

## Business

Marilyn Fitchett editor/591-2300

classifieds inside



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## Financial Position

ASSETS	
Checking	\$300
Savings	\$5,400
Coin Collection	\$1,500
Automobiles	\$6,500
Other personal items	\$3,000
Total Assets	\$16,700
LIABILITIES	
Auto loan	\$2,000
Credit cards	\$2,100
Student loan	\$4,300
Total Liabilities	\$7,400
Net Worth	\$8,300

## The Bottom Line

## Financial strengths

- Adequate emergency reserves
- Early start in financial planning
- Solid medical and auto insurance coverage
- Determination to save part of income
- Lots of time to build assets and reach goals

## Financial weaknesses

- No renter's insurance
- No disability coverage on Jenny
- No wills
- Need to monitor credit card debt
- Too little withholding

## Nest building

Rethink savings plan to achieve goal

## FAMILY FINANCES



Local financial planning experts reviewed the data of the recently profiled household 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.

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.

By Alan Ferrara  
and Dan Boyce  
special writers

Getting ahead financially is an achievable goal for most people if careful planning is done. Unfortunately, financial planning is often put off until some unspecified later date. This month's profiled family, Roger and Jenny Lyle, have no such problem.

Roger and Jenny are only in their mid-20s and have been married a little more than a year. They rent an apartment in Troy and would like to buy a house as soon as possible. They have started a savings account for this goal and have accumulated \$4,500 thus far.

Roger is an architect earning \$31,000 per year; Jenny works as a nurse with a yearly income of \$22,000. They are very careful to add \$500 each month to their house purchase savings account. They plan to have children two to three years in the future.

BESIDES THE savings account earmarked for the house, they have two automobiles and a coin collection. Roger started years ago. Their debts include a \$2,000 auto loan, a student loan from Roger's schooling, and several outstanding credit card balances. The credit card debt in-

creased substantially in April when they found that they owed additional income tax of \$1,500.

They write, "We have been reading your column with interest. We wonder whether we are managing our money well and would appreciate any comments on a more effective use of our savings."

We applaud their discipline in saving the \$500 per month on a regular basis. This habit will form the basis of a solid long-term financial picture.

They should take steps to reduce the credit card debt. The interest rate on such debt is very high, and deductibility of this interest is being quickly phased out. We suggest they get rid of this expensive debt.

On the other hand, the student loan has a relatively low interest rate and should be paid off as slowly as possible. Apply only the minimum monthly payment to this loan.

Based upon their current with-

holding rates, we calculate that they would gain face an income tax bill next April unless they make a few adjustments. Moreover, they are not subject to a penalty for underwithholding, since they will not meet either of the following criteria for "penalty proofing" their withholdings.

Their house savings account is held in a regular bank passbook savings account. We would recommend that they keep this money in a money market fund. This increases the interest rate on the account, and it keeps the money available at any time without penalty. These accounts also are not subject to any

fluctuations in value, as would be the case with some other investments.

ROGER HAS access to an employer savings plan (not a 401K) on the first 5 percent of his income. For every dollar Roger puts in, his employer adds 50 cents. This amount is immediately vested and available. Roger has not joined this plan because he sees it as decreasing their ability to save for the house. He doesn't want this money tied up until retirement.

We suggest he rethink his position on this savings plan. He can withdraw money from the plan at any time, as long as he is willing to pay the income tax and the 10-percent penalty on his earnings and the company contribution. Because the 80-percent company contribution more than offsets any tax liability he would incur, this fund could be an effective way to help build their house purchase fund. He might also be able to borrow his balance from this plan and avoid tax consequences altogether.

When they buy the house, they should not be overly aggressive in picking the largest house they can possibly afford. This condition of being "house poor" can be a major impediment to their reaching other financial goals.

Granted, some people have done well even though they have stretched their finances to the limit in buying a house, but more often than not, other goals are perpetually put on the back burner due to the cash flow demands of a large house.

There is also the possibility that Jenny may want to stay home for a period of time when they have children. If they are encumbered with a large mortgage, they may not have this option. They can always "trade up" to a larger house later on as circumstances allow.

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