WALL STREET, CALIFORNIA

Protecting Nest Egg That He Can Draw On Later

MONEY MAKE-OVER

Southern Californians Learning How to Succeed in Personal Finances

By JERRY CROWE, TIMES STAFF WRITER

When Bill Matthews stopped working full time in 1996, he envisioned a mostly carefree, financially secure retirement.

Between pensions and a five-year consultant's contract, the former talent scout and trainer for feature animation at **Walt Disney** Co. was set with an annual income of about $48,000, or about 80% of what he made during his last year of working full time.

And though he was never much of a saver until the last dozen years of his career, Matthews had accumulated a portfolio worth $100,000, invested in mutual funds and Disney stock through company-sponsored 401(k) plans and an individual retirement account.

"I felt like I was in far better shape than I ever could have imagined," he said. "My feeling was, I would have enough money coming in to live and take care of myself, and this money in my portfolio would be frosting on the cake."

Three years later, though, the frosting is melting and the 68-year-old Matthews has major concerns about his financial stability.

PAUL MORSE / Los Angeles Times

Animators have borrowed image of Bill Matthews, former animation talent scout, for movies such as Disney's "Mulan."

His nest egg has been reduced by about 30%, he has accumulated credit card debt of about $12,000, and he is less than two years away from realizing a possible 30% reduction in his annual income, when his consultant's contract with Disney runs out.

"Suddenly," he said, "I'm looking at the possibility that I could live a lot longer and [I'm] asking myself, 'Am I going to be able to

Please see MAKE-OVER, C7

MAKE-OVER

Continued from C1
meet all of my needs and still have some fun?' "

Matthews does not live a Hollywood lifestyle, although animators he has recruited have given him a kind of fame by putting his likeness in such high-grossing animated Disney films as "The Hunchback of Notre Dame," "The Little Mermaid" and "Mulan."

Never married and never a homeowner, he has lived in the same two-bedroom Glendale apartment for the last 20 years. He pays only $850 a month in rent and drives a 1992 Ford Taurus.

He eats about a third of his meals in restaurants, but his only other regular "luxury" expense is for additions to his library and a collection of documentary and classic films.

Twice Matthews has dipped into his nest egg for overseas vacations, one to the South Pacific and one to Europe, and he'd like to take similar trips each year.

He also has been generous with his money, making an interest-free loan of **$17,000** to a sister and a niece for a down payment on a house and funding a **$1,000** scholarship last year through Glendale High School. As a volunteer, he works with high school animators one afternoon a week and devotes two hours a week to working as an online tutor, but he'd like to do more.

"My particular interest in the industry is working with new young talent that is going to keep this medium alive," he said. "Time and again, I've come across kids that, for lack of a little bit of cash, can't go to college or get into an art school because they're so damned expensive. I would like to be able to help them because it breaks my heart to see young talent not get a chance to develop."

Matthews does not limit his kindness to strangers. In February, he'll spend about **$10,000** to take his sister, brother and sister-in-law on a five-day trip to DisneyWorld in Orlando, Fla.

"I am fully enjoying retirement," he said. "I could not go back to full-time employment unless I absolutely had to financially."

That probably won't be necessary, said Neal Frankle, a Woodland Hills-based fee-only financial planner who reviewed Matthews' financial situation for The Times.

But Matthews, the planner said, needs to do a better job of budgeting his money to get a clearer picture of where it's going.

This Week's Make-Over

- **Investor:** Bill Matthews, 68, retired animation talent scout
- **Gross annual income:** About $48,000, from consultant's fee, pensions and Social Security
- **Goals:** Stabilize nest egg, reduce debt

Current portfolio

- **Individual retirement account:** About $70,000 in equity mutual funds, bonds and Disney stock

Recommendations

- Treat nest egg as a source of future income rather than current spending money.
- Stop making monthly investments in IRA until credit card debt is paid off.
- Track spending more carefully.
- Consider dropping comprehensive long-term nursing-care coverage or paring down the benefits.
- Establish an emergency cash fund of about $5,000.
- Diversify portfolio by selling Disney stock, Fidelity Balanced fund and corporate bonds and redistributing funds.

Meet the Planner

Neal Frankle is a certified financial planner and owner of Woodland Hills-based Frankle & Associates. A former accountant, he has 15 years of experience in the financial services industry and specializes in assisting older investors.

Los Angeles Times

Once he has done that, Frankle said, he should make adjustments in his portfolio, which is held in an IRA and is invested in Disney stock, **Dillard's Department Stores** corporate bonds and four **Fidelity** equity mutual funds—**Balanced**, **Equity Income**, **Overseas** and **Magellan**. Matthews needs to diversify, the planner said.

Matthews can invest the IRA fairly aggressively because he already has a safe income from pensions and Social Security, currently $33,500. Part of that was from an earlier career as a teacher.

But his top priority should be tracking his spending.

"I don't care if you're a doctor, lawyer or Indian chief, the budget is central to your financial success," Frankle told Matthews. "You've done a lot of really good things, but the budget is something I need you to go back and look at. . . . There's something that's not fitting, and we need to solve that problem."

Getting a Real Picture of Spending

Matthews' net income exceeds his expenses each month by about $1,000, according to his informal records, but Frankle suspects that Matthews' is not including items such as vacations, gifts and loans to relatives.

"If you were really bringing in $1,000 more than you need each month, that $1,000 extra should be going into a savings account," Frankle told Matthews. "But that's not the case. In fact, the opposite is happening. You're building up credit card debt."

Matthews said that most of his current debt is tied to his upcoming trip to DisneyWorld, but admitted that credit card debt has been a longtime problem. He said it's an outgrowth of his lifestyle.

"I don't have house payments, I don't have a family to support, and I figure that what I'm earning is for my own benefit," he said. "But it gets impractical when the bills get high. I usually take out credit union loans to pay them off, and then I'm paying off the loan. So, it's just robbing Peter to pay Paul."

Frankle strongly suggested that Matthews break this pattern, especially in light of the possibility that the his annual income could be reduced if he doesn't continue consulting.

But the planner recommended against dipping into the IRA to pay off the credit card debt in a lump sum. Such a move would reduce the value of Matthews' IRA to less than $60,000—more than $40,000 less than what it was worth only three years ago.

"That's not the direction we want it to go. You're going to need that capital to create income—maybe not immediately, but certainly when your contract with Disney expires," Frankle said.

"You're in a position today where you're thinking it makes sense to enjoy this money. And there's wisdom in that. But I want you to think about two years from now."

Once he stops working, "the money's got to come from one of two places—either you spend less, which I'm not convinced is possible because your budget is not extravagant, or you get the [income] from the IRA. You've got to rethink the function of that asset. It's not for vacations and things like that. It's for your future income-replacement needs."

To get his current spending under control, Matthews should stop carrying cash, the planner said, because it's too difficult to track. And he should roll over his credit card debt to a card that will charge him less interest, the planner said.

"It will take only about an hour to fill out the paperwork," Frankle said, "and it might save you $1,000 a year in interest."

Second, rather than invest $166 a month in his IRA, as he has done since he retired, Matthews should direct the money toward paying down his credit card debt, the planner recommended.

Frankle also suggested Matthews not count on being repaid by his sister and niece.

Matthews said his relatives plan to repay him eventually. Still, he said, "If I had made this loan to somebody that wasn't in my family, I would probably expect a [speedier] repayment."

Loaning money to relatives is not a good idea, Frankle said. "But if you do, consider it a gift that you will never see again . . . because 90 times out of 100, people who loan money to friends, relatives or children never see it again. And, wisely, they don't expect to see it."

Frankle said Matthews also should consider dropping his comprehensive long-term nursing care coverage, or at least paring down the benefits, because it is too expensive for someone in Matthews' financial position.

"Most people who buy these policies are married couples who buy them to protect their partner," Frankle told Matthews. Others use the policies to protect an estate for heirs. "In your situation, nobody is depending on you to protect your assets." Matthews could tap his nest egg to pay for care. If he ran out of money, he would qualify for government aid.

But Matthews is reluctant to eliminate or reduce coverage and wants the flexibility a private long-term care insurance policy gives him to get the kind of help he might want.

"I have only my resources, I have no wife, I have nobody that's going to take care of me and see that everything is taken care of."

Frankle said that while rearranging his finances, Matthews should not fund a scholarship or make any other donations.

"I wouldn't do it until the credit card debt is under control and you resolve this issue of your current and future income needs," the planner said. "I don't think you're far away from solving it, but it's going to require your full focus."

Reallocating His Portfolio Assets

Meanwhile, the planner said, Matthews should start building an emergency cash fund of about $5,000 and reallocate the assets within his IRA to make them more diversified and growth-oriented.

"You've got some good funds," Frankle told Matthews, "but they're almost all big-cap value funds. They're not very diversified across different sectors of the economy."

He suggested that Matthews sell his Disney stock and his interest in the Fidelity Balanced fund, which would bring a combined total of about $25,000, and reinvest the money equally in two growth funds: **Legg Mason Value** and **Rydex Investor OTC.**

"These two growth vehicles would be outstanding additions to your portfolio," Frankle said. "This would give you a lot more diversification in your portfolio, and a lot more stocks, and would balance what you currently own."

To further reduce risk, Frankle said, Matthews should sell his Dillard's Department Stores corporate bonds, worth about $16,000, and put the money into a more general corporate bond mutual fund.

Holding so much money in an individual bond, Frankle said, is too risky for anyone with a $70,000 portfolio and is more appropriate for a portfolio worth $1 million or more.

Frankle said Matthews needs to protect what he has accumulated.

"You've got to plan to live to at least 87 to 90 years old," he said.

"Once you get the budget under control, the rest will fall into place. Just take it one day at a time."

Jerry Crowe is a Times staff writer.

The Money Make-Over column will not appear next week, when The Times' next quarterly investing report will appear as a separate section.

To be considered for future published Money Make-Overs, send your name, age, phone number, income, assets and financial goals to Money Make-Over, Business Section, Los Angeles Times, Times Mirror Square, Los Angeles, CA 90053 or to *money@latimes.com*. You can save a step and print or download the questionnaire at *http://www.latimes.com/makeoverform*.

Information on choosing a financial planner is available at The Times' Web site at *http://www.latimes.com/finplan*. The site offers stories, phone numbers, addresses and links to related sites.