

Retirement plan needs to shift course

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By PAMELA YIP / The Dallas Morning News

When Helene Uritz went to work at age 21 as a flight attendant for United Airlines Inc., she expected someday to be able to retire with a comfortable pension.



Helene Uritz

RON BASELICE/DMN

And that's what happened, for a time. But now, at 57, Ms. Uritz faces the likelihood of her pension payments being significantly reduced, thanks to United's financial troubles.

If United's plan to emerge from bankruptcy includes turning the pension plan over to the federal government's insurer, Ms. Uritz stands to take a 32 percent cut in her benefits, certified financial planner Bob Stowe estimated.

For Ms. Uritz, who underwent a Money Makeover sponsored by *The Dallas Morning News* and the Financial Planning Association, the uncertainty around her pension is one of several things she must deal with to improve her outlook for retirement.

One factor in her favor is a terrific investment Ms. Uritz made in real estate: She owned a townhome when she lived in the Los Angeles area, where housing prices have skyrocketed for years. She sold it for a big profit when she moved to Dallas last March.

But two factors are hurting her:

- One is her variable annuity. Mr. Stowe said the investment is not suited to her situation, and he had harsh words for the person who sold it to her.
- The other is the new house she bought here. She used up almost all of the profit on the sale of her townhome to buy her North Dallas dream house.

As a result, her savings situation isn't what it should be. She's house-rich but cash-poor, which makes it difficult to deal with any financial setbacks – such as a cut in pension benefits.

Overall, Helene Uritz's finances are in pretty decent shape.

"Her spending is pretty much under control," said Bob Stowe, the certified financial planner who advised Ms. Uritz for her Money Makeover. "She's got a surplus. She has the opportunity to save money."

Money Makeover

Name: Helene Uritz

Age: 57

Occupation: Receptionist at a financial services company; formerly a flight attendant with United Airlines for 34 years

Annual income: \$58,464, including \$34,464 in pension income from United

Total assets: \$436,420, mostly in her home

Total liabilities: \$48,929

Net worth: \$387,491

Goals: To earn more income, save for a secure retirement and boost emergency savings

Biggest obstacles: High housing costs and an expected 32 percent reduction in her pension

But her situation is likely to get more difficult because she faces a reduction in her pension benefit after spending 34 years as a flight attendant with United Airlines Inc.

"I don't know what the future has, because I'm so tied up with United," Ms. Uritz said. "I'm waiting for the ax at United Airlines to fall on me."

UAL Corp., the parent company of United, has told a bankruptcy court that its survival hinges on securing nearly \$1.4 billion in annual concessions from its employees and retirees. It wants to turn over all four of its defined-benefit pension plans to the Pension Benefit Guaranty Corp., the nation's federal pension insurer.

That probably will result in a 32 percent cut in her benefits, said Mr. Stowe of Stowe Financial Planning LLC in Plano.

Ms. Uritz is being realistic about the situation.

"I'm angry. I feel that I got a bad deal with United. This for me is a huge amount of money to lose."

The toughest part is that Ms. Uritz "won't have any ability to absorb the hit," Mr. Stowe said. "That is her safety net. That's what she'd been working all this time for."

With the possible pension cut in mind, Mr. Stowe offered Ms. Uritz the following advice.

Get out of the house

One of the most important steps Ms. Uritz must take is changing how she views her 3,000-square-foot dream house in North Dallas, Mr. Stowe said. With almost \$8,000 in property taxes alone, she is stretching her financial capabilities.

"The house represents a standard of living that she probably cannot afford," he said. "She simply has not saved enough money, given the reduction in her pension."

Mr. Stowe suggested that Ms. Uritz consider renting, an idea that she's uncomfortable with.

"There are certain things in life that are almost inherent that most people want – some type of security that says you have been successful, you have arrived," Ms. Uritz said. "Every time I walk into the house, I feel good, because I love the place that I bought."

But she can appreciate Mr. Stowe's advice.

"I have some time to live here and think about what else I want to do," Ms. Uritz said. "I know that I wouldn't want to stay in a place so large forever, but I really love the neighborhood and would love to stay in the vicinity."

She has violated one of the cardinal rules of real estate – don't fall in love with any one property.



MILTON HINNANT/DMN

In Helene Uritz's Money Makeover, certified financial planner Bob Stowe advised that she spend less money on her home and earn more.

"She gives the house any extra dollars that she has. It's like pampering a child," Mr. Stowe said. "She's got to have a sea change in the way she thinks about the house. Until she gets there, she's not going to really be able to prepare for retirement."

Although Ms. Uritz has money saved for retirement, she lacks a formal plan.

"She has not put into place a plan that says, 'If I'm going to retire at 65, this is what I'm going to do, because this is what my spending is going to look like,' " Mr. Stowe said. "There should be a picture painted in words, as well as numbers, as to what retirement will look like."

That might keep her from making another mistake like the variable annuity she purchased.

"She needs to understand that not all financial advisers are fiduciaries, and some of them don't act in her best interests," he said. "She has to have a personal responsibility for her planning."

Unsuitable annuity

Mr. Stowe pounced on a previous adviser's sale of the annuity because of its high costs and unsuitability for Ms. Uritz.

Variable annuities, which include a life insurance component, allow investors to put money in accounts similar to mutual funds, watch it grow tax-deferred, and later take it out as a lump sum or convert it to a stream of income for life. Variable annuities guarantee that if the investor dies, her heirs will get at least the amount of the initial investment.

"The normal process of retirement planning is to determine retirement needs, determine the required assets and return to meet those needs, and implement or modify the investment program to ensure that the assets will be available when needed," Mr. Stowe said. "The variable annuity in the rollover IRA has violated this process in every way imaginable."

In Ms. Uritz's case, her money was already growing tax-deferred, and she doesn't have dependents so there's no need for the insurance aspect, Mr. Stowe said.

More information

THE PLANNER

Bob Stowe is a certified financial planner and founding principal of Stowe Financial Planning in Plano.

The firm is a member of the Garrett Planning Network, a nationwide network of fee-only planners that specializes in working with middle-income consumers.

Mr. Stowe earned a master's degree in business administration in 1989 from Southern Methodist University. He worked for 15 years in the finance department of several Fortune 500 companies. In 1998, he was awarded his Certified Financial Planner certification.

HOW TO APPLY

To apply for a Money Makeover, go to [www.dallasnews.com /business/personalfinance](http://www.dallasnews.com/business/personalfinance) and click on the "Apply for a Money Makeover" link. Or call 214-977-8429 and we'll mail you an application.

What's more, the investment accounts inside the annuity have performed poorly.

Because variable annuities penalize you with costly surrender charges for early withdrawal, Ms. Uritz's money is essentially locked up, he said.

"Denying someone access to their retirement funds while in retirement in exchange for a high commission is malfeasance at worst and not acting as a fiduciary at best," he said.

Emergency savings

Ms. Uritz's emergency savings account is about half the size it should be, Mr. Stowe said.

"You have \$6,000 in savings but should consider an emergency fund of six months' expenses less your pension, or about \$12,000," he said.

A big reason why Ms. Uritz has a thin savings account is because she spent almost all of her money buying her home in Dallas when she moved from California last March.

Her mortgage is small relative to the home's value, but she is house-rich and cash-poor.

"She paid cash within \$50,000 of paying for the entire house," Mr. Stowe said. "The problem is, she didn't really leave enough for the rest of her life."

Ms. Uritz needs to stay on top of her cash flow and expenditures, he said.

"Unexpected expenses and slow increases in consumption will tax your reserves," he said. "You should be critical of making credit card purchases to ease cash crunches."

Credit cards are fine for convenience if she pays them off each month, Mr. Stowe said.

"Larger expenses may be handled this way, such as replacing an air conditioning unit," he said. "Credit cards are not a good way to stretch your paycheck at the end of the month."

Earn more, work longer

Mr. Stowe advised Ms. Uritz to work longer than she had planned and to try to earn more money.

"You are capable of making more money than you make," he told her.

But the tradeoff might be a more stressful job, she said. Ms. Uritz hopes to take advantage of training opportunities at her employer, a financial services firm.

Meanwhile, she also could stand to invest more aggressively, he said.

"It is appropriate to your age and the need to continue growing the retirement account," Mr. Stowe said. "It overrides your risk profile for a more conservative portfolio, which is driven more by fear of the unknown, perhaps, rather than fear of loss."

And work on finding a less-taxing house.

"Selling the home and moving to a smaller home, coupled with a retirement age of about 67 or longer, results in portfolio survivability that approach acceptability," Mr. Stowe said. "Even these results are statistically risky."

After seeing Mr. Stowe's recommendations, Ms. Uritz said she has a good roadmap to reach her financial goals.

"I feel a little bit more assured that I have some starting point as to how much money to save and where to put it," she said. "It will give me a goal for now."

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