The Detroit News

Monday, January 31, 2005

Jerry S. Mendoza / Special to The Detroit News

Mitch and Debbie Hose play with Lenny in their Tecumseh home. The couple want to plot a financial course that will allow them to retire in 2019. Though they are frugal, they worry their assets won't provide a comfortable retirement.

Money Makeover

Insurance, asset balancing boost retirement strategy

Tecumseh pair's penny-pinching gives them a head start to financial security.

By Karen Dybis / The Detroit News

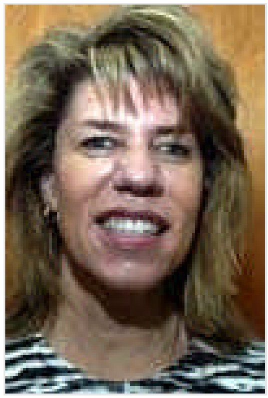
Economical. Frugal. Penny-wise. However you describe this characteristic, it gives some people the ability to save without feeling deprived.

It is a trait that serves Mitch and Debbie Hose well -- very well, some might argue. The Tecumseh couple lives well below their means, saves the majority of their two incomes and has squirreled away nearly $300,000 in savings and retirement accounts.

"I am a tightwad. If I go to McDonald's or Burger King, I need to have a coupon," said Mitch, 45. "Whatever I do, I try to save money at the same time."

Still, that nagging feeling that haunts many Americans has the Hoses wondering if they will have the assets available for a comfortable retirement. Mitch, who hopes to retire in July 2019, seeks the freedom that comes with retirement, and Debbie, 42, wants to know she can live without worry about money.

"My main goal in life is to plan for the future and make sure there will be enough money to reach my life expectancy," Mitch Hose said.



The subjects

Mitch Hose, 45
Occupation: Manufacturing
Debbie Hose, 42
Occupation: Customer-service support
Their objective: To acquire enough assets to have a comfortable retirement in 2019.

The expert

Keith Southwick
Keith Southwick is a certified financial planner and owner of StraitGate Financial LLC in Novi.
His advice: *Mitch and Debbie must boost their insurance coverage, establish an estate plan and find new ways to invest their excess cash to boost their potential retirement war chest.*

Get a free financial checkup

The Detroit News is looking for readers interested in a free money makeover. Participants receive a consultation with a certified financial planner and agree to let The News publish financial information and photographs.

If you wish to be considered, send your name, address and daytime phone number to MoneyMakeover@detnews.com or Money Makeover, The Detroit News, 615 W. Lafayette Blvd., Detroit, MI 48226. Please include a brief summary of your money questions and goals.

The Hoses have made terrific progress, said Keith Southwick, a certified financial planner in Novi. They should have enough for retirement based on two pensions, Social Security and their retirement accounts if they continue saving.

But they do have holes in their financial plan that jeopardize the chance of success, particularly when it comes to insurance, Southwick said. They also have a gap in their savings that could be remedied through some more aggressive investing of their cash surplus.

"You're way ahead of the game," Southwick said. "You're obviously living well within your means. But you are leaving way too much in cash and you are missing an opportunity to increase your wealth as well as be a help to others."

On the plus side, the Hoses have no bad debt, like outstanding credit card balances. They do have a mortgage, but they are paying an extra $130 each month toward the principal. That way, the home loan will be paid in full by 2013, well before they plan to retire. Eliminating that expense in retirement is a good idea for most people, according to most financial planners.

Before anyone starts getting too congratulatory, Southwick believes there is some work that needs to be done. Southwick said the Hoses need to examine the current state of their affairs if they want to get to retirement and tap into that nest egg.

For example, the Hoses have an estimated annual surplus of nearly $20,000 based on income versus their expenses. The couple should capture that money and invest it to supplement their retirement accounts.

Southwick recommends his clients learn to live on 70 percent of their income, particularly if they are charitably inclined. The remaining 30 percent should be split three ways: 10 percent toward charity, 10 percent toward "financial independence" and 10 percent toward "opportunities" that present themselves, like a real-estate deal or a down stock market.

He also believes people should understand where their money is going. They should challenge every expense in their budget. Maybe they could save a buck or two by shopping around. So if your car insurance is costly, you should seek new bids from other companies to find the best offer available. This method, known as zero-based budgeting, should be done at least once a year.

"It seems like there is always creep going on. You'd be amazed to find better deals are available," Southwick said.

Southwick also believes the Hoses have too much money sitting in their savings accounts. Because no one knows the future, he agrees the couple is wise to have an emergency fund set aside in case one spouse is laid off or the furnace goes out unexpectedly.

Money inside an emergency fund still needs to work, Southwick notes. As a result, he believes it must meet these two criteri**a:**

• It must be accessible. You want to be able to get your hands on it quickly and without a financial penalty.

• It might provide the highest possible return. This rate should come without risk to the principal.

He recommends people have the equivalent to three months of living expenses set aside in whatever type of account provides the most income. Sometimes that might be a money-market account, other times it might be a savings account.

Southwick believes the Hoses should move about $5,700 into an ING Direct savings account. ING Direction is an FDIC-insured national bank offering a 2.35 percent savings rates with no fees and no minimums. It also can be linked to your bank account for easy transfers. The rest of that money sitting in savings earning less than 1 percent should be moved into an investment account, and its proceeds could supplement their retirement savings when needed.

Insurance also is a major issue for the Hoses. Right now, they carry a minimum amount of life insurance, or enough to eliminate their mortgage debt and pay for a funeral in case one of them should die. However, they do not have adequate insurance to make sure they are covered in case of a car accident or disability.

Without the proper protections in place, the couple could lose everything they have worked so hard to build, Southwick said. Making a few changes at a relatively minimal cost could ensure their retirement is safe, no matter what happens.

For example, the Hoses have auto insurance, but their liability levels are too low. Right now, they carry only $50,000 toward bodily insurance protection per person and $100,000 per accident. Southwick would like to see those limits increased to $500,000 per person and accident. That way, the couple would be protected in case of an auto accident that results in an expensive lawsuit.

The couple should raise their deductibles as well. Because they have decent financial reserves, they could increase their deductible on their automobile and homeowners insurance to $1,000 without worry. This also would decrease their premium amount, which should cover the additional costs that could occur when they raise their liability limits.

Southwick also wants to see the couple get disability and long-term care insurance through their employers if it is available. At age 40, you are three times more likely to become disabled than to die, Southwick said, so it makes sense to have this coverage to protect their retirement plans and their cash reserves.

"No matter what happens, the plan will still be funded," Southwick said.

One last protection would be to buy a $1 million umbrella policy, which would make up any shortfall from their auto and home insurance, Southwick said. This type of policy would keep the Hoses from having to pay any lawsuit settlements out of their money. The coverage should cost about $150 to $200 per year, so the increase in deductibles on the other policies could offset this additional expense.

"An umbrella policy acts as a repellant to lawsuits," Southwick said

Another major issue the Hoses face in their financial plan is they do not have a will or other proper estate plans in place. Joint ownership of their home is sufficient in case one of them dies. However, that will not help in the case of an incapacitated spouse. That person's assets, or half of their possessions, would probably end up in the court's hands until death or capacity is restored, Southwick said.

This is why families need wills and powers of attorney, which include a financial power of attorney and a health power of attorney. These documents will cost the couple about $700 to $1,000 to set up, but they will ease future headaches and heartaches.

As for their retirement accounts, the Hoses should review them at least annually to ensure they are balanced properly. Southwick believes in selling high and buying low, which means keeping track of what's in the portfolio and adjusting it regularly. In other words, investors sell the winning asset classes and reposition the proceeds into the so-called losing asset classes.

"Being effectively diversified is critical," Southwick said. "If you look at the stock market from 1972 to now, different asset classes prevail. No one knows who will win. That is why you need money in all of the baskets."

The Hoses are in their 40s, so Southwick recommends modest risk and a balanced growth-orientated asset allocation mix. He believes they should have 65 percent in stocks and 35 percent in bonds. He would distribute the money in the following categories:

- 25 percent in high-quality bonds
- 20 percent in large-cap growth
- 20 percent in large-cap value
- 10 percent in specialty bonds
- 10 percent in foreign or international
- 5 percent in small or mid-cap growth
- 5 percent in mid-cap value
- 5 percent in small-cap value

This mix could change depending on what is available to the Hoses in their 401(k) accounts. But they also have some Individual Retirement Accounts, which gives them more freedom. That is another reason Southwick recommends the couple roll over their 401(k)s into IRAs when they leave a job or retire.

Thanks to Southwick's advice, Mitch Hose believes his family can be like those mentioned in the book, "The Millionaire Next Door."

"If the Hose family can do it, you can do it too," he said.