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MONEY MAKEOVER

House could provide much of their retirement nest egg

By Rachel Laing
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CHARLIE NEUMAN /Union-Tribune
Laine and Art Amavizca paid off their mortgage ahead of schedule and were reluctant to borrow against their house.

Art and Laine Amavizca managed to raise four children on one modest salary, but the pending arrival of their fifth child – a baby girl from China – got them wondering about their financial health.

While Laine had become a master at household budgeting, neither of them felt comfortable assessing if they could meet their goal of retiring comfortably when Art was 67 – about the time their last child would be ready to leave home.

So they volunteered for a San Diego Union-Tribune Money Makeover, sponsored by the newspaper and the San Diego chapter of the Financial Planning Association. The association chose Hal Schweiger, a certified financial planner with Capital Asset Advisors in San Diego, to work with the Amavizcas and make recommendations. In exchange for sharing their story in the newspaper, Art and Laine received a comprehensive financial plan at no charge.

The Amavizcas' primary concern was whether they were on track for a retirement of relaxing and spending time with grandkids – without worrying about every penny. For this, they estimated they would need about $40,000 per year in today's dollars.

Schweiger's analysis showed the couple were not putting away enough in tax-deferred savings accounts to fully fund their retirement, and their heavy reliance on social security benefits was risky.

But the Amavizcas have a major asset in their Valley Center home, which the couple paid off last year. Assuming an average appreciation rate of less than 5 percent per year, the couple could essentially double their projected nest egg of about $780,000 with the profits from selling their house upon retirement and moving to a house of one-third the value.

Schweiger also addressed the performance of the couple's retirement savings. While they thought they were diversified because their retirement savings were allocated to 11 separate funds, in fact, the holdings in those funds meant 75 percent of their retirement assets were in large-cap stocks.

With knowledge of what holdings were in each of the funds available in Art's 401(K)

Help for Art and Laine Amavizca

Art, Age: 46

Occupation: Welder

Income: $48,312

Laine, Age: 43

Occupation: Homemaker

Children: Quincy, 21; Brady, 18; Abbie, 14; Gabe, 11; baby girl, to be adopted next year

Assets

Home: $650,000

Art's 401(k): $60,000

Total: $710,000

Liabilities

401(K) loan: $14,000

Net Worth: $696,000

Financials concerns

Find out how they can retire comfortably in 20 years when Art is 67 and Laine is 63 plan, Schweiger realigned his funds so that the funds would be spread out between fixed-income holdings, index funds, mid-and large-cap stocks, as well as international investments. He also put the savings in the funds he knew to have the lowest management fees to generate the best returns.

Schweiger suggested Art and Laine open a home equity line of credit and borrow $14,000 against the house to pay back a loan they took from their 401 (K) savings. The couple took out the loan because they liked the idea of finishing paying down their mortgage and paying themselves the interest instead of a bank. Besides, Laine said, at the time they took the loan, their 401(K) was hemorrhaging from a bearish period on the stock market.

But Schweiger urged them to consider the "lost opportunity costs" of the loan. They might pay back the full $14,000, but now they're also losing the earnings that would come from having that $14,000 invested in stocks and bonds.

It's been less than a year since the couple paid off their mortgage 13 years ahead of schedule, and Art said he's reluctant to take on debt against his house – even though Schweiger's math and logic were sound. "I know the numbers, but I like the freedom of knowing nobody has me over a barrel," Art said. "With debt, you feel those shackles on you."

Art and Laine, whose will was drawn up before two of their children had been born, were more receptive to Schweiger's advice that they establish an estate plan with an updated will as well as durable powers of attorney.

Ensure insurance coverage is adequate.

Find ways to cut unnecessary costs from family budget.

Recommendations

Reallocate and diversify retirement funds, consider selling home upon retirement.

Purchase additional life insurance for Art and a smaller policy on Laine.

Establish home equity line of credit for emergencies and use a home equity loan to pay back small loan from 401(K) plan.

Drop collision coverage from auto insurance policy.

Planner Biography

Hal Schweiger is the founder and president of Capital Asset Advisors, a fee-only financial planning firm in San Diego that specializes in 401(k) plan consulting and plan sponsor compliance for small-and medium-sized businesses. Schweiger holds a bachelor's degree in business administration and a master's in economics. He is a member of the National Association of Personal Financial Advisors, an association of fee-only planners, and sits on the board of the San Diego chapter of the Financial Planning Association. He also contributes financial planning insights on KGTV-10 in San Diego.

For a planner

For a referral to a certified financial planner in your area, visit the Financial Planning Association of San Diego's Web site at www.fpasandiego.org. Click on Visitors, then on Planner Search. If you don't have Internet access, call (858) 490-4204, press '0' and ask for Membership Services. A customer service representative can mail or fax a list of planners near you.

Cost

The planner would have charged $2,000 for this makeover.

"They sort of thought the older kids would take care of the younger ones, but when they actually said this and heard their thinking out loud, it didn't make as much sense," Schweiger said. "They realized they were being unrealistic."

The Amavizcas have already met with an estate attorney to get their plan in order.

Schweiger found the couple were "woefully underinsured" on life insurance, with only a $90,000 policy on Art and no policy for Laine. While Laine had assumed she would simply return to work if anything ever happened to Art, Schweiger advised that they increase the policy on Art to $500,000 to give her a substantial safety net.

Art could purchase the larger policy for about the same premium they were paying for the smaller policy if he dropped out of the group policy he bought through work. In group policies, Schweiger explained, healthy people like Art subsidize the bigger risks and wind up paying more than they need to.

Schweiger also recommended the couple purchase a $200,000 policy on Laine just

Planners answer finance questions

A Union-Tribune hotline, featuring volunteers from the Financial Planning Association of San Diego, will be open from 9 a.m. to 1 p.m. Saturday. The phone number to call between those hours is (619) 293-2700.

Because of the expected volume of calls, volunteers have limited time to spend with each caller. Callers should before they go to China to pick up their adopted baby. If anything happened to Laine, he explained, Art would incur considerable child-care expenses.

He also recommended Art purchase a disability policy to cover his income in case he is injured on the job. But he advised against costly long-term care insurance, because their income level makes them eligible for Medicaid coverage.

be brief, write down their question in advance and have pencil and paper handy to take notes.

This is the hotline's 13th year. For more information about the Financial Planning Association of San Diego, visit its Web site at www.fpasandiego .org.

Schweiger identified one area in which the Amavizcas were overinsured. The couple still carries collision insurance on their autos, which are older and not worth the cost of insuring them. That move could save them perhaps enough to pay for Laine's life insurance policy.

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