Farmington Observer

Business

INCLUDES CLASSIFIED

Marilyn Fitchett editor/591-2300

Thursday, February 15, 1990 O&E (F)1C

Lathrup couple needs to rethink spending habits

FAMILY FINANCES

New business start, college on the horizon

By Dan Boyce
and Alan Ferrara
special writers

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 Newspaper or the advisers.

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

Financial Position

INVESTED ASSETS	
Checking and Savings	$2,100
Money Market Fund	$17,000
Life Insurance cash value	*$6,600*
IRAs (bank CDs)	$11,400
401(k) retirement plan	$32,300
Limited partnership	$5,000
Total	$74,400
USE ASSETS	
Residence	$120,000
Autos (2)	$22,000
Other personal assets	$15,000
Total	$157,000
Total Assets	$231,400
LIABILITIES	
Home Mortgage	$93,800
Auto loan	$17,800
Total Liabilities	$111,600
Net Worth	$119,800

Today will be yesterday tomorrow.

This month's couple, Jim and Pat Thorpe, have a number of important goals that should be acted upon without delay.

Jim and Pat, and their two sons, ages 19 and 13, live in Lathrup Village. Jim is 46 and a millwright earning $37,000 per year. Pat, 43, is an accounting supervisor at Ford Motor Co. who earns $62,000 per year. While they are concerned about retirement, their most immediate concern is the education of their sons. Jim would also like to start his own business although he has not developed specific plans for this goal.

As their joint income is approaching $100,000, this is a good time for the Thorpes to make a commitment to accumulating assets to help meet their most important goals, including retirement. One of the best ways to accumulate retirement assets is through the use of a 401(k) salary reduction cash or deferred plan, such as Pat has available at Ford.

Contributions to this type of retirement plan will help achieve their goals of tax reduction because every dollar contributed is not currently taxed, and the earnings on the funds are tax deferred until withdrawn. Although Pat is currently contributing 6 percent of her salary into the 401(k) plan, at a minimum she should increase this to 10 percent because Ford matches a portion of the first 10 percent of contributions to that plan.

If possible, Pat should consider deferring additional compensation even if it is not matched by the employer because of the advantageous taxation of the savings. This should be the primary depository for planned retirement savings.

WE WANT TO note that current law allows a participant to borrow from a 401(k) account. Although we do not recommend such action, Pat's 401(k) account could be a source of funds to finance their older son's education. We would suggest they also begin planning for the financing of their younger son's education. If Jim and Pat are able to set aside $200 to $300 per month specifically for this goal, they will ease their burden significantly when their youngest son reaches college age.

Overall, we suggest the Thorpes target at least 10 percent of their annual gross income for longer-term goals, including education and retirement. This will require some reprioritization of their financial goals, but it should be within their capabilities to accomplish this.

Their purchases of automobiles is an example of this prioritization issue. Even though they currently have a debt of more than $17,000 on a car that requires a $400 per month payment, they are considering financing another new car for $15,000 in the fall. This will be a further drain on their income. We ask: Is this such an important priority that they are willing to spend more than 10 percent of their after-tax income on car payments? They will need to discuss their expenditures and make some hard choices. Through this thought process, they will discover what things are important to them and perhaps reprioritize their goals.

The Bottom Line

Financial strengths

- Two wage earners with good incomes
- Good savings and pension plans available
- Excellent health and disability coverage through work
- Solid emergency reserve in place

Financial weaknesses

- No wills or estate plan in place
- Inadequate life insurance, especially for Pat
- Inadequate liability insurance coverages
- Lack of education funding

If Jim follows through on his goal to leave his current employers to start a business in a few years, Jim and Pat should definitely be building up their investment capital. In addition to continuing living expenses, there may also be significant capital expenditures necessary in the startup phase of the new business. A substantial nest egg for this purpose is advisable. The investments for this purpose should be in liquid, ready-accessible investments.

BEFORE STARTING a business, Jim should consider a number of items. First, he should meet with an attorney and an accountant to get an understanding of the types of business entities available and the advantages and disadvantages of each. He should also become aware of the tax consequences on the startup of the business as well as the ongoing tax issues. Also, an accountant can be valuable in helping prepare a proper business plan for submission to banks if financing is necessary.

Thus far Jim and Pat have done no estate planning. Jim "does not see the importance of pursuing this." While not wanting to belabor the point we have made in prior articles, proper estate planning can save significant time and money in probate costs, Michigan inheritance taxes and federal estate taxes. In addition it can provide a proper transition of assets from Jim and Pat to their children. At a minimum, Jim and Pat should each have a will that details where their property is to go and that designates who are to be guardians of their youngest son.

Jim and Pat each have approximately $200,000 of life insurance, which is a combination of group term provided by their employers and personally owned universal life. If they were to lose Pat's $62,000 income, the $200,000 would be insufficient to allow the family to meet its current financial obligations, much less reach the family's long-term financial goals. We would suggest that they buy additional term insurance, first looking at any optional life insurance offered through employers and then seeking insurance outside their employers. Assuming they are both in good health, the premium for term insurance should be easily manageable.

We would suggest Jim and Pat raise their liability coverage on both auto and home owners insurance from $100,000 currently to at least $300,000 and raise the amount of uninsured motorists coverage from $20,000 to at least $50,000. Jim and Pat asked if an umbrella policy is a necessity. We believe that while it is an option, it is more important to raise their liability coverage to at least the levels discussed above.

If Jim and Pat can successfully implement some of the planning steps we have discussed, we are certain that when tomorrow comes they will be glad they took the steps necessary to reach their goals.

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. He is a past president and current board member of the Southeast Michigan Chapter of the International Association for Financial Planning.

Recovery predicted next year

By Tim Richard
staff writer

As usual, Michigan will have a greater loss of manufacturing jobs than the rest of the nation during the 1990 downturn, Eastern Michigan University economists predict.

But the 1991 recovery will be just as strong for *most Michigan regions, they said.*

"We predict that the manufacturing employment declines of 1990 wil be largely reversed by 1991," said economist David B. Crary, "and that the regions with the largest declines in 1990 will have the largest increases in 1991."

But three areas won't see a full 1991 recovery: Benton Harbor, Lansing and Muskegon.

Crary said the gyrations in auto production are being caused by the industry's effort to continue employment at the 1988 rate although '89 sales failed to keep up. Layoffs occurred during the last quarter of '89 and the first quarter of '90 as inventories are depleted.

Metro Detroit will see manufacturing employment drop 2.6 percent this year and pick up 1.7 percent next year.

The nation as a whole will see a 0.5 percent drop in '90 and a 1.4 percent recovery in manufacuturing jobs next year. Michigan will see drops of 2.4 percent and a recovery of 2.4 percent, respectively.

PROPERTY VALUES will continue to grow faster than incomes, EMU economists told a gathering of business leaders and newspeople last week.

In metro Detroit, real personal income will grow 0.43 percent this year and state equalized valuations (SEV) 1.1 percent this year. For next year they predict 1.59 percent growth for incomes and 3.74 percent growth in SEVs.

Metro Detroit includes seven counties: Wayne, Oakland, Macomb, Livingston, Monroe, St. Clair and Lapeer.

In 1990 Ann Arbor and Grand Rapids will see the largest growth in SEVs — about 2.35 percent.

"Detroit will join the faster growing regions in 1991 in terms of property values," said economist John E. Anderson. Metro Detroit will join Ann Arbor and Grand Rapids in posting SEV gains of 3 to 4 percent, he said.

"These are for all classes of property (not just residential)."

EMU ISSUED the forecasts for a dozen regions of the state through its Institute for Community and Regional Development (ICARD).

Crary said the staff used 150 equations to construct its model of the state and 12 metropolitan regions. Forecasts were made by using federal estimates of demand for various products and calculating the effects on industries in each region.

Gone is the notion of the economic "domino effect" — that a decline in one region impacts on everyone.

Using state research excellence grants, ICARD showed Michigan's recovery during the 1979/80 decade lagged far behind the rest of the nation.

Total wage and salary employment rose 17.5 percent in the nation as a whole and only 4.4 percent in Michigan. Metro Detroit recorded a 4 percent gain over the decade while Flint showed a 12.3 percent loss.

Only two Michigan regions — Ann Arbor (Washtenaw County) and Grand Rapids (Kent and Ottawa counties) — showed bigger employment gains than the nation as a whole. Ann Arbor had a 20.8 percent gain and Grand Rapids 21.8 for the decade.

Littmann sees quick rebound

Economic recovery may be here earlier than 1991.

"The U.S. economy should modestly accelerate in the second half of 1990," according to Manufacturers Bank economist David L. Littmann after looking at his Advance Economic Barometer for January.

The barometer rose to 1.1 in January, the first time it has been higher than 1.0 since January of 1989. In 1989 the barometer was negative for the eight months from April to November.

Littmann said the barometer provides a two-quarter advance look at the economy. Components are real money base growth, yield curve spread and a modified version of the U.S. Commerce Department's leading indicators index.

Manufacturers Bank also said the Michigan Business Activity Index fell four points in December, closing the year at 129 compared with 133 in November. Weak spot: auto sales and motor vehicle ouput.