STATESMAN JOURNAL

Sunday Business

Eliminate debt to cut your risk in retirement

INSIDE BUSINESS
SCOTT BURNS

QUESTION: We are a retired couple. We have two debts that we have not paid off. One is a Sallie Mae student loan at 3.875 percent. We are making payments of $500 monthly.

We also have a 30-year home mortgage at 3.5 percent that has 27 years remaining. We owe $147,000 on the home with a monthly payment of $685. We are in our early 60s.

Our current retirement income, including income from investments, is about $87,000. Without the investment income, the yearly income would be about $67,000.

We have $560,000 in an IRA and $304,000 in cash. We are currently investing the $304,000 cash in first lien short-term mortgage investments through an individual lending corporation — not a bank. These investments pay at a seven percent annual interest rate. So far, this has been a reliable source of monthly income. The loan-to-value of the short-term mortgages is 25 to 50 percent. Most of those mortgage investments are two years in duration. As they come due, the invested money rolls into new projects.

With the banks relaxing their lending policies now and funding easier to get through conventional banks, there is less guarantee that new projects will be available and our invested money may sit idle for a while. This source of investment may dry up eventually as banking regulations for loans loosen. We will not use IRA money to pay off our remaining debts.

Should we use the $304,000 cash to pay off both the college loan and our home mortgage? The monthly loan obligations would go down if loans were paid off — in effect, a monthly raise. **—C.P., by email**

ANSWER: It makes sense to pay off both loans. The reason is simple. You will reduce your risk and maybe your taxes at the same time. You have $177,000 in debt. It takes almost the same amount, committed to what most would consider a risky investment, to earn the interest income needed to make the payments.

Worse, it's very likely that you don't have enough in mortgage interest payments or real estate taxes to itemize deductions on your tax return. As a result, you get taxable interest income that may not be offset by your mortgage interest payments.

While rolling short-term first lien mortgages at 7 percent may seem safe, the reality is that anything that pays seven percent in today's market is a risky investment. One clue is that the yield is right up there with the yield on typical junk bonds.

So if you want to have a safer and more relaxed retirement, pay off the debt.

Q: I just saw an article of yours mentioning withdrawing from one's bond allocation when stocks are down. Doing this prevents the selling of stocks at depressed prices. I don't think you can choose what assets to sell in the Federal Thrift Savings Plan. Is this your understanding as well? If that is the case would you recommend leaving the TSP in retirement for something like Vanguard? **—G.G., Sanger, Texas**

A: The Federal Thrift Savings Plan offers the lowest cost of money management available, but it isn't particularly flexible when it comes to making withdrawals. If you have made arrangements for a regular monthly distribution, that money will come from your whole portfolio, not a single asset such as your equity fund or your bond fund. So you are correct, you can't choose what assets to sell when making regular monthly distributions from the TSP.

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EDITOR'S NOTE

Stock market information is now published only in the USA Today section of the Statesman Journal (section B). Subscribers also have unlimited access to stock information online at usatoday.com/money.

Questions or comments? Call Executive Editor Michael Davis at 503-399-6712.

EARTHWISE

SIGNATURE SUSTAINABILITY

Rafns' features organic meat and produce

Rochelle and Nate Rafn buy organic products, usually from local sources.

BETH CASPER / SPECIAL TO THE STATESMAN JOURNAL

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For some restaurants, a signature dish or particular atmosphere defines them.

At Rafns' Restaurant, it's sustainability.

You can see it in the rustic wood wall sign built from old pallets and the tables hewn from old shelving. It's obvious when looking at a menu, which features local and organic meat and produce. And sustainability is the driving force behind all of the employees' processes—from re-using order tickets to saving leftover drinking water for the bleach bucket.

It's no wonder that Rafns' Restaurant earned EarthWISE certification in 2016 and the Small Sustainable Business of the Year Green Award in 2015.

EarthWISE is a Marion County free business assistance program. EarthWISE staff helps businesses recycle, save energy, reduce waste, and much more. To earn certification, a business meets criteria in six areas. Rafns' Restaurant is one of more than 150 EarthWISE businesses and organizations in Marion County.

The Rafns' experience with local, sustainable food started long before the opening of their restaurant. Nate Rafn's first venture was Living Culture, a CCTV show in which Nate interviewed local farmers, ranchers, cheese makers and other food producers. The show, started in 2005, ran for 8 years. In 2006, Nate launched Dinner at the Rafns, an invitation-only supper club featuring a local producer and his or her products.

Based on the interest and success with the supper club, as well as the relationships the Rafns built with dozens of local producers, Nate and Rochelle Rafn opened a deli and store in July 2013. They served lunch — sandwiches, soups and salads — but have since shifted to focus on fine dining. This month, they transitioned again — to serving dinner exclusively.

Their ingredients are organic and local. Organic because it is better for the environment, Nate said.

"For the local products, it is more about the relationships we have with the growers," he said. "Sourcing locally allows us to get to know the growers and visit the farm. We can feel assured the product is grown in a responsible way."

Taste and health is another reason Nate looks for organic and local products.

"Even if customers come in who don't care about organic, they can tell there is something different about our food," Nate said. "It tastes amazing. It tastes clean. They feel good after they eat it. That, in and of itself, is important to us."

Equally important to the Rafns is waste reduction. In fact, it has become a mantra in the restaurant: "Never throw it away. Always ask Nate first!"

All of the cardstock used to print signs such as "holiday closure" or "private event" are saved to use in the future. Food containers — even ones that are typically sent straight to the recycle bin — are thoroughly cleaned and used to store leftover or prepared food. Leftover ice is used to fill a sink to properly cool down soup at the end of the day or it is poured into the bleach bucket for cleaning. Wait staff writes on both sides of the order tickets.

A recent change in practices has saved hundreds of tea bags. Last year, the Rafns converted from tea bags to loose leaf teas that can be re-steeped several times because they hold so much flavor. They've eliminated the individual tea bags, individual packaging and also the tea bag box.

"It is a part of my personality," Nate said. "I was raised doing these things. My parents were always frugal. We always wanted to make the most of every material right from the get go."

When renovating the building, the Rafns used dozens of old pallets headed to the recycle yard for their wall sign, two counters and tables. Old shelving has been cut for table tops. And the wall that surrounds the kitchen is made with 99 percent salvaged materials.

In the kitchen, Nate and his other chefs use every part of the meat or vegetables. The fat from chicken and pork is rendered for use in sauteing. Vegetable scraps are used to make vegetable stock for soups and sauces. And everything is made from scratch, which eliminated packaging and allows the Rafns to purchase in bulk.

"With garbage service, we were able to downsize from a 90-gallon roll-cart to a 35-gallon one," Nate said. "We also added a compost bin, which didn't save us money in the end, but means that very little of our waste is garbage."

The Rafns also want to make the most of all of the energy used in a restaurant. Right from the start, the couple consolidated the refrigerated items to get rid of an entire refrigeration unit.

"Our most expensive electricity costs come from refrigeration," Nate said.

More than a year ago, the couple converted almost all of the fluorescent lighting to LEDs, saving on electricity bills.

The Rafns' biggest impact, though, may be in their customer reach. People who come into their restaurant learn about local producers, organic food and ingredients that are certified Humane, Animal Welfare Approved, Food Alliance Certified, non-GMO and free range.

"We truly believe at Rafns' Restaurant, that to be sustainable you have to be committed to each one of these categories," Nate said. "They all tie into each other. We become exponentially more sustainable through education."

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