Farmington Observer

# Business

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# Parents target college savings

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.*

*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.*

## Financial Position

### INVESTED ASSETS

Fixed interest assets

| | |
|---|---|
| Checking | $1,000 |
| Money Market Fund | $1,000 |
| Sherwin Williams Stock | $17,500 |
| Stock Mutual Fund | $13,400 |
| IRAs - Stock Funds | $1,500 |
| 401(k) Stock Funds | $6,000 |
| Total Invested Assets | $40,400 |

### USE ASSETS

| | |
|---|---|
| Home | $105,000 |
| Auto | $1,000 |
| Personal Items | $3,500 |
| Total | $109,500 |
| Total Assets | $149,900 |

### LIABILITIES

| | |
|---|---|
| Home Mortgage | $71,000 |
| School Loans | $1,900 |
| Net Worth | $77,000 |

## FAMILY FINANCES

"The object of education is to prepare the young to educate themselves throughout their lives."

Our subjects this month believe in this very strongly and have made saving for their children's college education their primary goal.

Bill and Trudy Bass live in Plymouth with their 1-year-old daughter. Bill, 30, is a manufacturer's sales representative. Trudy, 26, has recently left a secretarial position to prepare for the arrival of their second child due in February.

The Basses have already established a Michigan Education Trust (MET) fund for their daughter and plan to borrow for a similar contribution for their second child. They realize the MET covers only in-state tuition and fees at a state university, which will cover an estimated 40 percent of the cost of attending college. Therefore they want to establish separate educational funds for their children as soon as possible for future education costs.

Bill asks, "Is the MET the correct vehicle to use for education planning?" Our response is that there is no one right way to plan for education costs. Bill and Trudy are relatively conservative, they plan to stay in Michigan, and they believe they need a "forced savings" to accomplish their goals.

These factors all weigh in favor of the MET program. But Bill and Trudy should also weigh the negatives of the program. There is a lack of flexibility and accessibility of money placed in the MET program, and their is no guarantee that the MET will earn sufficient income to cover all of its obligations. Because their children's education is their most important goal, Bill and Trudy should review these pros and cons carefully.

THE BASSES HAVE not done any estate planning. This should be done as soon as possible. If they die without a valid will in effect, they will leave many important decisions regarding their children and assets to the Probate Court and Michigan intestacy laws.

If a person dies without a will, any property owned by that person alone will go to those persons described in the Michigan statute, which may be very different than where Trudy and Bill desire that their property go. The probate court, without any guidance from the parents, would decide who would be the guardians of their children and personal representative of the estate. A will for both Bill and Trudy should be a priority item, and later perhaps a revocable living trust for asset management and tax savings should become a part of their estate planning.

Bill and Trudy have a $100,000 limit of liability on both their homeowners and automobile insurance. In this era of increased litigation, it may be a good idea to increase that limit. For a few more dollars of premium each year, they could increase this to $300,000 on each policy.

A major weakness we see in Bill and Trudy's situation is that Bill has only short-term disability coverage though his employer. It is adequate coverage for 24 months, but then stops altogether. Because they are a young family without substantial outside resources, enormous problems could result from a long-term disability of the primary family income earner.

Bill should consider buying an individual long-term disability policy to dovetail with his short-term coverage. It could have a 24-month waiting period with benefits beginning when the other policy ends. This longer waiting period should reduce the cost of the policy. The new coverage should last until at least age 65, be non-cancelable and provide benefits equal to one-half to two-thirds of Bill's current income.

WHILE BILL DOES not want to be "insurance rich" and "cash poor," he should at least annually review his life insurance coverage to determine if his coverage is sufficient to take care of his family in the event of his untimely death. He has $250,000 of coverage. Because his children are young, he may want to increase his insurance for at least the short run by buying additional term life insurance.

Bill and Trudy may even want to consider combining a portion of their savings program with their life insurance program by buying a permanent type of insurance coverage. They should consult with their insurance agent before taking any action.

Bill would like to retire early, preferably at age 50. His current plans include selling their home at age 55 to support their future income needs during retirement. While it is too early to determine whether his goal of an early retirement is attainable, the plan to sell the home is questionable. Bill and Trudy will still have to live somewhere, probably incurring rental costs, and they will not likely be in a significantly enhanced financial position through the sale of their house. Some equity would be freed up, but it will not be sufficient to support them during their retirement years.

Bill is also saving for this retirement years by contributing $300 per month to his company 401(k) plan, and adding regularly to their mutual funds. Their established saving habit is a strength, but they are reviewing their current savings level in light of Trudy's decision not to return to work until both of their children are in school.

Trudy asks, "Should we reduce the 401(k) contributions or reduce our outside mutual fund savings?" Our recommendation is to continue with the 401(k) savings plan because it is easy, automatic, and is partly paid for through tax reduction.

BECAUSE TRUDY won't be working for the next few years, they will have to adjust their standard of living to the single income. We suggest they sit down together and plan a family budget that takes into account the reduced income. It is fine to reduce their savings level for the short term, but Bill and Trudy should try to live within their one income and not beyond it. Building up debt could put them behind for many years to come.

Bill and Trudy have a number of do-it-yourself projects around the house that they would like to complete in the next few years. They also plan to take a modest vacation next year. With proper planning, these goals are reachable.

Please turn to Page 2

## The Bottom Line

**Financial strengths**

- Established habit of saving regularly
- Little debt beyond mortgage
- Good start on building net worth
- Good benefit package at work
- Education funding planned and established

**Financial weaknesses**

- No wills or estate plan
- Investments are overly concentrated
- Inadequate liability limits on auto and home
- Need long-term disability coverage
- Retirement savings are uncertain

# Are takeovers bad?

## No, professor claims

By Tim Richard
staff writer

"There's no cause for alarm, no reason for panic" because of corporate takeovers, a University of Michigan professor told an audience of business leaders last week.

"There's no supporting evidence of harm to people or communities" when one company bids successfully for control of another, Michael Bradley, a professor of business administration, finance and law told an audience gathered by the U-M business school.

Bradley's numbers showed that stockholders in targeted companies are big gainers, and there are no big layoffs resulting from takeovers.

"The popular press has American going to hell. They don't know what's going on or else they're listening to targeted managers," Bradley said.

HOSTILE TAKEOVERS are just one form of corporate restructuring. One company, often called a "raider," offers a price 30 percent or more beyond the market price for control of the target firm.

Other restructurings, said Bradley, are negotiated mergers and "leveraged buyouts," or LBOs. With an LBO, a firm's managers fight a hostile takeover by issuing risky, high yield "junk bonds" to take a firm off the stock market and into private control.

"Junk bonds are not doing very well," said Bradley, adding that they are really equity rather than debt instruments.

During the Reagan presidency, the number of transactions doubled from 2,000 in 1981 to the 4,000 range currently. Total value of the transactions tripled from $60 billion in 1981 to a high of more than $200 billion in 1986.

SHAREHOLDERS OF the targeted firms are big winners. "Takeovers are paid for mainly by cash distributions. Much net wealth is created. These are not paper profits. These are pictures of George (Washigton) you can go out and spend."

After a takeover, research and development expenditures tend to rise.

He said a U-M doctoral student is studying the effects of takeovers on employment and so far has found "no negative effect. There's more employment . . . That's where the research is going, but it's very slow."

An audience questioner raised the case of United Air Lines, where employees bought control at $300 a share of a company whose stock earlier had been less than $100 a share.

> ***'Takeovers are paid for by cash distributions. Much net wealth is created.'***
> *— Michael Bradley U-M prof*

"Will you feel better getting on UAL? I'll feel a lot worse with an over-leveraged, rather desperate corporation run by desperate people," the listener said.

"I can make just as many arguments that it will be more efficient," Bradley replied. "We need some evidence. I don't know. I don't think there will be a material change (in safety)."

MERRITT FOX, a law professor, replied that gains to targeted shareholders weren't the only consideration.

"There's a sense of demoralization (at the targeted comapany)," Fox said. "It's difficult to get managers to identify with team interests if they don't know the team will be around. The sense of team identity disintegrates . . . They are working in an environment where you have a high chance of losing your job."

Fox noted a tendency for new owners to move operations to lower cost areas, resulting in a geographic redistribution of wealth between regions. "There are clearly losers," he said.

Joel Seligman, also a law professor, said the hottest area of anti-takeover law these days is at the state level. Legislatures are passing laws to protect local firms, "but state law may have gone too far in protecting management," he said.

He noted the U.S. Supreme Court, in a 6-3 decision, upheld an Indiana law saying target boards had the right to ask stockholder approval of a takeover. Michigan has adopted a similar law sponsored by Rep. John Bennet, D-Redford.

Seligman said there still are difficulties with state anti-takeover laws: The federal government has jurisdiction over interstate commerce, and federal law is pre-eminent when there is a conflict with state law.

State law can have only limited impact, he said, because 60 percent of all U.S. corporations are chartered in the state of Delaware.

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A "SOFT LANDING" and no recession — that's the prediction of U-M's quarterly econometric model prepared by Saul Hymans and economists Joan Crary and Janet Wolfe.

"The slow growth phase will persist for a while without degenerating into recession," Crary said, adding that U-M economic forecasters have a little better record than weather forecasters — "on average."

Economic strengths are: a relatively flat governmental sector, plant usage drifting up slowly to 85 *percent of capacity, residential* building rising by the end of the year after several years of decline, consumer spending growing at a real 2 percent rate, and 5 percent consumer price inflation.

Unemployment will drift up to 5.7 percent in 1990 but remain flat in 1991.

Weak signs, Crary said, are the possibility of "megashocks" and the declining value of the dollar.

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CHINA, DESPITE its youth-led political upheaval, is saying "we're open for business. We're very receptive," according to Robert Kulgren, chairman of the corporate department and international law practice group of Varnum, Riddering, Schmidt & Howlett.

"Who's doing well in China?" he was asked.

"I don't think anyone has done real well," Kulgren replied, noting MGM made a major hotel investment. "I hear more discouraging than promising (news). That is not to say I'm not an optimist."

American business investments in China may do well "in the long term or the long, long term," said Kulgren, adding:

"Never forget that China is a communist nation."

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U-M'S SCHOOL of business administration has won a $480,000, three-year federal grant for a new, interdisciplinary teaching and research unit called the Center for International Business Education.

Business dean Gilbert Whittaker said his school was one of 60 competing for six grants.

Funds will be used to promote campus-based education and research to help the United States become competitive in international trade. Among course offerings will be business language courses and overseas internship and exchange programs.