February 1997 Volume 2.1

BFAS Money Line

DEBT

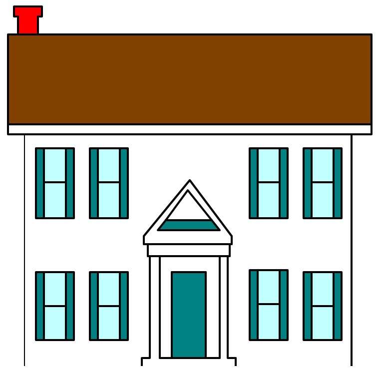
Don't Use Negative Equity Loans

There is a great deal of hype these days on solving the nasty problem of too many bills by rolling them into a negative equity home mortgage. The argument is that you can consolidate your bills, many at 18 - 21% interest (non tax deductible), pay less due to a lower interest rate (generally 14%) and a longer pay-back period while making it tax deductible.

This seductive argument, while reducing monthly payments, has people mortgaging their house to 125% of the home's value and paying off their Christmas gifts and restaurant bills over 20 years at 14%.

It does nothing to resolve the basic budgeting problem which led to the problem in the first place. **This seemingly painless solution to living beyond your means leaves you in great danger of foreclosure in the event of a recession/loss of job**. Who wants to write a check to sell your house?

In addition, you cannot deduct mortgage interest on the



portion of a loan greater than the home's fair market value.

Folks, the best advice is to take care of debt the old fashioned way. Don't get into debt, pay it off as fast as possible and shop for the lowest interest rates. Negative equity loans are hazardous to your financial health.

PENSION PLANS

Studies show **89% of companies with less than 25 employees have no pension plan**. In response to the low rate of pension savings by small businesses, Congress recently enacted new options: SIMPLE IRA and 401(k). At the same time, no new SARSEPs can be started after December 31,1996 (contributions can continue to existing SARSEPs).

While larger companies may have a 401(k) plan, the cost of establishing and maintaining them for many self-employed persons or small businesses made traditional plans too expensive.

Some reports I have read indicate the SIMPLE 401(k) may not be much of an advantage over the regular 401(k), however the SIMPLE IRA seems to be an option well worth considering.

With relatively easy administrative requirements, the SIMPLE IRA requires some matching of employee pension payments (up to 3%), but allows up to $6,000 in pre-tax pension deductions.

A **sole proprietor making $40,000 per year could put $6,000 into a SIMPLE IRA** invested in mutual funds with very limited costs or reporting requirements and no discrimination testing. In addition, the **proprietor's spouse could work for the company and also put $6,000** (plus $180 due to 3% match) into the plan on a salary of, say, $8,000. Thus over $12,000 could be put into pension plans! Contributions are not based upon a percentage of income.

Several companies are just now coming out with their plans. **Vanguard**, a low cost company, **expects no fees on SIMPLE IRAs**. Fidelity says no charge this year, $350 per year thereafter. Both companies allow **purchase of mutual funds with no loads**. Beware of other companies with low annual fees and loaded funds. A 5% load on a $6,000 investment is $300!

HEALTH INSURANCE

Many of you with **small businesses** will want to **evaluate the new Medical Savings Accounts**. In MSAs, you purchase a high deductible ($1,500-2,000 single and $3,000-4,500 family) insurance policy and contribute (65% single or 75% family) of the deductible amount (before taxes) to an MSA account.

You **spend the MSA account on your regular medical bills**. What is not used is left to grow tax deferred to be used for future health care costs or withdrawn at age 65 as retirement income.

What should be of significant interest is that **you can use MSA account money for non traditional health care costs: dental costs, orthodontics, chiropractors, glasses, acupuncture, even hair transplants.**

Since you are spending your own money, you have a self-interest in shopping for the best deals. This helps you and puts cost pressures on the whole system.

Take note that MSAs are available only on a 3 year trial basis. If 750,000 are set up this year, they may not allow any new MSAs in 1998. I **recommend you evaluate the tradeoffs of MSAs versus your current plan now**. Waiting could leave you out in the cold.

RETIREMENT

How much can you withdraw?

Most people lock their money in fixed income investments and expect to live off of the interest or dividends. The problem with this solution is inflation. **How quickly we forget just 15 years ago the impact of 10% plus inflation with your investments earning 5 - 6%.**

Everyone should have some portion of their retirement funds invested in stock mutual funds (U.S. and international) because these are the only assets which consistently beat inflation.

Even if you have done this, how much can you safely take out (remembering you need more income every year to make up for inflation)? The numbers vary depending upon inflation and portfolio returns, but **generally 4% seems to work well to average out the up and down economic cycles.**

Everybody's situation is different, but if I wanted to be sure I would not outlive my retirement funds, I would plan on only withdrawing 4% per year. Are you saving enough?

TRAVEL

Planning your summer vacation already? **Have you considered whether your health insurance covers you while over seas?**

Many policies only cover emergency care in life threatening situations. While you may consider "Pharaoh's revenge" life threatening, your insurance company may not. Outpatient treatment probably is not covered.

Medicare does not pay for claims outside the U.S. If you have a supplement, it usually only pays if Medicare pays. Only a few Medicare supplements will pay internationally.

So check with your carrier's claims department. Ask:

Does my policy cover claims that originated outside the U.S.? If so, under what circumstances?

Does the policy cover the full cost of treatment or only a percentage.

How are claims reimbursed?

What proof of claim is required?

Are there any places where they will not pay?

HEALTH INS FOR DISABLED CHILD

Parents with disabled children often maintain health coverage through their group health plan. Generally the child is covered under 18 and between 18 - 22 if in school. Many disabled children remain in high school until 22.

Even though the child remains disabled, health coverage will usually cease at age 22, no matter how disable the child is, unless you file specific documents with the health insurance company within 30 days of the child's 22nd birthday.

Check it out. Read your policy's fine print. Don't get surprised! **Once you lose the coverage, you cannot get it back.**

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