Caught In The Crossfire: A Young Boy's Needless Death

HOME REMODELING GUIDE

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Why You're Feeling So Financially STRAPPED!

And What You Can Do About It

Financially STRAPPED?

You're not alone. Rhode Islanders talk about how they got into this financial mess—and how they're getting out of it.

By Sarah Francis

Francine and Sandy Fink live with their four kids in an attractive nine-room colonial in Heritage Park, a leafy and affluent neighborhood in Warwick's Cowesett section, where elegant houses sit on well-tended acre lots and sell for $300,000 and up.

Sandy owns King Auto Parts, a Central Falls business that's been in his family for more than thirty years. Francine went back to work full time a couple of years ago, as the director of the Center for Business and Industry at Bristol Community College in Fall River, Massachusetts.

The Finks, who are both in their forties, earn close to $100,000. But the money isn't going as far as they expected. The taxes on the house they bought in 1983 have almost doubled, from $2,800 to $5,400. One of their children is in private school, where tuition runs $13,000 a year. All four kids, ages eleven to sixteen, went to camp last summer, sopping up a cool $6,000.

The Finks are paying off a car loan, and until recently, had two car phones. (The phones are gone because the bills were stiff, sometimes $200 a month each, and not all the calls were business-related.) When Francine went back to work, the Finks hired an au pair to help pick up the slack. She cost $100 a week, plus expenses. But after nine months, she's gone too.

Why?

Last year, the Finks had a sickening encounter with reality.

Fran had always paid the bills religiously every Sunday. But with a full-time job, she says, "there was less time to manage the finances, and I paid less attention to it." Eventually, she lost control of expenses. They realized they needed an impartial third party who could look at their spending without emotion. That third party was Moneywatch, a consumer financial counseling service in Cranston, where counselor Anthony A. Coia analyzed their finances and gave them the bad news. The Finks were spending roughly $10,000 more than they were earning.

After the high-rolling '80s, the austere '90s have hit the Finks and many of the

Photography By John Harkey

Deluged by bills,
the Fink family of Warwick put a stop to their spending when they realized that their expenses exceeded their income by about $10,000 a year. Typical of middle-class families who had it all in the 1980s, they came crashing back to reality in the recessionary '90s.

rest of us with a whack. We don't seem to have as much money as we used to, and what we do have doesn't seem to go as far. We're feeling strapped, and nope, it's not our imagination. For many, bonuses and raises are shrinking or disappearing. And allowing for inflation, "wages and benefits across the country actually fell 13 percent from 1980 to 1989," says Rick McIntyre, assistant economics professor at the University of Rhode Island.

Fredric and Annamaura Silverblatt live in a magnificent contemporary house on seven wooded acres on Pojac Point, an exclusive section of North Kingstown. As chief of medicine at the Veterans Administration Hospital in Providence and professor of medicine at Brown University, Fred's salary has risen $10,000 in five years. Annamaura, an active choreographer, also works at the VA as a part-time recreation assistant.

But the Silverblatts have big bills. Beginning in 1987, it was son Jonathan's education at Sarah Lawrence College: $17,000 a year; now Gabriella, their twenty-one-year-old daughter, is in her sophomore year there, and tuition has risen to $24,000. Jonathan is in law school and his parents are picking up the tab for that too: $17,000 a year plus living expenses in New York City.

Though their costs are sizable, the Silverblatts probably would have been all right had Gabriella not developed cancer. Her treatment cost thousands of dollars, much of it not covered by the family's health insurance. Now in remission, Gabriella still has costly six-month checkups. And the family is struggling just to break even. "We used to travel and entertain, but we've cut back on our expenses," says Annamaura, "and we don't want to cut anymore." Instead, she's taken on a second part-time job, working at a gourmet store.

Even without extraordinary bills like the Silverblatts', all of us have seen expenses soar. Consider the numbers:

- The social security payroll tax has increased five times since 1983, and now consumes 7.65 percent of our income.
- Rhode Island's sales tax increased from 6 to 7 percent in 1990. Okay, you say, that's only up a penny, but as a percentage increase, it's almost 17 percent more.

● Rhode Island income tax has also climbed. Just two years ago, we paid the state 22.96 percent of our federal tax bill. Today, we're paying 27.5 percent.

● And then there are skyrocketing property taxes, a 10.4 percent increase statewide in 1990, and up an average 8.8 percent every year since 1985, according to the Rhode Island Public Expenditure Council.

Aaaach! What happened? Why did the economy hit this financial wall?

Economists single out several culprits. In the early '80s, personal and corporate income taxes were cut. Increased federal spending on defense started pumping up the local economy, while the newly deregulated banking industry began pouring a lot of money into real estate and construction loans. Much of that construction money came to Rhode Island from out of state, and the real estate boom here generated a 12 percent growth in construction jobs each year from 1984 to 1988.

But the tax code overhaul in 1986 eliminated those earlier corporate tax cuts, along with incentives for real estate investment. The real estate and construction industries slowed, and many of those newly created jobs evaporated, along with the positive economic ripple effect they'd created.

At the same time, the big pop in construction and real estate activity masked an underlying change in our economy. Many traditional and high-tech manufacturing and other jobs were disappearing, along with the revenue they generated. "Rhode Island has lost thousands of jobs, 16,000 between September 1990 and 1991 alone," says McIntyre.

Rhode Island cities and towns, which historically have had steeper property taxes than the national average, ratcheted these taxes even higher to cover increased expenses for servicing debt and health insurance coverage. The municipalities have been hard hit by "a loss in revenues other than property taxes and the smallest increase in new development in five years," according to the state's Office of Municipal Affairs.

Not surprisingly, these pressures, combined with the effects of the country's recession and the state's credit union crisis, have sent a collective shudder through Rhode Islanders. A consumer confidence poll conducted by URI's Research Center in Business and Economics last fall showed Rhode Islanders' buying plans were at their lowest level since 1980.

"Almost half the people polled said their families are worse off financially now than they were a year ago," says the center's director, Diane M. Disney. And although two thirds of those polled said this is a good time to buy a house, and half agreed it's a good time to buy a car, fewer than 20 percent said they'd do either. Many said they simply couldn't handle larger credit payments.

It was easy credit that got Laurie Fagnant in trouble.

At twenty-eight, Laurie is a warehouse foreman at Hoechst Celanese in Coventry, making almost $50,000. Until she got her own apartment about a year ago, she lived at home. "Everyone in the world offered me credit cards," she says, curling up on the sleek, black sofa she bought on time, "because I had great credit." And Laurie accepted their offers, charging $3,700 on her new Visa, $2,600 on her Discover, and $800 on her Spiegel card. Then there was her new Toyota, with a monthly payment of $300, and when she moved into her own apartment, new furniture.

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"I spoiled myself. When I walked into a furniture store, I'd say I want this and this and this." By the time she realized she was $13,000 in debt, she hadn't balanced her checkbook in a year, was getting irate letters from creditors, and was contemplating bankruptcy. "I was so depressed," she says, "I spent days in bed, my blood pressure went up, and I was getting migraines." Thanks to a promotion and a raise at the last minute, Laurie was able to dig herself out of trouble by qualifying for a ten-year, $20,000 consolidation loan to pay off her bills. Now she's even saving money.

"I'm consciously not buying stuff now, and it hurts. It's really a struggle. I tell myself to walk away and forget it, that whatever I want to buy will be here when I come back."

As Laurie learned, anxiety over money takes its toll.

Dr. Michael Raciti is a psychologist with Sobel and Raciti Associates in Providence, providing comprehensive psychological services to employees. While patients don't usually complain about financial worries as a primary concern, money often crops up as a secondary theme, as "another source of stress when people are at their maximum level," Raciti says. The result can be out-of-control behavior: overeating and too much drinking, losing your temper and taking it out on your family. When times are tough and unemployment is high, as it is now, these responses are even more pronounced.

"People will be forced to stay in intolerable work situations," Raciti adds, "because there's no place to go." And baby boomers, that generation that defines our social and economic trends, are likely to express these mood disturbances in even more exaggerated ways. "Boomers have an attitude of entitlement and unrealistically high expectations that can't be met," Raciti says. "When they don't get what they want, they don't know how to deal with it. Increasingly, I'm seeing people who've reached the end of the line in the corporate world. They've been spoiled with success and, until now, haven't met any limitations. But it's a matter of numbers. An increasing number of boomers are moving through the ranks and not everyone can make CEO."

In some ways, Jim Johnson is a victim of that baby boomer sense of entitlement, the presumption of endless upward mobility. Johnson, thirty-seven, started WordWorks, a small communications and marketing firm, and later *Adcom*, an advertising trade magazine, in the sluggish early '80s, then saw business pick up as the economy took off and company revenues zoomed from zero to $500,000. "At the time," he says, "I thought what a great business person I am, as my staff grew from one person to twelve."

Eventually, Johnson moved the business from sardine-sized offices in Warwick to a trendy ground-floor office condo in Imperial Place, a former knife factory in Providence's jewelry district. But the move tripled the business's fixed office expenses, and by January of 1989, things were unraveling. Jim's three biggest clients announced they were leaving for reorganization and financial reasons, and office tenants he'd taken on to help meet mortgage expenses also left. In time, revenues fell off so drastically, Jim was using his Visa card to make payroll.

"The business doubled in revenues each year for three years and my early goal was to make the *Inc.* magazine five hundred list of the country's fastest growing small businesses by our sixth year,"

Continued on page 55

FINANCIALLY STRAPPED?

Continued from page 22

he says. "My biggest failing was concentrating on growth for its own sake, rather than planned growth; and, ironically, in our sixth year, I was forced to file for personal bankruptcy."

WordWorks was sold at auction to another company and *Adcom* is still being published, although its survival is a month-to-month proposition. Jim remains *Adcom*'s editor, but he's an employee on a meager salary, not the owner. "I have a car with 106,000 miles on it and I don't have the income or credit to buy a new one. It's not the outcome I would have liked," Jim says philosophically, "but bankruptcy isn't a tragedy like illness or death. I thought people would treat me like I had leprosy because I wasn't riding the crest anymore, but most of my employees and creditors stood by me. It was heady to be building an empire, but it's one thing to have this wonderful office, and another thing to be able to pay for it."

And trouble is, being able to pay for it is not a skill we learn in school. Moneywatch's Coia says, "Fifty years ago we didn't have this problem. We didn't have credit cards and you had to sell the bank on the idea that you were a good risk. But in the '80s, banks wanted anyone they could get. The middle class thought they could have it all. Most of us learn to manage money the hard way."

And the Finks would agree that's how they learned their lesson. It's almost dinner time now, and the kids are doing the cooking from the menu Francine has left them. In the old days, the au pair would have been on kitchen duty, or the family would have taken a fast trip to McDonald's. But that was then; this is now. Fran and Sandy believe they can close their financial black hole by eliminating luxuries such as car phones, trading in Fran's leased Volvo for a less expensive alternative, and really watching their spending.

"Going to McDonald's used to cost me $22, and this discretionary spending was turning into a monster. It was habit forming, because it appeared to make life simpler," Sandy says.

Fran agrees. "I realized I have kids who can cook. I just have to relax my standards of cleanliness. Cutting back hurts, but now we have a real clear picture of what needs to be adjusted with our money and it creates more control. I feel safer and have more peace of mind, knowing my money is being managed." ■

Sarah Francis is a contributing writer to Rhode Island Monthly.

Tips On Regaining Your Financial Health

Do your finances need fiscal therapy? Here's help:

$ Refinance your home mortgage. "The rule of thumb is two, two, and two," says Malcolm Makin, a certified financial planner with Professional Planning Group in Westerly. "If rates are two percent lower than what you're currently paying, if the bank is asking no more than two points in refinancing charges, and if you plan to be in the house at least another two years, it usually makes sense to refinance." An interest rate drop from 10 to 8 percent on a $100,000 thirty-year mortgage, for example, will decrease your monthly payment by $144.

$ "Puny 4 percent interest rates on CDs are going lower," Makin predicts. High grade (A to AAA) nonnuclear utility bonds paying 7 to 7 1/2 percent, and maturing in five to eight years, are a conservative alternative. He also recommends government bond mutual funds; Vanguard's Fixed Income GNMA Fund currently yields more than 8 percent.

$ Look at your life insurance. The cost of whole life insurance can be four to five times that of term insurance. Depending on your age and the insurance company, you may save a big chunk by switching.

$ If both you and your spouse work, look at the benefits offered by each employer. Some companies offer a "cafeteria" plan, and pay cash equivalents if you decline coverage. Some spouses duplicate each other's plans on the theory that more is better, but if there's a claim, only one company will pay up.

$ It's boring, it's tedious, but it works. Go through your checkbook for the last year and analyze your finances. Most people know their major expenses, but who keeps track of the little stuff? You may only spend $5 a day on lunch, but do it every work day for a year, that's about $1,200.

$ If you consistently get a fat income tax refund, you may be withholding too much of your pay, and that's an interest-free loan you're giving the government. To correct over-withholding, file a revised W-4 form with your employer. —S.F.

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