \$26 per month

After receiving an inheritance about two years ago, Justin and Emily Bergman weren't sure what to do with an extra \$50,000 they now had. Sure, they could have splurged on something they really wanted, but instead they looked for help on how to invest the money.

After a transfer from Georgia, the Bergmans wanted to use the inheritance for a down payment on a new house in Connecticut, where Justin is stationed with the Navy. They decided against buying, however, because the cost of living was much higher than they expected, so they currently rent a house on the base. They owned their house in Georgia and sold it before they moved. After making a \$25,000 profit, they put \$10,000 in their mutual funds and used the rest to repay credit card bills.

Around the same time, they consulted a financial planner and invested the money Justin inherited from his father. Justin started up a Roth IRA and 529 college savings plans for their daughters. They paid off credit card bills, kept \$2,000 for themselves and used the rest to pay other expenses such as cremation fees, legal fees and travel expenses. They also put a \$21,000 down payment on a brand new car.

The Bergmans started 529 plans for their daughters Hannah, 5, and Sariah, 1, because they plan on covering at least 50 percent of their college tuitions. They now contribute \$50 a month to each 529 plan and have saved about \$4,800 for Sariah and \$3,700 for Hannah. They also have about \$15,200 in mutual funds, earmarked for a down payment on a house they plan to buy the next time they are relocated.

"I don't think I was as crazy about saving in the past because I didn't make enough," Justin said. "But now that I make more in the Navy, I try to keep my sights on being a saver."

Justin, whose salary increases at a different rate every year, currently makes around \$28,000 after a housing allowance that includes utilities is subtracted tax-free from his salary. He contributes 10 percent of his base salary into a Government TSP (Thrift Savings Plan), which is similar to a 401(k), except the money is not matched because his savings are not taxed. He's allocated 100 percent of his money into a Lifestyle 2040 fund, which automatically adjusts his mix by currently investing in higher-risk mutual funds. As it gets closer to 2040, the investment shifts to more conservative funds.

Emily makes \$800 a month working for her father at a Maryland-based computer consulting and testing firm. The Bergmans save on babysitting costs because Emily works from home; however she does not contribute to a savings plan.

The Bergmans discussed opening a Roth IRA for Emily, but decided against it since they have not yet maxed out their \$4,000 contribution to Justin's Roth IRA account. They also have an emergency fund of about \$2,300 in cash that they keep in a high-yield online banking account, earning 4 percent a year.

Most of the Bergmans' expenses come from their cars. Emily drives a 2006 Honda Odyssey that they bought brand new with a \$21,000 down payment. They pay \$440 a month and expect it to be paid off in eight months. Justin pays \$230 a month for a used 2005 Toyota Corolla, which he plans to pay off in almost four years. For gas, the two spend about \$150 a month together.

Their monthly expenses also include \$360 on food by shopping at the on-base commissary, \$50 for cable, about \$75 a month on tap lessons and soccer sessions for Hannah, \$50 on dinner outings, and about \$100 on clothes for their daughters. They also tithe more than 10 percent of their monthly income to their church.

For life insurance, Justin pays \$26 a month for a \$400,000 policy that also covers his wife. The Bergmans do not carry any debt and pay the full balance on their credit cards every month. Around the same time Justin received his inheritance, he also earned a reenlistment bonus that he used to completely pay off a debt consolidation of \$12,000.

Justin has been in the Navy for seven years and plans on staying for another 13 years so he can receive a pension. On top of working in the repair facility for submarines, he takes night classes at the University of New Haven. He's majoring in mechanical engineering, and his tuition is covered by the military.

Looking ahead, the Bergmans would like to buy a house in about two years and possibly have more children. Justin plans to get a civilian job in engineering when he retires. They would also like to live in Maryland, where Justin and Emily will both be closer to their families.

Even though they don't stick to a strict budget, Justin's grandparents served as an inspiration for wanting to save because they lived right after the Great Depression. "They weren't always into buying flashy things and I learned from them that you don't always have to have the best of the best," he said.

**Our Expert's Take:** The Bergmans are on the right track to reach millionaire status by the time they retire and should keep up the momentum, said Joseph Montanaro, a Certified Financial Planner at USAA who specializes in military savings.

Montanaro suggests that after the Bergmans pay off Emily's car, they can increase their savings plan. "Once that loan is paid off, they should shift that \$440 per month immediately into Roth IRA contributions for Justin and Emily. Even then they'll have room to grow these contributions since each would be able to put \$5,000 each into their Roth IRAs beginning in 2008," he said.

Although Toyota won't be paid off for few more years, Montanaro said if they are not already maxing out their Roth IRA, they can invest that money towards that. "I would recommend they use future pay raises and or elimination of expenses or debts as an opportunity to increase their savings and investments," he said.

In terms of their life insurance, Montanaro suggested that the Bergmans should reevaluate their current coverage because it doesn't seem adequate. Instead, they could fill this gap with a 20-year level term policy, he said.

The Bergmans also need to increase their contributions to their daughters' 529 plans if they want to cover at least 50 percent of their college education, according to Montanaro. He said that at their current savings rate, they'll only be able to cover 25 percent of Hannah and Sariah's schooling. Montanaro said their contributions should increase to \$75 a month for Sariah and \$115 a month for Hannah to reach their goals.

For the Bergmans' "housing fund", they should start to position their savings in stable investments, such as a money market fund, according to Montanaro. "Right now it's in a mix of stock and bond mutual funds taking more risk than they should with a short two-year time horizon," he said.

The Bergmans should also work to build up their emergency fund and continue to increase their all of their savings, Montanaro said. After Justin exits the Navy, he'll be able to make a lot more with a civilian job in engineering and can increase their savings even more, he said.

"With the TSP and Roth IRA start-up [from the Honda car payment] the Bergmans will be on track to have a nest egg of over \$300,000 when they retire the first time - at 41," Montanaro said. "With the same savings strategies, they should achieve millionaire status in their 50s."