Farmington Observer

Business

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Thursday, February 18, 1988 O&E (F)1C

Realistic savings plan paves retirement route

By Alan Ferrara and Dan Boyce
special writers

Local financial planning experts reviewed the data of the family profiled here and made general recommendations based on the participant's resources and goals. The information is for educational purposes only; references are not intended as discrimination or endorsements by Observer & Eccentric Newspapers or the advisers interviewed.

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"HOW MUCH should I be saving toward retirement?" is a commonly heard plea of those seeking financial planning advice. This is often followed by an anxious "How am I doing?" This month's financial profile centers on Jim and Molly West, a Farmington Hills couple who fall into that category of adults known as DINKS — short for Dual Income, No Kids.

Jim is 39 and works as an engineer at one of the auto companies. Molly is a secretary who just turned 40. They have a combined income of $67,000, along with good health and disability benefits at work. Their net worth (assets minus liabilities) approaches $170,000, consisting mostly of equity in their house ($75,000), autos ($26,000). IRAs ($25,600) and other miscellaneous assets.

THEIR CASH reserves seem high at first glance. They include a bank money market account of $22,000 and other accounts totaling $10,000. But they sold an investment property at a sizable gain in 1987 and expect a $15,000 tax bill on April 15.

Both Jim and Molly have up-to-date wills. Most of their property is held jointly. Our advisers agree that this is an adequate estate plan for them at this point. A trust fund would be appropriate if they had children or if their combined estates (including life insurance proceeds) exceeded $600,000 or if they were getting on in years. In case one of them should become incapacitated, our advisers suggest that each draw up a durable power of attorney. This would allow the other to act on behalf of the incapacitated spouse should it be necessary.

THEY HAVE STATED two major financial goals: to build their nest egg over time and buy a second house in northern Michigan. They plan to turn this house into their primary residence at retirement. If all goes well, they would like to retire by the time Jim reaches 55.

Our advisers note two weaknesses in the insurance area. Attorney Alan Ferrara, a partner in the Southfield law firm of Couzens, Lansky, & Roeder, addresses their homeowner's insurance.

"Mr. West has coverage for $130,000 on a dwelling which he estimates could cost approximately $170,000 to replace. This is below the 80-percent figure which is required by property insurers to pay any claim in full," Ferrara said.

"FOR EXAMPLE, if he had a $10,000 claim, it is unlikely the insurance company would cover the full amount of the loss. He should raise this amount to a minimum of $150,000 and add an 'inflation-guard' rider to his policy."

Ferrara also examined Jim's insurance coverage.

"Jim is the primary wage earner of the family, earning more than $55,000 per year. If he were to die prematurely, Molly would need significant additional income to maintain her standard of living. Jim has a $100,000 universal life policy and approximately the same amount of term insurance provided by his employer.

"Though $200,000 sounds like a lot of money to them, if it were invested at 8 percent, it would bring in in only $16,000 per year. This is not enough to allow Molly to maintain her current standard of living, and future inflation could squeeze her even more.

"Until they can build up their asset base, Jim needs to buy a term policy with a face amount of $150,000 to $250,000. At his age, it should cost them under $500 per year, assuming he is in good health."

THEIR BIGGEST questions revolve around the retirement goal mentioned earlier. "We want to be able to slow down and relax by the time Jim is in his mid-50s," Molly said. "Assuming a paid-off residence, in today's dollars (not adjusted for future inflation) we want to have $3,000 per month in before-tax income. How should we approach this area of planning and what should we do now?"

Certified financial planner Daniel H. Boyce in Birmingham has some guidelines for the Wests in this area.

"First of all, they should be congratulated for setting such clear goals. Their retirement objective is specific in the amount of money and in time frame. Too often people have given little thought to their goals, or at best have only a vague idea of what they want to accomplish."

BOYCE DESCRIBES the sources of retirement income as a "three-legged stool" consisting of pension, Social Security and personal savings.

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Jim expects his pension from his current employer to provide a

It is important to realize that personal savings is typically the only form of retirement income over which you have any control. So this must be built up over time for a secure financial future.

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Financial Position

INVESTED ASSETS	
Savings	
Checking	$4,200
Credit Union	$500
Money Market Account	$22,000
Fixed Interest Assets	
Money Market Fund	$5,200
Personal Note @ 8%	$1,600
IRAs - Bank CDs	$25,600
Growth Assets	
Individual Stocks	$13,700
Total	$72,800
NON-INVESTMENT ASSETS	
Residence	$160,000
Automobiles	$26,000
Other personal assets	$10,000
Total	$196,000
Total Assets	$268,800
LIABILITIES	
Mortgage	$85,000
Income Tax Due	$15,000
Total Liabilities	$100,000
Net Worth	$168,800

The Bottom Line

Financial strengths

- Own home with substantial equity.
- No bank loans or credit card debt.
- Solid savings and emergency reserve.
- Both have wills.
- Pension plan through work.

Financial weaknesses

- Uncertain as to amount of savings needed for retirement.
- Inadequate insurance on dwelling.
- Inadequate life insurance on husband.
- No inflation hedges in investments.

DAN DEAN/staff photographer

As an independent owner of Troy's Grub Street, Phil Lauri finds paying higher liability insurance rates cutting into his profits already threatened by restaurant "conglomerates."

Dram shop insurance squeezes proprietors

By Janice Brunson
staff writer

Owners of area party stores, taverns, bars and restaurants that sell liquor are upset over a state law requiring them to carry a fixed amount of liquor liability insurance. They say increased premiums pose severe economic hardship on small retailers and are forcing others out of business.

The law, which takes effect April 1, requires all liquor retailers in Michigan to carry at least $50,000 in liquor liability insurance or the equivalent in cash and securities. Proof of such coverage will be required before liquor licenses can be renewed.

The insurance protects retailers in the event they sell liquor to a minor or an intoxicated person who is later involved in an incident causing bodily harm, providing it is shown the liquor was the "approximate cause of the injury, damage or death," according to Ken Wozniak of Michigan's Liquor Control Commission.

The Dram Shop Act of 1933 provided that retailers assume liability for the incident once a victim or the survivors of the victim sue the person who was drinking, Wozniak said. "This new wrinkle in the law assures financial responsibility on behalf of those who sell alcoholic beverages."

'I think we carry 50 percent responsibility, and 50 percent rests with the individuals. He's the one who commits the crime. Make it tougher on him. Not the supplier.'
— Phil Lauri

Until now, the purchase of liquor liability insurance by retailers has been optional.

"THIS IS the hottest issue confronting our industry since the returnable-container bill of 1976. We feel it is unfair and very harsh," said Ed Deeb, president of the Michigan Food and Beverage Association, based in Southfield, which opposes the legislation and lobbied against it.

The association also unsuccessfully requested Michigan's insurance commissioner Herman Coleman to either waive the requirement or subsidize the cost of premiums.

Otherwise, Deeb said, small establishments like "mom and pop operations" may face bankruptcy.

Salah Salah, a pharmacist who has co-owned Livonia Drugs for six years with his brother, Sam Salah, who is also a pharmacist, says he knows "many people" who are finding it difficult to pay increased liability insurance rates.

"Some of them are going out of business, especially those that sell only liquor," he said.

The Salahs have always carried liability insurance. While packaged liquor sales constitute only a small portion of their overall business, they say their rates have increased "ten-fold" since the Salahs opened the store in 1982.

Phil Lauri, owner of Grub Street in Troy, admits to being in a "vulnerable" position. Lauri's 275-seat restaurant competes for business in an area dominated by what he describes as eating "conglomerates."

"We're small. It's pretty tough making a profit."

Lauri carries liability insurance to guard against possible law suits. Last year his premiums were "in excess of $5,000," an increase that he said was about 20 percent higher than the previous year.

ARMAND DICAPITE, owner of Bottle & Basket shops in Bloomfield Township and Birmingham, also carries liability insurance and said he has since he opened his first shop in 1951.

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