The Seattle Times PERSONAL FINANCE

BUSINESS

Your Money 2015 | Monthly financial makeover

Mercer Island woman finds out she's financially lost after divorce

Bellevue College teacher Pam Charney, 56, was not aware of where she stood financially or how to manage her retirement savings and investments after her December divorce. (Greg Gilbert / The Seattle Times)

By George Erb
Special to The Seattle Times

Pam Charney's husband handled the household finances. He paid the bills. He oversaw the family's investments. If money was involved, he took care of it.

"He managed every penny," Charney said.

So when they divorced in December, Charney found herself financially adrift. Like a lost sailor who couldn't read a nautical chart, she was unaware of her financial condition and unfamiliar with the mechanics of money management.

She realized the extent of her predicament when she logged onto the websites of her retirement accounts, only to discover she didn't know how to read the online statements. It was an unsettling moment.

"You don't want to make a mistake," said Charney, 56, a Mercer Island resident.

She has plenty of company. Studies consistently show that many Americans do not understand such things as interest rates, mortgages and risk.

When it comes to individual investors, a 2011 report by the Library of Congress concluded that they "do not understand the most basic financial concepts."

The issue has become increasingly worrisome because consumer financial products are more numerous and complex than ever. Americans are also more responsible for planning for their own retirements, with fewer employers providing pensions.

Charney applied to The Seattle Times for a free money makeover, and the newspaper asked the Puget Sound Chapter of the Financial Planning Association to find a pro bono financial planner. Brian Lockett, vice president of Comprehensive Wealth Management in Lynnwood, volunteered.

The first order of business was determining whether Charney was on sound financial footing.

Charney also gets alimony and child-support payments that add up to four figures monthly. The child support will end when her daughter turns 18 about a year from now. Her alimony income will end in about seven years, shortly after she turns 63.

Over the course of her career, Charney accumulated about $750,000 in several retirement accounts with the financial-services company TIAA-CREF. She also has about $60,000 in a savings account as an emergency reserve.

When Charney got $134,000 from the sale of the couple's home, she put the money into a certificate of deposit that will mature July 1.

Charney has no debts, and she pays off her credit cards every month.

Her biggest expense is rent. She pays $3,100 a month for an apartment, where she lives with her daughter.

The rent adds up to $37,200 a year, an expense that prompted Charney to look into buying a condo.

After reviewing her finances, Lockett said, "She's in a pretty good place." Then, he added, "She doesn't know what questions to ask."

For starters, he concluded that a little bit of reassurance would go a long way. "One of the things that I wanted to show her was that 'You're in a better place than you realize,'" Lockett said.

But Charney is also at an age where she can't afford to make costly mistakes. Luckily, she has enough assets that she doesn't need to take big gambles to get

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big returns, said Lockett, who recommended a somewhat conservative game plan.

Lockett urged Charney to simplify her finances by consolidating all of her retirement accounts into a single account.

She could also bulk up her nest egg by maxing out the contributions to her employer's retirement savings plan while she is getting alimony. In her case, Charney could contribute as much as $24,000 this year by taking advantage of the federal government's catch-up provision.

Lockett recommended putting the additional retirement savings into a TIAA-CREF mutual fund, where it would get better returns than in an annuity.

To help Charney acquire some financial savvy, Lockett encouraged her to listen to "The Dave Ramsey Show," a financial-advice radio program and podcast, and become a regular reader of The Wall Street Journal.

Charney was relieved to learn that she is financially stable. Lockett also worked with her to come up with a concrete spending plan that eliminated some of the guesswork about her future.

Among other things, they looked at how often she could buy a car or take a trip.

Lockett advised her to slow down and weigh her options before buying a condo, although his plan for her included the possibility she would buy a place next year.

A few weeks after her first meeting with Lockett, Charney came across a three-bedroom condo for sale close to her apartment. She made an offer, and the seller agreed to sell the property for $430,000.

The deal is expected to close July 7.

Living in the condo instead of the apartment should trim her monthly housing costs by about $500, she estimated.

Charney also liked the idea of having equity in a condo. "I need to own something," she said. "I feel so much more secure."

Charney will cash out her $134,000 CD when it matures Wednesday and use $85,000 for a down payment on the condo.

She plans to keep the remaining $49,000 in savings while she does her homework on finding a suitable place for it. Marc Knauss, an account administrator at Comprehensive Wealth Management who worked with Lockett on Charney's plan, said the pending condo deal fits into the plan's scenarios.

"It doesn't affect the success of the plan," Knauss said.

Meanwhile, Charney is also working on getting a handle on her expenses and consolidating her retirement accounts.

She still feels like a novice when it comes to personal finance, "but I know I can learn," she said.

"As long as I'm careful," she said, "I know I'll be OK."

Household budget basics

Brian Lockett

• Find out how much money you need to pay your monthly bills. That's the cost of running your household.

• Determine your tolerance for risk. Lockett first asks his clients to identify their goals. Then he calculates how much the clients must save and the investment returns they must see to achieve those goals. If the returns are too aggressive — and risky — they adjust accordingly.

• Put up a safety net. Build a reserve large enough to support your family for three to six months. Put the money in a conservative account where it's readily accessible.