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Business

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Early retirement poses some risks

By Alan Ferrara
and Dan Boyce
staff writers

Local financial planning experts reviewed the data of the person 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.

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

"Be it ever so humble, there's no place like home." This might well be the title of our financial profile this month, which focuses on financial planning for Joyce Mille, a 38-year-old elementary school teacher.

Joyce earns $37,000 per year and has been with her school district for 15 years. This puts her comfortably high on the seniority list; she is not concerned about the dreaded "pink slip." She lives alone in an apartment in Canton Township for $650 per month, plus utilities.

"About four years ago I decided to stop looking for Mr. Right and take control of my own financial future. I had always envisioned getting married and living happily ever after. If that happens, it would be great, but I'm not counting on it," she says.

Until that time she had little savings and no specific financial goals. Now, her two major goals are to purchase a home and retire in 15 years.

We think she has made good progress during the last four years and deserves a pat on the back. But while the home goal is realistic, we believe she may have to reassess her time frame for retirement.

Joyce has a solid financial foundation, but she needs some help with her cash-flow planning. She receives her pay in 21 increments over a 10-month period. Over the summer, she lives off her savings. Because she enjoys vacationing, she frequently spends more than she anticipates during the summer.

WE SUGGEST THAT she prepare a spending plan or budget for the entire year. This would provide a realistic basis for planning her expenditures. Also, many school credit unions have an automatic payroll deduction plan that effectively spreads the paychecks evenly over the entire year. This effectively allows her to receive 26 paychecks paid (biweekly) per year. The advantage to her is that the extra money is earning interest for her rather than the school district. This might help her to plan better for the summer months.

Her benefits package through the school district is quite good. Besides pension, she receives full medical coverage, limited vision and dental coverage, disability payments equal to two-thirds of her salary paid until age 65, and access to several tax-sheltered annuity carriers.

We also note that she has renters insurance and has recently changed auto insurance carriers for some premium savings. These coverages appear to be adequate.

She is somewhat frustrated in her ability to save for a house down payment as rapidly as desired. "I'm currently putting $500 per month into my credit union solely for this purpose. At the same time, though, my charge account balances are slowly creeping up. I'm not extravagant, but I'm finding it hard to make ends meet with my budgetary constraints. And Christmas is fast approaching."

Financial Position

INVESTED ASSETS

Credit Union Checking	$1,500
Credit Union Savings	$12,600
CD - 1 year (3-10-88)	$3,000
Tax Sheltered Annuity	$6,200
IRA - Bond Mutual Fund	$1,200
Total	$24,500

NON-INVESTMENT ASSETS

Automobile	$5,500
Other personal assets	$5,000
Total	$10,500
Total Assets	$35,000

LIABILITIES

Auto Loan (C.U.)	$4,100
Bank Loan	$1,500
Charge Accounts (4)	$2,300
Total Liabilities	$7,900
Net Worth	$27,100

FAMILY FINANCES

SHE WOULD LIKE to buy the house next summer with $20,000 for down payment and expenses by that time. Our projections indicate that she may win the battle but lose the war.

She will be able to accumulate the $20,000 but due to her other debts, she may not qualify for the size of the mortgage she desires. Banks and mortgage companies place strict percentage limitations on the amount of income that can be used to pay all debt, including mortgage debt. Because her charge accounts will likely be somewhat higher if the present trend continues, and because she has two other monthly payments on loans, she may be limited in the size of mortgage she can receive.

Fortunately, there is a practical solution for Joyce. Her parents have indicated a willingness to lend her up to $10,000 at low interest with no fixed payments. She would prefer not to borrow this money, but we suggest she use it if necessary. She should pay off the high-interest charge accounts and bank loan, which will reduce her monthly loan payments. These debts carry an interest rate of 14-18 percent per year, and the interest is only 20 percent deductible in 1989.

If she then needs to borrow from her parents to meet the requirements of a down payment next summer, she can do so and thus qualify for a higher mortgage. With a current rental payment of $650 and her ability to save an additional $500 on top of that, she should be able to handle the mortgage payment without too much difficulty.

JOYCE HAS DONE no estate planning. Though she has no formal estate plan, the state of Michigan has one for her: the intestacy laws of the state of Michigan. These are hard and fast rules which dictate the distribution of her estate. We suggest that she prepare a simple will in order to gain greater control over the administration and distribution of her estate.

Our projections indicate that she may have to re-evaluate her retirement plans. She would like to retire after 30 years with the school district at age 53. Two years ago she joined a plan that allows her to retire with full benefits after 30 years regardless of age, with a cost-of-living adjustment built into the pension. This would enable her to collect a state teacher's retirement pension of approximately 45 percent of her income. Additionally, she has been adding 5 percent of her salary into a tax-sheltered annuity (TSA) plan that allows for pre-tax contributions.

If she retires at age 53, she may run into two unexpected financial difficulties. The first is inflation; the second is the possible governmental restrictions on withdrawing money from qualified retirement plans before age 59½.

At age 53, her life expectancy is about 30 years. At just 5 percent inflation, the cost of living will more than quadruple during that time. Even though she has some cost-of-living increases in her pension, it would be hard to maintain her lifestyle in the face of increasing costs.

SOCIAL SECURITY would be available at age 62 at the earliest; her only other source of money would be her savings. Because most of these savings would be in her tax-sheltered annuity, she might have to pay a 10 percent penalty for withdrawal from that plan, depending on tax laws at the time. This could cause a more rapid use of accumulated assets than expected. Our projections indicate that her current rate of savings will not allow her to maintain her standard of living at retirement during her life expectancy.

Alternative scenarios include teaching several years longer or retiring at 53 and supplementing her income with another job. If she chooses this latter course of action, we would advise her to begin the process of preparing for a new position several years in advance of her retirement.

Another recommendation would be to target saving 10 percent of her income for future retirement needs. This should occur after she buys the house, when she is able to determine her actual ability to save at this rate. We also suggest that she review other tax-sheltered annuity carriers. The one she is currently using is not as favorable as others available in the marketplace.

Joyce has done well in the short time she has been seriously working toward her financial goals. A realistic reassessment of her long-term financial goals is in order, but she is moving in the right direction. Our best wishes to her and to all of you in this holiday season.

The Bottom Line

Financial strengths

- Solid emergency fund
- Regular savings habit
- Good benefits package (pension, insurances, etc.)
- Steady employment

Financial weaknesses

- Retirement expectations unrealistic
- Renting apartment
- Need for cash flow planning during summer months
- No will in place

Sowing the seeds

U-D seminars teach basics to prospective business owners

By Mary Rodrique
staff writer

It's a dream many people share — to own their own business, call all the shots, be independent.

But the dream can turn into a nightmare without the skills, financing, and sometimes just plain luck that can make or break a business.

The University of Detroit through its newly created Center for Entrepreneurial Enterprise is offering a series of workshop seminars called "The Nuts and Bolts of Beginning Your Own Independent Business" and another for "improving" the independent business.

"There is a real interest in entrepreneurship and not a great deal of places to turn to for guidance," said John M. Feeney, program author.

Feeney, a self-employed accountant, tax planner, and business consultant from Bloomfield Hills, has contracted with the university to present the programs, offered in five once-a-week sessions, or as a one day mini-workshop.

"It's simply an effort to educate and service the small business community with unbiased support," he said. "Businessmen can get advice from their attorney, insurance man, banker or accountant, but it's going to be bent toward their own bias."

Feeney's programs are five-step approaches geared toward either those contemplating starting a business or those who are already operating a business.

The five-week session costs $345. The miniversion is $195. Both fees include a 150-page workbook reference manual, five audio cassette tapes plus the seminar.

THE BULK OF material is directed to companies of less than 25 employees.

Outside assignments ("I hate to call it homework," Feeney says.) are included. In one drill, those contemplating going into business are asked to list job titles and descriptions, compensation requirements, and sketch their intended market area.

Statistics show most people in business for themselves or contemplating such a move are in the mid-30s range.

"I think that's just because it's the largest age group, the baby boomers," Feeney says. "I've seen some start right out of college and also as retirees. Age shouldn't stop someone."

John Feeney

More statistics Feeney offers: About 40 percent of new businesses are started by women, currently there are 18 million small businesses in the country and one out of three small businesses fails within the first six months.

"And nine out of 10 fail within the first five years," he adds.

While the odds are discouraging, those who make it reap benefits.

"The IRS says that nine out of 10 people making over $60,000 a year are self employed," Feeney said. "But wealth is not a motivator. They just want to do their own thing."

Of course not every independent business person who sticks with it lives on easy street. And Feeney shows the other side, too.

A case study used in the text for those currently in business showcases a man who repairs golf clubs, manufactures custom clubs and sells golf apparel.

Although he says he would never go back to working for someone else, he has found the thrill of being his own boss long faded. The dull reality of making a living has settled in.

His biggest frustration: employees whose work doesn't measure up to his own high standards. He's not rich, but he's making a living.

"Obviously you can't compete pricewise with the giants," Feeney said. "You have to compete on personal customer service and convenience. There are umpteen examples of specialty shops that are competing successfully because they have some built-in efficiencies big companies don't have."

BEGINNERS NUTS and Bolts asks participants to examine their business potential. There's even a test (that Feeney admits is not scientific and partially is just for fun) to help the potential business owner decide if he or she have what it takes to cut the mustard.

For those who don't have a clue of the type of business they'd like to pursue, there are exercises to implement ideas.

Nuts and Bolts II is designed for those currently self-employed. Participants have included people in business for one month to 28 years.

"And the guy with 28 years learned some tricks in organizing paperwork," Feeney said. "That made me feel good."

The biggest problems for the self-employed are insufficient sales, disorganization, and ineffective employees, Feeney has found through research.

The son of parents who owned a Ben Franklin Five and Dime store in Ohio, Feeney says he often pulls on early memories.

"I remember things my father would expound upon," he said.

After earning a bachelor's degree in industrial engineering and a master's degree in business administration from the University of Michigan, Feeney worked for a number of large companies before opening his own firm.

Finding the accounting portion of the job rather dry, he soon found himself expanding to offer his services as a consultant. All of his clients are small business owners, he said.

In addition to the seminars, he has authored the Feeney Report, a monthly publication dedicated to assisting independent business owners develop profits, organize records and save on taxes.

Class times

Nuts and Bolts classes will be offered in January at the Bloomfield Township Library.

Classes for those thinking about starting their own business will meet Monday and Tuesday, Jan. 23 and 24. A one-day Saturday session will be on Jan. 28.

For those interested in improving their business ownership skills, dates are Wednesday and Thursday, Jan. 25 and 26. The one-day Saturday session will be Feb. 4.

For information, call 335-1200.