# Money Makeover; Home's not always where the growth is; A Westsider with health risks is advised to sell some property to make her assets last decades.

*[HOME EDITION]*

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**Document Text**

Debra Loss is many things: a former AT&T Inc. sales executive who oversaw multimillion-dollar accounts, a young retiree who built her assets up to $2.75 million, a breast cancer survivor and a volunteer at her local animal shelter.

But she's learned that there is one thing she is not cut out to be: a landlord.

"The bottom line, really, is . . . it's not a good match for me," says Loss, 52, of Mar Vista.

Loss rents out a three-bedroom home she owns in Encino and says she is owed months of missed payments that accrued over several years.

Loss had thought the Encino home would be a good way to provide steady income, but the erratic payments she gets has only contributed to a cash-flow problem, said Eric Bruck, a fee-only financial planner in Beverly Hills.

Without a full-time work income and with her rental income unreliable, she is putting her retirement in jeopardy, Bruck said.

"She's really living on the edge."

It may seem that her future is secure given her substantial asset base. But Loss could face high out-of-pocket costs associated with her health down the line. If she lives to be 90, as she and Bruck project for planning purposes, those assets will need to last.

On top of that, most of what she owns is tied up in real estate - - an asset that can't be converted to cash quickly. Her primary residence in Mar Vista is valued at about $1 million, less its $219,000 mortgage. She owns the Encino rental outright. With no mortgage, that property is worth about $850,000.

She also has $760,000 in retirement accounts and $322,000 in nonretirement savings. A piece of raw land in Florida she inherited from her grandmother is worth about $25,000.

Those are healthy assets, but Loss no longer works full time. She took early retirement from AT&T at 43 when the company was downsizing and offering employees the chance to cash out their pensions. She left in 1998 with $390,000.

Since then, she has downshifted and started working about 20 hours a week at $20 an hour, providing office support for lawyers.

Although Loss likes to work, after 21 years in a career with 60- to-80-hour workweeks, she is equally fond of her flexible schedule and substantial free time.

"I feel like I shouldn't have to work at this point," she says.

Her part-time job brings in about $20,000 a year. Her "virtual spouse" -- Roger Lewis, the man she has lived with for 22 years -- contributes about $11,000 a year toward the mortgage. (The two keep their finances separate.)

On paper, Loss should be able to claim an income of about $60,000 a year, counting the $27,000 in rent she should be getting from the Encino home. Trouble is, she says, she hasn't been able to count on that money.

To make up the shortfall, Loss has pulled money out of her nonretirement accounts. In the last two years, she has withdrawn about 10% annually, roughly equal to their overall returns. She knows this is a strategy that can't last if her cash flow needs increase.

She's also incurred significant medical and home improvement expenses over the last two years. With a $6,000 annual

deductible on her health insurance plan, Loss spent about $12,000 in 2005 and 2006 for treatment including two breast lumpectomies, radiation, chemotherapy and follow-on care.

While recovering, she paid $28,000 for long-deferred maintenance on the house in Mar Vista, where she has lived with her partner since 1985.

"The house was really neglected, horrible," Loss says of the small, cluttered three-bedroom home, which sits on a gentle rise and catches cool ocean breezes. "The walls were a typical Swiss coffee white. The carpets were 30 years old. It was just awful and filthy."

After the improvements, her spirits were lifted by the new "beach sky" blue walls in the living room and the lime green ones in the kitchen, not to mention the new carpets. In addition to the couple's three cats, last month they harbored a foster cat and two foster parakeets that had been abandoned on a movie set.

Now that she is feeling better, Loss wants to get back on track financially.

As a first step, the planner recommended that Loss evict her tenant and sell the rental home.

"Real estate is too big of a percentage of your overall net worth," Bruck said. "Because of the concentration of your assets, an earthquake or another natural disaster could wipe you out. You are taking a risk, Deb."

Loss said she hoped one day to move into the Encino house. However, that plan is drawing static from Lewis, who prefers the weather by the beach.

After capital gains taxes and transaction costs, Bruck estimated, she would realize $624,000 on the sale of the Encino home. He advised her to invest that money in a diversified portfolio.

With her health history, Loss could need access to the equity in the Encino property, Bruck said. Her income is so low that she could have trouble getting a mortgage or a home equity line of credit.

Even if her tenant was paying on time, Bruck said, the $27,120 in annual rent represents only a 3.2% return on the $850,000 value of the house. Moreover, the house could lose value if the weak real estate market persists.

By selling the house and investing the proceeds, she could reasonably expect a long-term annual return in the neighborhood of 7.5%, Bruck says. That would be in line with historical trends and beats the rental income. Her money would also be more accessible in an emergency. As long as Loss sells Encino first, Bruck gave her a cautious go-ahead on one day spending $80,000 to renovate the Mar Vista property further. The money freed up through the sale of her rental property would provide funds.

Her plan to expand Mar Vista's postage-stamp-size kitchen will add value to the property and move the money spent for the improvements from the liquid to the illiquid column of her holdings.

"You're going to enjoy living there more, and you're going to create equity you can enjoy when you sell," he said.

To protect her holdings against the prospect of a lawsuit ("A tenant could trip on a sidewalk crack on the way to the front door and call an ambulance"), Bruck recommended that she buy an umbrella liability policy worth $3 million to $5 million. He estimated that a $3-million policy costs about $500 to $600 a year.

Bruck also advised Loss to sell the Florida land and invest those proceeds.

He deemed her nonreal-estate investments sufficiently diversified among stocks, bonds and annuities but recommended she keep at least three to six months' living expenses in cash as an emergency fund.

Given her low income, Bruck said, it would help her overall financial picture if she could reduce her spending by 10%. However, when Loss presented him with minutely detailed spending reports in Excel spreadsheets, they showed very little fat to cut.

Her main indulgence is about $2,000 to $3,000 a year in travel expenses for trips back East to see family and the occasional cruise.

Loss does carry long-term care insurance, but the payout is capped at $25,000 a year. An elder-care facility could easily cost her nearly five times that amount at $300 a day.

Given her medical history, Bruck said, Loss won't be eligible to increase her coverage affordably. However, many insurers periodically offer automatic cost-of-living riders and daily benefit upgrades to existing policyholders. She should be on the lookout for such offers.

"In either case, she should grab it," he said.

As Loss ages, "her spending needs are likely to increase, and she's taking assets out. She needs to be very watchful and diligent," Bruck said.

"I agree with him 100%," Loss said. "It's something that has to be watched."

Bruck suggested she write up a budget outlining her personal spending policy and christen it over a glass of wine as a binding contract with herself.

"This is a psychological motivating factor," he said.

He recommended that she work with a financial planner whose orientation is total wealth resource management, not simply investments. A planner needs to understand the interplay between assets, liabilities, cash flow and insurance in a portfolio.

Loss could always work more to make more. But Bruck says that with a renewed focus on her finances she might not have to.

Though no landlord, Loss does have accounting skills and the ability to draw up a budget and stick to it.

Bruck cautioned that a financial plan is merely a road map and that a significant change in a single variable could throw it way off track. As a result, he said, Loss will need to frequently reassess her situation.

That said, he was impressed with her ability to produce the right numbers and documents and with her grasp of her situation.

"She's very capable, responsible and motivated," he said. "She shouldn't underestimate her instincts. She shouldn't underestimate what she knows."

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This month's makeover

Who: Debra Loss

Current income: $31,000 to $60,000

Goals: Increase and stabilize income. Undertake $80,000 kitchen renovation. Protect savings for retirement.

Assets: $2.75 million total: $1.66 million in real estate, $760,000 in retirement accounts, $322,000 in nonretirement savings

Current liabilities: $219,000 mortgage on primary residence

Recommendations: Evict tenant and sell rental property. Invest $624,000 in proceeds at a higher rate of return than generated by rent. Sell Florida raw land for $25,000 and invest for higher returns. Spend $80,000 to renovate kitchen to increase home value. Increase long-term care insurance coverage through automatic upgrade offers, if possible. Buy $3-million-to-$5-million umbrella liability insurance policy. Watch finances closely.

About the planner: Eric Bruck is the director of private wealth management services in the Beverly Hills office of Universal Advisory Services Inc.

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