



## Helping Employees Make the Most of Their 401(k)/403(b) Plans

### Are Extended Warranties Warranted?

**WITH CONSUMERS' WALLETS** feeling light these days, nobody wants to shell out major bucks for an auto repair. This makes the promise of an extended auto warranty particularly enticing. The pitch: For an upfront fee of, say, \$900 (that you could roll into your auto loan) you won't have to reopen your wallet for the next seven years or 100,000 miles. Sounds like a pretty good deal, right?

Maybe not. Extended warranties (also known as service contracts) are often better deals for the *dealer* than they are for the consumer. "Service contracts can sometimes get very expensive and are not necessary," says Jeremy Anwyl, president of Edmunds.com, a car-information Web site. "They can be a huge profit center for the dealership." In fact, in some cases dealers may make more money off the extended warranty than they do off the car sale itself, says Anwyl.

Here's what you need to know to avoid being taken for a ride:

#### Better Cars

In case you haven't noticed, "cars just don't break like they used to," say Anwyl. Manufacturers have consistently improved reliability, so newer models typically don't incur pricey repairs. In fact, based on consumer complaints, new vehicle quality increased 10% over the last year and 24% over the last five years, according to J.D. Power & Associates.

Consumer Reports, which surveys car owners annually, has similar findings. For the 2002 model year, consumers reported an average of just 18 problems per 100 vehicles. That's down from 21 problems for the 2001 model year and a whopping 88 back in 1980.

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And what about those cars that do have problems? Not surprisingly, it's only after years of use that costly repairs are typically incurred. According to the folks at Edmunds.com, a transmission, for example, should easily last 100,000 miles, while an engine should keep revving for 200,000 miles. By the time those benchmarks are reached, most extended warranties have expired.

### **Hidden Costs**

Of course, some cars do need major repairs during the first seven years of ownership. But should that happen, extended warranties aren't always the panacea that consumers expect. Most service contracts cover what the industry calls "powertrain" items, which are the components such as the engine and transmission that help your car run. Those annoying wear-and-tear items, like squeaky brakes and flat tires, will most likely still be your responsibility, warns Consumer Reports spokesman Douglas Love.

And even if your repair is covered by the warranty, you may still have to dig into your own pocket to pay a deductible. If you aren't careful, you could end up signing up for a policy that requires you pay a \$50 deductible *per repair*, not just per visit. So if the fuel-injection system and front drive axle start acting up, you'll have to shell out \$100.

Here's another dirty little secret: In some cases, even items that *should* be covered are denied. This is more likely if you purchase a warranty from an independent company rather than one offered directly through your car manufacturer.

While statistics supporting this are hard to find, anecdotal evidence suggests that this is indeed the case. The message boards at Edmunds.com reveal many complaints of repairs that consumers believe should have been covered, but weren't, by their independent policies. In some cases, the problem may be that consumers discovered the true limitations of their policies only after they've filed a claim. Warranty Gold — one of the more respected independent extended warranty companies — said in a written statement to SmartMoney.com that coverage may be denied because a claim is for "a component that is not covered or [because] the breakdown may be a result of an obvious lack of proper maintenance." So be sure to read the fine print.

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## **Buy a Better Car**

Fortunately, you don't have to spend a lot of money to get a trustworthy car. Plenty of models priced around \$20,000 win reliability recommendations from both Consumer Reports and Edmunds.com. Examples include the Honda Accord, Mazda MX-5 Miata and Toyota Corolla.

Want that promise in writing? Then look for a car with a long original factory warranty (which automatically comes with the vehicle). While the average warranty is three years or 36,000 miles, plenty of auto makers offer better deals than that. For example, if you were to buy an Oldsmobile, Hyundai or Kia, you could get a bumper-to-bumper warranty (which covers just about everything except for wear-and-tear items) for five years or 60,000 miles. In addition, if something were to happen soon after the warranty expired, you could qualify for an After Warranty Assistance (AWA) program. This service provides coverage for repairs that happen right after their factory guarantee runs out.

**Call for a free half-hour analysis of your retirement account.**

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