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Business

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Family Finances
a profile

Time to modify investment strategies

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special writers

"A penny saved is a penny earned" as the old saying goes. Some people take this idea to heart with highly satisfying results. This *month's financial profile focuses on* Barbara and John Evans, a Farmington couple who are nearing retirement and who will be reaping the benefits of all the pennies saved during their working years.

John writes:

"I believe my circumstances are somewhat different than your typical respondent. For better or worse, I have already accumulated my kitty — I expect to retire on April 1, 1988. When I was in the midst of my saving period, which began a little over 20 years ago, financial planners were, at least to me, unheard of. Had I had the advantage of such services my current net worth might possibly be considerably greater."

Perhaps. But by following the well-known advice to "pay yourself first" and prioritizing their remaining income over the years, the Evanses have done very well.

John, 62, works in an auto company personnel department and has a salary of $53,000; Barb, 58, is a part-time sales clerk with an income of $7,500. They live comfortably, though not lavishly, in a house that is paid off. They have no outstanding debts. Their philosophy on consumer purchases has always been to make purchases only when the money is available in the bank. Credit card balances are paid in full each month.

Given this conservative, but successful, outlook, it is perhaps surprising that almost half of their accumulated assets are in the stock market. By taking some risk in the investment area over the last several years, they have seen substantial growth in their assets, even after the recent market drop. Our advisers suggest that they may want to modify this strategy by becoming somewhat more conservative as they move into retirement.

JOHN HAS a generous pension plan at GM, his employer of 38 years. His desired retirement income is $5,000 a month, of which the GM pension will provide $3,000. Social Security should add another $1,000 per month in income, leaving them with only $1,000 needed from investments. An inflation-adjusted calculation indicates that they should be able to withdraw more than $2,500 per month from investments without depleting the principal over their lifetimes. They are sitting pretty.

They state:

"Our immediate concerns are: (1) How to invest the money and securities in the company savings plan ($255,000) which I will receive upon retirement in April 1988, and (2) what changes should be made in my present portfolio to maximize earnings to supplement the pension I will receive from GM."

Our advisers address the first issue regarding the lump-sum distribution from his company savings plan. Certified financial planner Dan Boyce of the Center for Financial Planning in Birmingham explains that there are three viable options:

- He can roll over the entire taxable portion of the distribution into an IRA.
- He can withdraw the money and pay a favorable 10-year special averaging tax.
- He can leave the money with the company and withdraw it any time prior to age 65.

In an analysis of the rollover vs. the 10-year averaging, Boyce concludes that the IRA rollover is the better option. "The faster growth of assets due to the tax deferral in an IRA more than offsets the higher tax due upon withdrawal. The only exception would be if he needed a large portion of the distribution for an immediate major purchase. Next April, he should weigh the advantages of the IRA rollover with those of leaving it at GM."

Certified financial planner Steven J. Winkler of the Capital Consulting Group in Southfield covers the advantages of leaving the money at GM for now. "Retired employees have the opportunity to leave assets in their savings plan until age 65 while retaining the monthly right to transfer between investment options or making a complete withdrawal. Since the guaranteed income option is a conservative and appropriate product for a retiree, you can have your cake and eat it too. You're locked into a currently competitive interest rate with the right to remove your monies without penalty when your average rate falls below other alternatives."

THE EVANSES' other major question deals with changing their investment strategy and restructuring their portfolio. Both financial planners stress the need to move toward a more conservative position. Winkler advises, "Diversify and stay conservative! Your standard of living is well within your means under virtually any assumption for future inflation. Given your projected expenses and your current savings, there is only one way that you will not achieve your fiancial objectives and that is by being overly aggressive.

"Preservation of capital becomes far more important than growth of capital. Limit stock exposure to 25 percent of net worth with no more than 5 percent in the stock of any one company. Concentrate on stocks which will react favorably to inflation. In the area of fixed income securities, I would prefer short-term vehicles to long-term bonds.

"I have yet to see a client get into trouble being too conservative. I define a conservative portfolio as one which will not measurably change your lifestyle under any economic scenario."

Boyce concurs. "When does 'more' become 'enough?' " he asks. "Far too much of his portfolio is in company stock, and he doesn't need to take on additional risk. He should transfer assets in his 401(k) plan from stock into the guaranteed income option." Boyce also stresses the need to maintain liquidity. "I think the time is over for major commitments to limited partnerships and other non-accessible investments."

OTHER ISSUES should also be addressed by the Evanses. Though their basic health and property insurance packages are sound, they are lacking coverage in two major areas. First, in the personal liability area, their homeowners coverage stops at $300,000. "They should purchase an umbrella liability rider to the policy which would provide another $1 million in coverage," suggests Boyce.

In the health area, they should consider buying a long-term care policy in case either one needs to go into an assisted living or custodial care arrangement. "There are now excellent policies available," explains Boyce, "which cover the cost of extended care facilities. Generally, the cost of long-term care is not covered by hospitalization policies or Medicare. These costs can be devastating to even a well-designed financial plan. I recommend purchasing the policies prior to age 65 since premiums rise rapidly after that age. Expect to pay $400-$500 per year for such a policy."

Their estate plan can also use some attention. Although they have simple wills, a more thorough estate plan would include a trust arrangement. Attorney Alan Ferrara, a partner in the Southfield firm of Couzens, Lansky & Roeder, explains: "Their combined estate, including $100,000 in insurance proceeds, is approximately $750,000. No estate taxes would be due on the first death since property passing to a surviving spouse is not subject to estate taxes. However, on the second death, over $55,000 in estate taxes would be levied.

"This tax can be completely avoided under present law through proper estate planning. In brief, revocable living trusts are established in a manner which allow the couple to shield up to $1.2 million from estate taxes." But he warns that they must act before one of them dies. "After that occurrence, only half of that figure, or $600,000, can be shielded from estate taxes."

The Evanses can look forward to a comfortable, secure retirement because they live within their means and started a savings plan years ago. Our advisers urge them to avoid unnecessary risks while enjoying the fruits of their labors. "Enjoy them to the fullest," they urge, "you have richly earned them."

Financial Position

INVESTED ASSETS	
Savings	
Money Market	$25,800
Life Insurance cash value	$6,500
Fixed Interest Assets	
IRAs - Bonds Funds	$32,800
GM 401(k) Plan-fixed	$165,600
Real Estate mortgages	$8,000
Growth Assets	
Individual stocks	$57,000
Mutual Funds	$45,500
GM stock in 401(k)	$91,000
Real estate partnership	$51,500
Total	$483,700
NON-INVESTMENT ASSETS	
Residence	$138,000
Automobiles	$7,000
Other personal assets	$20,000
Total	$165,000
Total Assets	$648,700
Total Liabilities	$0

The Bottom Line

Financial Strengths

- Considerable savings and investment accumulation
- Excellent benefits package at work, including retirement pension
- No debt
- Adequate health, life, auto, and homeowners insurance
- Up-to-date wills

Financial Weaknesses

- Unbalanced portfolio - too much stock generally and too much in GM in particular
- Risk exposure in investments is unnecessarily high
- Revocable living trust needed in estate planning
- No umbrella liability policy
- Need to purchase a long-term care insurance policy

Pharmacists join alcohol, drug awareness campaign

It's evening. You've had a drink and now you wonder if the combination of the drink and the new medication might be why you feel knocked out.

You don't want to bother your doctor, and you don't see this as a reason for a trip to the emergency room.

The solution is as close as the corner drugstore. Pharmacists routinely respond to such drug-related questions, according to Hadar Granader, a member of the board of directors of Sav-Mor Drugstores.

Granader helped initiate a joint project through which the 51-store Sav-Mor chain and Henry Ford Hospital's Maplegrove Chemical Dependency Treatment Centers will bring drug and alcohol information to dozens of communities in southeastern Michigan.

The project began Nov. 9 when the drugstores launched a five-week radio public service campaign airing on several local stations.

Greg Kuehnle, vice president of the Toledo-based advertising agency that put together the campaign, said he hopes it will reach families who may be concerned about a family members misuse of prescription drugs or alcohol in conjunction with drugs.

"PEOPLE MAY feel more comfortable talking to their pharmacist rather than the police if they think there is a drug dependency," he said. "The druggist won't offer cures, but he can suggest places to go to for help."

The 60 second spots will continue to air through mid December.

"Pharmacists know how the drugs

Renee Gerger of Southfield, Maplegrove Intervention Specialist, discusses the pharmacist's role in combatting drug abuse with the center's administrative director, Thomas Groth of Livonia, and Sav-More pharmacists Skip Siegel (far left) and Hadar Granader (far right).

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