Farmington Observer

classifieds inside

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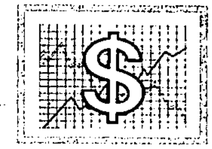


Financial Position

INVESTED ASSETS	
Money Market	$4,000
IRAs - CDs at banks	$16,100
401(k) - fixed interest	$7,700
Company savings plan	$43,600
Total	$71,400
NON-INVESTMENT ASSETS	
Residence	$130,000
Automobiles	$5,000
Antiques	$20,000
Other personal items	$10,000
Total	$165,000
Total Assets	$236,400
LIABILITIES	
Mortgage	$77,700
Net Worth	$158,700

The Bottom Line

Financial strengths

- Retirement savings in place through company.
- No debt beyond home mortgage.
- Steady employment with good benefits.
- Excellent auto, homeowners and disability insurance.

Financial weaknesses

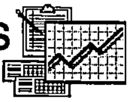
- Few liquid assets.
- Inadequate life insurance.
- Wills drafted in another state. (community property state)
- No college savings.

Big squeeze

College costs threaten retirement fund

By Alan Ferrara
and Dan Boyce
special writers

FAMILY FINANCES



Local financial planning experts reviewed the data of the family profiled here and made general recommendations based on the participants' 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.

To receive a free financial planning brochure or to obtain a questionnaire to have your finances reviewed in this monthly column, contact the Center for Financial Planning, Dept. 100, 877 S. Adams, Suite 202, Birmingham 48009 or call 642-4000.

This month's profiled couple, Hugh and Janice Barker, have gone through a number of changes in their lives during the last 18 months. These changes have provided a number of concerns as well as opportunities.

Hugh is a personnel administrator, and Janice is a part-time teacher. They and their family have recently moved to Michigan from California. They have two children, ages 19 and 14, and live in Rochester.

Although the Barkers are in their early 40s, a primary goal for them is planning for their retirement. Hugh would like to retire in 18 years at age 62. In addition, one of their children will be attending college this year, and the other is approaching college age, so a secondary goal is the payment of college expenses.

With careful planning they will be able to meet all of their financial goals.

For their most important goal, retirement, about one-third of their needs will be provided through Hugh's pension, about one-third will be provided through Social Security, and the Barkers will have to provide the remaining one-third from their investment assets.

The Barkers should examine their cash flow and try to manage college expenses from current cash flow rather than from their retirement fund.

If they are able to continue building their assets from the current base, they should have enough assets accumulated by retirement age.

One of our concerns is that the Barkers use Hugh's stock savings plan for college costs, drawing money periodically out of that plan. The Barkers should examine their cash flow and try to manage college expenses from current cash flow rather than from their retirement fund.

Hugh is deferring 6 percent of his salary into the company 401(k) and stock savings plan. The company matches his contributions to the 401(k) plan up to 6 percent of his salary at the rate of 90 cents on the dollar. It will match his deferral under the stock savings plan at a rate of 50 cents on the dollar.

We agree the salary deferral is an excellent idea. The company 401(k) plan and stock savings plan are designed to allow Hugh to defer salary, and thereby defer income taxes, while saving for his primary goal of retirement.

To the extent he can avoid drawing this amount out for college expenses, Hugh should try to maximize his 401(k) contributions.

He will be saving to meet his primary goal of retirement and also take advantage of the available tax *deferral on the contributions and any* income earned while the money is in the retirement plan.

When the children have completed college, he should consider raising his retirement plan deferral to at least 10 percent and continue this amount through retirement. This would then form the basis of his retirement nest egg.

The Barkers have a number of financial strengths, including steady employment with good benefits and no major debt beyond the home mortgage. But we are concerned that the Barkers do not have sufficient liquid assets.

We would like to see them build assets outside of the company savings plan for greater liquidity and access in the case of an emergency. A good rule of thumb is to have six months liquid assets such as stocks, certificates of deposit, money markets and savings bonds. Because of their other financial priorities, this might be an intermediate goal for them.

We both agree that the Barkers lack sufficient life insurance. Hugh is especially concerned because his life insurance is tied to employment with his current company. His current life insurance of $230,000 would not enable the family to maintain their standard of living and put their daughters through college should something happen to Hugh.

We'd suggest buying another $150,000 to $250,000 of term insurance, with the exact amount depending upon Janice's ability to work and bring in extra income.

There are a number of highly rated life insurance companies offering a level-premium term policy that would provide Hugh with the additional coverage with level premiums affordable to the Barkers. As an alternative, cash permitting, Hugh may want to consider a universal or whole life insurance product with cash value buildup.

By the time the children finish college, *Hugh would have a larger vest*ed pension benefit for Janice, and he might consider reducing or eliminating insurance, dropping the coverage if the need for it no longer exists.

Our last concern is that the Barkers had their wills drafted quite some time ago in California, a community property state. We're sure that their personal and financial situation has changed significantly during the time since the wills were drafted originally.

In addition, community property state laws regarding wills may vary significantly from Michigan law. We would suggest the Barkers review their estate planning needs with an attorney to determine if their current wills are still adequate considering their new residence and current family and financial situation.

Hugh and Janice will have significant expenses over the next few years in helping their children with college. But with proper planning, they can meet these short-term goals as well as the long-term goal of retirement with adequate assets for a comfortable life.

Dan Boyce, a certified financial planner, is the immediate past president of the Metropolitan Detroit Society of the Institute for Certified Financial Planners whose practice is in Birmingham. Alan Ferrara is a partner in the Farmington Hills law firm of Couzens, Lansky, Fealk, Ellis, Roeder & Lazar. He is immediate past president and a current board member of the southeast Michigan chapter of the International Association for Financial Planning.

Mid-year tax planning can result in many happy returns

Summertime and the livin' is easy. And if you want to make filing your 1988 tax return smoother, pull yourself from the easy livin' routine to heed some mid-year tax planning tips offered by Grey & Trepeck, Birmingham.

- Review your IRA options. If you qualify for a fully or partially deductible IRA contribution, make your contribution as early in the year as possible to stretch the time your fund can be earning tax-deferred dollars.

- Consider tax-exempt investments. Investments that yield tax-exempt income (such as municipal bonds) may give you a better after-tax return than taxable investments.

If you invested in a tax-free bond yielding 8 percent and your tax bracket was 28 percent, you'd have to earn 11.11 percent from a taxable investment to get an equivalent return.

- Reduce your debt. Pay off as much consumer debt as possible, especially high-interest credit card balances.

In 1988, only 40 percent of any such interest you pay will be deductible. If you have a lot of outstanding consumer debt, consider consolidating it under a home equity loan. Interest on home equity loans up to $100,000 is fully deductible.

- Use your vacation home wisely. If you own a second or vacation home, find out whether you get a better tax break by treating the property as a second residence or as rental property. The number of days you personally use the home can be a determining factor.

- Avoid the "kiddie tax." Check any income of children under the age of 14. If unearned income exceeds $1,000, the child will be taxed on the excess at your highest rate. Shifting investments or making other adjustments may be appropriate.

- Buy a home. Owning a home is one remaining tax shelter. You can deduct real estate taxes and mortgage interest on loans up to $1 million ($100,000 loan limit on home equity loans).

If you're making money from a hobby, turn it into a business so that you can write off your expenses. You must be able to demonstrate that you engaged in the activity for a profit.

- Make your hobby a business. If you're making money from a hobby, turn it into a business so that you can write off your expenses. You must be able to demonstrate that you engaged in the activity for a profit.

To do that, conduct the activity as a business. Keep records and get a separate bank account for the activity. The IRS will expect your sideline business to show a profit in three out of five years, or you'll have to prove your profit motivation.

- Get the rules on "material participation." If you have investments that are borderline passive/active, get details on the new material participation regulations.

Adjust your involvement in such activities so that income or losses produced by them get the most beneficial classification in relation to your other income and losses.

- Segregate borrowed funds. Keep borrowed money that will be used for different purposes in separate accounts so you will not risk losing interest deductions because you can't prove how the money was spent.

- Segregate travel and entertainment expenses. Keep your business travel and entertainment expenses segregated into fully deductible (travel and lodging) and 80 percent deductible (meals and entertainment).

- Wait until age 55 to sell. If you're approaching the age of 55 and are planning to sell your home, you may want to delay the sale until you qualify for the $125,000 exclusion of gain. The election can be used only once by taxpayers 55 or older.

If you're planning to marry, realize that you and your spouse-to-be could each claim a separate $125,000 exclusion before marriage. After marriage, you will be entitled to only one exclusion as a couple.

- Manage rental property. If you have rental property and your adjusted gross income will be under $100,000, be sure you actively manage the property if you want to deduct losses up to $25,000 against "active" income. The $25,000 limit phases out for AGI between $100,000 and $150,000.

- Expense $10,000 of equipment. In planning your business equipment purchases, remember that you can expense up to $10,000 for newly acquired equipment in 1988. The writeoff for business cars is limited to $2,560. If your total equipment purchases exceed $200,000, the expensing option phases out.

- Send children to day camp. If you work, send your children to day camp this summer. Costs qualify for the child-care credit. Overnight camps no longer qualify.

- Contribute to a 401(k). If your company has a 401(k) plan, you can defer up to $7,313 of your salary this year.

- Don't overlook medical deductions. If you help support an elderly relative who lives in a nursing home for medical reasons, the cost of the nursing home qualifies for the medical deduction.

If you make improvements to your home for medical reasons, the cost of such improvements are medical expenses to the extent they do not increase the value of your home. That includes such things as widening doorways or hallways for wheelchair use, or modifying the home to accommodate an individual with a medical problem.

- Hire the disadvantaged. Consider hiring individuals from economically disadvantaged groups to qualify for the targeted jobs credit. The credit is 40 percent of the first $6,000 earned during the individual's first year. Hiring economically disadvantaged 16- and 17-year-olds during the summer can qualify you for a credit of 85 percent of the first $3,000 of wages paid.

- Time equipment purchases carefully. Be aware it may no longer be good strategy to make business equipment purchases as late in the year as possible. The new law requires you to adjust depreciation if you make more than 40 percent of your equipment purchases in the fourth quarter of the year.