

DON TAYLOR Ask Dr. Don



Father's caution over his cash is well-placed, but bank can help

Q My father is 81 years old and has six different CDs in six different banks. He says that he can't put more than \$100,000 in each bank. He won't renew any CD by mail, because he wants to talk to someone "in person" when he deals with his money. I am trying to take over his finances, but it is very difficult since I have to work during the week. I respect his wishes, but is it possible to have multiple CDs at one bank instead of six and still be safe?

A Your father has the right idea in managing the risk of his certificates of deposit (CDs). If he had more than \$100,000 on deposit in his name, the amount on deposit over the \$100,000 limit for FDIC insurance would be at risk if the bank became insolvent. While that risk is minimal for well-capitalized banks, it's not something to be ignored.

By using different types of accounts, it's possible to effectively increase the amount of insured deposits at one bank. Retirement accounts, trust accounts, joint accounts and payable-on-death accounts are some of the different types of accounts that can be used to effectively increase the amount of the deposits that are insured.

The FDIC guide, Your Insured Deposits, lists the following ownership categories: Single Accounts, Self-Directed Retirement Accounts, Joint Accounts, Revocable Trust Accounts, Irrevocable Trust Accounts, Employee Benefit Plan Accounts, Corporation/Partnership/Unincorporated Association Accounts, Public Unit Accounts.

While not all of these would be relevant to your father's situation, it may be possible to reduce the number of banks while keeping the deposits insured. Since he likes to talk to his bankers, this would give him something to talk about with them besides interest rates.

It sounds like his first concern is safety of principal. Investing in U.S. Treasury securities would give him the same level of safety. Although the securities will fluctuate in value with changing interest rates, it's guaranteed that he'll receive the face value of the security at maturity. He could invest in Treasury bills, notes or bonds either through a brokerage account or by using Treasury Direct.

The brokerage account would allow him to talk with a stockbroker about his investments, but he'll pay a price for that service in the form of commissions paid on his purchases. With Treasury Direct, the securities are purchased with money from his bank account and interest payments and maturities are paid directly to his bank account. It's all managed over the Internet.

Treasury Direct does charge an annual \$25 account maintenance fee for accounts over \$100,000, but there's no commission charged for purchasing new issue Treasury securities. Sell a security before it matures, and there's a \$34 fee.

As to rates, Treasuries have the edge in shorter maturities while CDs have the edge in longer maturities. A three-month CD yields 1.56 percent, while a three-month T-bill yields 2.07 percent. A five-year CD brings 3.95 percent; a T-note pays 3.51 percent.

Between account-ownership categories and a portfolio of Treasury securities, you should be able to get your dad's banking relationships to a manageable level.

Don Taylor is a chartered financial analyst who also holds a doctorate in finance. Submit questions to him on the web at www.Bankrate.com.

# College loan debt deeper by degree

PAGE 3B



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Section B

Comics 4B, 5B

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## MONEY MAKEOVER

# Makeover was a good first step

**Pair out to retire early**

Couple have to save \$2,500 more each month to reach goal.

By Melissa Proddy The Detroit News

For decades, the fringe benefits of the auto workers have been the envy of many Detroiters. The cross-employer lucky enough to participate in that plan—discovering that the plan is not as generous as it once was—can't successfully enter in their own without substantial extra savings.



Ray and Patricia Schmitt have a tax-deferred nest egg of enough to let them retire early.



Nadine and Chuck Stafford watch daughter Ally's softball game. Recent upheavals including two moves and maintenance of rental properties have taxed the Staffords' finances, but recovery is not likely to be painful.

**Couple should funnel funds into reducing debt**  
Big credit balances, recent move helped drain incomes; recovery shouldn't be hard.  
By Melissa Proddy The Detroit News  
There's nothing like a major upheaval to help you get your financial



Ann Draginda moves into her newly purchased home in Lincoln Park. It's the first home she has ever owned. She had always rented with her much older husband, Joe, who died three years ago.

**Starting over alone, woman aims for financial security**  
Lincoln Park widow buys home, builds nest egg  
By Melissa Proddy The Detroit News  
Throughout their 37-year marriage, Ann and Joe Draginda lived in a two-bedroom, one-bath apartment in the Lincoln Park area. Now, she's writing a check for a month's rent on a two-bedroom, one-bath apartment in the Lincoln Park area. She's also buying a house in Lincoln Park.



Gerald and Jeanne Richart are buying their home on a 5.25 percent mortgage and debt free. The are so cost conscious that they even carry a notebook to track everyday expenses.

**Young couple need only retirement plan**  
This willingness to save with new financial goals is an early sign, we believe, that you will be able to afford the retirement plan.  
By Melissa Proddy The Detroit News  
When I show people a list of their monthly expenses, they usually get a shocked expression. "This is what I have to live on?" "I thought I was doing well."



Sue and Bob Bachman plan to take up permanent residency in Florida, but wonder if their investment portfolio can support their living expenses. Financial adviser Frank Arat says they should diversify their holdings.

**Couple hope nest egg survives move to Florida**  
The money is there, but invested in a too-risky stock mix.  
By Melissa Proddy The Detroit News  
Like many Michiganans, Sue and Bob Bachman have spent most of their lives in the Motor City. They have spent the past few years following the traditional retirement path of saving



Cheryl Moore, who has a pension, savings plan balance, enters herself at the Riviera hotel in Las Vegas. Her warm bed is not to let marriage or other events derail her ride to financial independence.

**Horse chemist needs diversify savings**  
The good thing is that another one of us is a "spender." So the balance sheet is not too bad. We need to take a chunk, \$5,000 to \$10,000, and invest it in a diversified investment fund.  
By Melissa Proddy The Detroit News  
When I show people a list of their monthly expenses, they usually get a shocked expression. "This is what I have to live on?" "I thought I was doing well."

■ The News checks in with past subjects who received a financial checkup.

By Karen Dybis The Detroit News

Sometimes, people just need a shove in the right direction. That seems to be the case with a crop of recent Detroit News Money Makeover participants. Largely, their meetings with certified financial planners confirmed what they already suspected about their financial lives. But having an expert push them toward a goal inspired many.

Some changes were small: Joe and Rosalyn Vega boosted his 401(k) contribution. Others were sizable: Sue Wilson decided to pay off her mortgage. But they all make a difference in how these families feel about money. Now, they feel more in control.

Here is a look at what else they have been up to during the past few months.

**Gerald and Jeanne Richart, Troy**  
Makeover: June 14

**Their objective:** To see how their nest egg will withstand a year with no income.

**The advice:** A year of unemployment won't derail the Richarts' retirement plans, but their portfolio will grow more with diversification, Troy certified financial planner Warren McIntyre said.

**The update:** It looked like Gerald, 57, would be going out on his own and starting a new business when things changed, said Jeanne Richart, 56. He ended up accepting a job, so the family has more stability and insurance.

They followed much of McIntyre's advice, such as moving all their investments to one brokerage house for clarity, updating their wills and increasing liability protection in their insurance policies. The couple still debates whether they need long-term care insurance, but at least they are thinking about it now, Jeanne Richart said.

"We definitely needed to do those things," she said.

**Ray and Patricia Schmitt, Canton Township**  
Makeover: June 21

**Their objective:** To see if they are on track for retirement in 2009 and to review their insurance coverage.

**The advice:** Despite a pension and half-million-dollar nest egg, the Schmitts need to ratchet up savings if they hope to retire in five years, Farmington Hills certified financial planner Beth Allen said.

**The update:** The Schmitts have followed most of Allen's recommendations. They increased Ray's 401(k) savings to his Ford Motor Co. plan by \$200 each month, a move Allen recommended so they could have the same standard of living in retirement that they have now.

Ray, 48, admits he and wife Patricia, a 44-year-old retail saleswoman, have yet to open a Roth IRA, mostly because they don't have the money right now.

But they have rebalanced their portfolio. Previously, the Schmitts had too much company stock and were using one of those mutual funds targeted to

ward a retirement date. Those funds are good, but they are too conservative for the risk the Schmitts are willing to take, Allen said. Using Allen's outline, they have a more diversified group of holdings, including large-cap, mid-cap and small-cap funds.

**Chuck and Nadine Stafford, Sterling Heights**  
Makeover: July 5

**Their objective:** To unravel the financial woes stemming from two moves and simultaneous ownership of five different residential properties.

**The advice:** Cash from the sale of a condo should be applied to consumer debt instead of emergency savings. After that, the couple should substantially increase retirement savings, said Troy certified financial planner Jim Knauer.

**The update:** So far, the Staffords have sold their condo, which they had used as temporary housing when they moved back to Michigan. Other than that, life continues as usual, said Chuck Stafford, who is a 53-year-old welding tech. His wife Nadine, 42, is a marketing manager.

"We just keep muddling along," Chuck Stafford said. "We're just waiting to see what President Bush is going to do with Social Security."

**Ann Draginda, Lincoln Park**  
Makeover: July 19

**Her objective:** To get a review of her investments, including annuities and a whole life insurance policy.

**The advice:** Draginda should liquidate the annuities and life insurance and use the proceeds to build home equity or establish an emergency fund and Roth IRA, said Grosse Pointe Woods certified financial planner Ken Prather.

Please see UPDATE, Page 6B

## PLASTICS

# Credit card perks: Which are the best?

■ If you're a spender who carries a balance, the interest rate should be your prime concern.

By Theresa Agovino Associated Press

Credit cards that offer cash rebates instead of frequent-flyer miles have become increasingly popular the last three years because Americans have been wary of flying since September 11. Credit-card consumers also have been frustrated by some of

the perk programs, said Robert B. McKinley, chief executive of CardWeb.com Inc., which tracks the credit card industry.

McKinley said about half the estimated 670 million cards held by Americans last year offered some kind of reward. He estimated that about 70 million cards offered cash rebates.

Before deciding what kind of benefits you want from credit cards, take a hard look at your spending. If you carry a balance the first consideration should be the interest rate on the card and not the rewards program,

according to Greg McBride, senior financial analyst for Bankrate.com, a personal finance Web site.

"The interest you pay will be 10 times the rate of reward," McBride said.

He said some low interest rate cards offer benefits but the search for perks should still come second to paying off debt.

Your spending habits, personal preferences and price of the card should also be considered when deciding which perk program suits you best. Obviously, people who don't like to

travel should avoid airline cards.

But even if you yearn for a vacation, think about how long it will take you to get a ticket. For example, if you charge about \$5,000 a year and pay a \$50 annual fee for an airline card, it will take five years and \$250 to earn the "free" domestic ticket which typically require 25,000 miles. That may not be such a great deal if airlines are offering discounts, McBride said. But for someone who charges \$10,000 or \$15,000 a year, the card may be a good idea.

Overall, though, airline cards do offer a decent value for card holders, McKinley said.

He said that airline mile costs 2.5 cents so if you get one for every dollar spent the return is 2.5 percent. But McKinley also said General Motors Corp. has a card that offers a 5 percent rebate that can be used toward purchasing one of its cars. That could be a good deal for those in need of a new vehicle and who like GM models.

Those are better returns than offered by cash back credit cards, which offer rebates of

around 1 percent. Some offer more when spending exceeds a set point or give more for certain kinds of purchases.

But cash rebate cards do have an advantage—you can get a reward annually, and can use the money any way you choose. And sometimes cash in hand is better than holding out for a perk because the benefits offered can change. McKinley said he had been saving points to go on an African safari but when he closed in on the necessary number, the trip disappeared from the perk program.

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