The Farmington Observer

Business

Marilyn Fitchett editor/591-2300

Defer taxes to accelerate growth

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 Newspapers or the advisers.

To receive a free financial planning brochure or to obtain a questionnaire to participate in this column, contact the Center of Financial Planning, Dept. 100, 26211 Central Park Blvd., Suite 604, Southfield 48076 or call 948-7900. Names of participants are withheld upon request, and submitted financial data is confidential.

Sometimes a successful savings plan depends more on how you save than on how much you save.

This lesson can be demonstrated by Fran Bigelow, who lives in her own condo in Birmingham. Bigelow, 47 and single, is employed in staff training and development at a local hospital. She earns $40,000 per year.

Her situation contains a number of financial strengths and weaknesses. She is conservative in her spending habits and has no consumer debt. She is solidly employed in a position that provides good benefits. Her life, auto and homeowners insurance coverage is adequate. Although she saves through a tax-sheltered annuity at work, there appears to be an increased need in the rate of retirement savings to meet her goals for retirement at age 65.

Currently she has inadequate emergency reserves. As of yet, she has not made out a will.

BIGELOW'S SHORT-TERM goals include buying a new car next year, installing air conditioning in her condo at a cost of $3,000, and a major trip to the Far East later this year at a cost of $3,000. She would like to retire in 18 years, so a major long-term financial goal is saving for retirement. After retirement she wants to maintain her current standard of living, which she estimates would cost about $3,000 per month in today's dollars.

Her major strength is her regular savings habit of $500 per month, which she divides equally between tax-sheltered annuity savings and mutual fund investments. She is able to save this much because she has accumulated little debt. Her only debts are an assumed mortgage of $12,000 and a personal loan from her parents of $50,000, which was used to purchase the condo.

Bigelow's pension from the hospital is projected to be only $500 per month, and Social Security is projected to pay approximately $750 per month. Both figures are adjusted for inflation. If her goal is income of $3,000 per month, almost two-thirds of her monthly retirement needs must come through her own savings and investments.

In analyzing her current savings picture, it appears she will fall short of what is required. She is not significantly under-saving, but it appears that to meet her goals she will need to increase her savings from $500 per month to $600-$700 per month.

She asks, "How can my savings be put to better use?"

We would suggest that she increase her savings within her tax-sheltered annuity. Currently, she is saving only about 7 percent of her income in the TSA. She should consider doubling that to 15 percent to about $500 per month. Pre-tax contributions to the annuity aren't taxed until withdrawn so that the $250 increase in contribution reduces her take-home pay by only $150. By reducing the mutual fund savings from $250 to $150 per month, she can save more dollars without significantly reducing her other discretionary expenditures.

This strategy of shifting after-tax investments to tax deductible investments is a good way to "leverage" her savings rate without significantly affecting her standard of living.

BIGELOW HAS done a good job of diversifying her investment portfolio, which contains a general balance between growth-oriented investments and fixed interest assets. She should continue to monitor this mix of investments to get both appreciation of assets and a secure income stream.

She has suggested a desire to spend a significant amount on short-term goals. Because she only maintains $2,000 in her savings account, she is concerned that she will end up in debt given these short-term expenditures.

"Can I accomplish all I want to do and not hurt my long-term plans?"

To keep costs down, we suggest that instead of buying a new car she consider purchasing a later model used car. Even then she may need to aggressively accumulate savings to afford these items next year, borrow to make these purchases or liquidate some of her growth mutual fund investment.

Our last choice would be to liquidate an investment. If she is forced to sell her growth mutual fund investment, she may be required to do this at an inopportune time and will be forgoing the appreciation of these assets. It would be far better to modify or forgo some of her short-term goals until she could afford them. After she has made the purchases, she should set a goal of maintaining at least $5,000 in savings or money market account for "working capital" and any short-term needs.

As we said earlier, Bigelow had borrowed money from her parents to purchase the condo. IRS rules require that for Bigelow to deduct the interest as home mortgage interest, she must have a formal note signed and secured by a mortgage interest recorded against the condo. Without a note and mortgage, the IRS will disqualify the interest deduction.

Although she has good benefits in general, Bigelow is in need of long-term disability coverage. The policy at work covers her only up to a maximum of $1,000 per month. If she were to become disabled, not only would her future goals be in serious jeopardy, but her current standard of living could fall dramatically. We would suggest that she supplement her policy at work with a personally owned disability policy that could cover her should she become sick or disabled.

Another weakness in her financial picture is a lack of estate plan. She should execute a will to designate where her assets will go upon her death and who will act as administrator of the estate. Bigelow may also want to consider executing a living revocable trust into which she can transfer her assets and thus avoid probate and its attendant costs and time delays. If she is charitably inclined, there are planning techniques that would give her flexibility during her lifetime and provide for charitable beneficiaries at her death.

Dan Boyce, a certified financial planner at the Center for Financial Planning in Southfield, has been recognized by Money magazine as one of the top financial planners in the nation. Alan Ferrara is a partner in the Farmington Hills law firm of Couzens, Lansky, Fealk, Ellis, Roeder & Lazar. Both serve on the board of directors for the Southeast Michigan Chapter of the International Association for Financial Planning.

Financial Position

INVESTED ASSETS	
Fixed Interest Assets:	
Savings	$2,000
Life Insurance Cash Value	3,200
IRA-CD	10,100
Tax Sheltered Annuity	12,500
Growth Assets:	
Mutual Funds	18,300
IRA-Mutual Funds	15,900
IRA-Limited Partnership	2,000
Total Investment	**$64,000**
NON-INVESTED ASSETS	
Home	$85,000
Cottage (33%)	20,000
Auto	5,000
Other Personal Possessions	10,000
Total Non-Investment	**$120,000**
TOTAL ASSETS	**$184,000**
LIABILITIES	
Home Mortgage	$12,000
Personal Loan for Home	50,000
Total Liabilities	**$62,000**
NET WORTH	**$122,000**

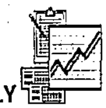
The Bottom Line

Financial Strengths:

- ✓ Owns own home (condo)
- ✓ No consumer debt
- ✓ Regular savings through plan at work
- ✓ Steady employment with benefits
- ✓ Good life, health, auto, homeowners insurance

Financial Weaknesses:

- ✓ Inadequate emergency reserves
- ✓ Need supplemental disability plan
- ✓ No estate plan
- ✓ Increase needed in rate of retirement savings



FAMILY FINANCES

U-M graduate student shares award for new business plan

By Doug Funke
staff writer

Some students look upon a class project as a bothersome chore.

Thomas McLean, a Plymouth resident, and a classmate refined an assignment from an entrepreneur strategy class at the University of Michigan into the winner of the sixth annual Millard Pryor Award.

The award went to the U-M student or team who submitted the most thorough and realistic plan for a new or reconstructed business. McLean and his partner, Peter B. Ramsden, shared a $3,500 cash prize.

Their idea was a weekly news digest summarizing key developments by business category for CEOs and other top executives.

"We saw managers and people in business facing information overload," McLean said. "Time is getting to be a bigger and bigger scarce resource. They have trade periodicals coming across their desks they don't have time to read.

"Our idea was to take all sources (of information) and condense it down to one page. Each page would be one topic. We'd come out with the top 10 stories of the previous week. We'd reference each summary and supply a full text at an additional charge.

"We'd use a combination of scanners and employees to log articles in a data base and screen the top 10 articles," McLean said.

THE INFORMATION would be sent by facsimile machine to top executives around the country in the wee hours of the morning Mondays to be available when they hit their desks to begin another week.

Thomas McLean devises business plan

Why fax rather than direct computer access?

"It was our idea higher-level managers have more need for the product, and from our experience, there's still a phobia of personal computers out there," McLean said.

Executives could choose three summaries from categories like tax, real estate, accounting and business law for an annual fee of $200-$250. Additional digests and full-text articles would be available at additional cost.

The big drawback to the plan, McLean admitted, is that large existing data base companies like Source and CompuServe could easily respond and snuff out smaller upstarts like him.

"COMPETITORS COULD react very easily, hire additional folks for summary sheets and copy what we're doing," he said.

McLean, who recently received a master's degree in business administration, will begin a training program to become a commercial loan officer at National Bank of Detroit.

He has no immediate plans to launch the prize-winning digest but does admit to having an entrepreneurial spirit. The thought of some day starting a business has crossed his mind.

"I look to the bank to provide good experience and exposure to a number of industries," he said.

McLean's impressions of starting a business from scratch as a result of the academic exercise?

"It's a lot of hard work. I knew that going in, but maybe it's more than I expected. There's a lot of risks, too, to take the plunge to quit what you're doing, mortgage the house.

"Having business people and venture capitalists critique the project surprised me how much thought has to go into a lot of details — funding, contingency plans, competitor analysis," he said.

McLean, 28, had previously earned a bachelor's degree in economics from Kalamazoo College and worked five years in financial analysis and investment portfolio management before pursuing an MBA.

Camera sales, use decline

By R.J. King
special writer

With the vacation season in full swing, area camera shops are eyeing a rare downturn in the industry as last year Americans took fewer snapshots and bought fewer cameras than the year before — the first annual decline ever.

"With 35-millimeter cameras in the $300 to $400 range, it's gotten to the point where people are thinking twice about buying a new camera," said Jim Crosby, owner of The Camera Connection in Redford.

"They either put off the purchase or borrow a camera from friends or neighbors. At the same time, everywhere you go today, it seems there's a video camera cradled on someone's shoulder, and that has taken a large chunk out of the 35-millimeter market.'

According to the Wolfman Report, an annual survey of the photography industry, there were 15.7 billion snapshots taken last year, down from 16.1 billion the year before. At the same time, new camera sales dropped to 18.7 million from 20 million.

But there is disagreement on whether camcorder sales have hurt the still photography industry. Surveys by the Eastman Kodak Co. suggest within 18 months of buying a camcorder, its customers resume taking almost as many still photos as they did previously.

"Certainly the video camera has become very popular in the last few years, but I see it as a different product with different uses," said Wayne Loder, president of F-Stop, a camera shop in Farmington Hills.

"Both have their place. The still camera is great for shots of the Grand Canyon or family albums, and the video camera is all about action — a day at the park, hot-air balloon rides. They just have different uses."

STILL, PART of the decline in still photography and camera sales may reflect the growing popularity of video cameras, as sales of camcorders rose 29 percent to almost three million units last year. Because camcorders play back through videocassette recorders, and therefore don't require film processing, photo shop owners believe they are losing business to live-action models.

At the same time, like most other businesses, the snapshot industry was hurt by both the economic recession and war jitters after Iraq invaded Kuwait last August. The dual punch of these events sharply reduced vacation travel.

"Our business is up between 20 and 30 percent from earlier in the year," said William Day, manager of the Birmingham Camera Shop in downtown Birmingham. "I could tell vacation travel was down in January and February, because our passport and visa business was down 20 percent."

Some camera shops say they have put off placing camcorders alongside their selection of still cameras simply because camcorders take up so much room. Other shops have tried to offer both models, but with mixed results. Still, many expect the general photography business to pick up again as the economy improves, although at moderate rates.

SALES ARE said to be strong for small 35-millimeter "point and shoot" cameras with automatic focus. Other strong sellers include cameras with features such as built-in zoom lenses and improved flashes, though the big question is whether amateur photographers will embrace the latest offering — digital cameras that store photos on small disks for display on television.

"People have been taking slides for years and flashing them on screens at home, so the digital model picks up on that," said Day. "But the price for digital is high, and the quality isn't as good as 35-millimeter cameras."

Additional software may also be required to manipulate and transmit the pictures on TV screens. Despite these drawbacks, companies such as Ameritech Publishing Inc. in Troy have found the new cameras to be an excellent sales tool. Ameritech, which publishes more than 450 white and yellow page directories, is beginning to equip field personnel with the new technology to encourage small business owners to include personal photographs with their advertisements.

"By equipping our sales people with digital cameras and Sony Watchmans (small televisions), we can offer potential advertisers one-button technology," said Gary Drook, president and CEO of Ameritech.