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Business

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classifieds inside

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Spending outpaces saving

By Dan Boyce
and Alan Ferrara
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 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.

"Your eyes are bigger than your stomach." Most of us have heard this phrase applied to a child's desire for more than can be eaten. This month's financial profile features a couple whose financial desires may outstrip their ability to pay for them.

Sam and Holly Stiles live in a house in Livonia that they own outright. Sam, 42, is a mechanic who earns $30,000 per year. Holly, in her mid-50s, works a few hours a week as a merchandiser and earns about $2,000 per year.

They have no dependent children at home. Holly has a daughter from a previous marriage and has three grandchildren. They plan to buy a new house this fall for $140,000. After selling expenses, they should realize $90,000 from the sale of their present house.

They are also concerned about preparing for their golden years. Sam asks, "How do I maintain our current level of income at retirement? What steps should I be taking now?" Currently, their only regular savings is $100 per month that goes to an IRA account.

Other goals include taking nice vacations — a Caribbean cruise is planned for this winter, and they would like to take a trip to Hawaii within a couple of years. They also would like to invest in a retirement property.

TO BUY THEIR new houe this fall, they will need an additional $50,000. In their case, rather than draw on their invested assets, we would suggest financing this amount with a mortgage.

With interest rates currently at reasonable levels, we would strongly suggest that they take a fixed-rate mortgage on the house rather than a variable rate.

With Sam planning to retire at age 62 in 20 years, We would suggest that they plan to have this mortgage paid off by that date. Either a 15-year fixed mortgage or a 30-year mortgage amortized over 20 years would be good alternatives.

A $50,000 mortgage at 10 percent over 30 years would require a payment of $403; to amortize it over 20 years would require a payment of $450.

Sam and Holly should realize that buying this new house will affect their ability to save for other goals. In the past several years, they have been able to accumulate some mutual fund investments in addition to their $100 monthly IRA contributions.

Given their retirement situation, it is desirable to continue to build their personal assets. But once they buy this house, they will have an additional outlay of more than $400 per month, which is a significant item in their budget. They should carefully assess the effect of this outlay.

In their investment portfolio, they have bought shares of nine separate mutual funds in amounts of $1,000 to $2,000. Mutual funds are certainly appropriate for their situation, and most of the funds they own are good funds.

But we suggest that they pare this list to three or four funds covering major investment objectives of income, growth/income and growth. They should spend their time on a periodic reassessment of a limited number of funds, rather than on shuffling all of the paperwork generated by a large number of small investments.

To reach their desired level of retirement income, it appears they will need additional personal savings.

There are typically three sources of retirement income: penison, Social Security and savings. Sam's pension will pay just $300 per month at retirement. Their combined Social Security should provide them with $900 per month at retirement. Their investment income will need to provide them with an additional $1,300 per month (inflation adjusted) to maintain their current standard of living.

TO ACCUMULATE assets for the projected income needed, we use a complex formula that takes into account inflation, other sources of income, current savings rates and other variables. We project that the Stiles need to save $400 to $500 per month ($5,000 to $6,000 per year) between now and Sam's projected retirement to meet their goal. This amount should be adjusted along with the inflation rate each year.

This is obviously another significant item for their budget. It may not be achievable all at once. But it is important they they begin saving now rather than waiting another five or 10 years.

They each have a current will that reflects their wishes for distribution for their property. They have property insurance that fully covers their home and autos (after deductibles) and have prudently chosen the maximum limits of liability available with these policies.

Sam has a combination of group and personal disability policies that covers about two-thirds of his current income. This appears to be adequate coverage.

One insurance area that requires immediate attention is life insurance. He has an old $5,000 whole life policy, and his employer maintains a $20,000 group term life policy on him. If Holly were to find herself a widow, this $25,000 would not go far. She does not have the ability to bridge this major shortfall through her own earnings.

In one year, she might easily need to spend the insurance proceeds to maintain her standard of living, and in two to three years all of their savings could be depleted. Subsequently, she could be left with a modest earnings potential and no other means of support. Widows' benefits from Social Security are not available until age 60, and the benefit is modest at best.

Because Sam is healthy, he should have no problem obtaining additional coverage. We would suggest buying $150,000 to $200,000 in additional death benfits. A combination of permanent coverage and five- or 10-year level-term coverage might be appropriate for their situation.

We suggest he avoid the mortgage insurance that will be offered to him when they buy their new house. Such coverage can usually be obtained less expensively with a personal policy, assuming the individual is in good physical health.

It is important that Sam and Holly carefully review their financial priorities and their expenditures. This will ensure that their money is truly directed toward the most important areas for them. It may be necessary to compromise in several areas. We believe that the satisfaction of knowing that they are secure financially is worth the effort.

Dan Boyce, a certified financial planner, is a 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.

The Bottom Line

Financial strengths

- Own their $95,000 home outright
- Adequate emergency reserves
- Little debt
- Up-to-date wills
- Good homeowners and auto policies

Financial weaknesses

- Sam has inadequate life insurance
- Savings rate insufficient to prepare for retirement
- Spending plans and goals inconsistent with income level
- Modest pension

Financial Position

INVESTED ASSETS

Fixed interest assets	
Savings Account	$5,000
Bond Mutual Fund	$6,600
IRA-Certificates of Deposit	$7,400
Growth assets	
Growth/Income Mutual Funds	$6,400
Growth Mutual Funds	$10,600
Total Invested Assets	$36,000

NON-INVESTMENT ASSETS

Residence	$95,000
Auto	$8,000
Other Personal Possessions	$5,000
Total	$108,000
Total Assets	$144,000

LIABILITIES

Auto Loan	$4,000
Net Worth	$140,000

Service inventories personal items

By Helen Niemiec
staff writer

A woman with an eye for detail has opened a business in Birmingham intended to save families the tedious task of recording all personal possessions for insurance purposes.

Barbara Kenitz, president of Lifetime Collection Home Inventory, opened shop in June and already has put together a number of personal assets records for homeowners. The business is believed to be the first of its kind in Michigan, though a similar service is operating in California..

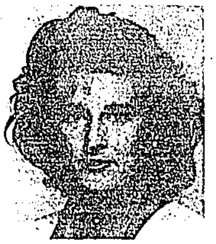
Kenitz's service is offered in three levels, with the most comprehensive package including photographs of all possessions, inventory lists plus a financial section where a homeowner lists all stocks, bonds, bank accounts and other liquid assets.

"People always mean to do this, keep better records of what they have but it's such a grueling task that it is often put off and when disaster strikes, there are no accurate records to turn over to insurance companies. We do this for them, getting into closets and drawers and making a full inventory of their possessions," Kenitz explained.

She has been meeting with several insurance companies to explain her service and providing brochures should one of the clients wish to have a full inventory done.

Local insurance agents contacted agreed that having an inventory is a necessity, not only to provide proof of loss but also to determine if a home is underinsured. The agents had mixed feelings about whether homeowners should use an inventory service.

GEORGE SAMRA, of State Farm's Farmington office, said that most people don't have any kind of inventory. He suggests that his clients videotape their belongings but admitted that keeping track of what is in a house isn't a high priority.



Barbara Kenitz
home inventory service

"They mean well but once they walk out of the insurance office, they start thinking about other things. People don't expect a loss so, should something devastating occur, they are often ill-prepared."

He added that the "overwhelming nature" of conducting a full inventory discourages most homeowners from keeping an accurate and up-to-date list.

Steve Krevinko, of AAA's Plymouth office, and Karen Stephenson, of All State's Livonia office, said that booklets are given to each client for the purposes of record keeping.

"We tell them to keep receipts and some do," Krevinko said. He often recommends that people with a lot of possessions upgrade their insurance policies to cover more without having to go through the tedium of inventory. AAA's most comprehensive policy provides content insurance of 75 percent of the value of the house.

Stephenson said that she recommends her clients videotape or photograph their rooms and possessions to add credibility to any claims they might make.

Kenitz counters that her inventory is a one-time charge while the more comprehensive insurance policies are an annual higher assessment.

For a 2,000-square-foot home with an average number of possessions, the fee would range from $1,200 to $1,800 for her top-of-the-line package. The price is based on the size of the house, scope of possessions and extent of service provided.

THE FULL PACKAGE includes a binder that stores all photographs, negatives, inventory and estate planning information. Homeowners also can opt for purchasing just the inventory sheets and then filling them out on their own.

When Kenitz's firm does the inventory, the information is kept on a computer disk that is stored in a vault for safe keeping. She recommends that homeowners keep their inventory information in a safe place, either in a safety deposit box, a vault at work or have a duplicate copy made and stored somewhere other than the house.

Appraisals are important in determining the actual worth of items that appreciate, such as jewelry, fine art and collectibles. She refers clients to appraisers but does not appraise herself.

"Once we go through a house and inventory everything, take pictures and give the homeowners an idea of what information should be written down in case of an emergency, they have a true understanding of what their personal assets are," Kenitz explained.

Kenitz and her employees are bonded and sign a confidentiality agreement with clients.

Lifetime Collection Home Inventory is a new venture for Kenitz, who has worked for 10 years as an interior designer.