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Shifting career gears need not strip couple of plans

By: Lynn Asinof, Globe Correspondent
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When Paul Amato decided to give up his career in technical sales to become a clinical social worker, he knew family finances would take a hit. But when his wife, Janice, decided to go back to school to become a special education teacher, the household budget got even tighter.

Now a counselor for adolescent boys, Paul not only found his income cut in half, but he also faces $30,000 in school loans. And while Janice plans to keep working part-time as a paralegal when she starts school in January, her plans will slice the couple's income by close to a third.

Faced with some hard numbers, the Worcester couple, both 37, applied for a Boston Globe Money Makeover. "We're thrilled that we can make these career changes," Janice wrote in their application. "But how do we buy a new house, save for retirement or perhaps start a family?"

To answer those questions, Sudbury financial planner **Ted Yoos** started with the Amatos' annual income and expenses. In June, the couple's annual income jumped to $108,000 when Paul started working, but their initial accounting of expenses showed that they should be banking half that amount. Since that wasn't happening, **Yoos** suggested the two do some careful charting of their expenses.

"Carry a three-by-five card in your wallet, then write it all down," he said. With three months of detailed expenses, he explained, they could then create a more accurate budget that would allow them to prioritize.

The same back-to-basics approach was applied to debt. **Yoos**, a fee-only planner, suggested that the Amatos list their debt, noting the principal owed, the annual interest rate, and whether that rate is variable or fixed. When calculating interest, he said, the couple should remember that some interest costs are tax deductible. Janice's 7 percent school loan, for example, actually costs only 4.9 percent after taxes.

"Make regular payments on every debt, then make extra payments on the highest-interest rate debt first," he told them. In the Amatos' case, that means paying off the credit card and the car loan first, followed by Janice's $2,800 school loan.

Even though money has been tight, Janice has been conscientious about contributing enough money to her 401(k) in order to get the full employer match. **Ted**, however, hadn't done the same on his 403(b). "It is free money. If you don't take it, you are leaving money on the table," **Yoos** said.

If the couple find they have enough money to make additional retirement plan contributions, however, he recommended that they open their own Roth individual retirement account. These IRAs, while funded with after-tax dollars, typically escape taxation on withdrawals.

Given their age, the Amatos should have 75 to 80 percent of their investments in equities, preferably through mutual funds, **Yoos** said. "I'm not a big fan of individual stocks," he told them.

He liked Janice's suggestion of putting funds into one of the mutual fund portfolios structured to match the investors' year of retirement - in this case roughly 2035. The couple could fund such an account with the proceeds from selling the three individual stocks they own, he said.

Other retirement holdings, however, were more problematic. Both Janice and Paul had purchased fixed-rate annuities with IRA money in 2004. "That's a tax shelter within a tax shelter," **Yoos** told them, noting that this duplication lowers returns.

The latest statement showed the annuities with an annual return of just 4.3 percent. Even worse, if the two liquidate the annuities before 2010, they will get hit with penalties. **Yoos** recommended that the

Amatos find out if penalty-free withdrawals are allowed, and if so, move the maximum annual amount directly into an IRA at a discount brokerage or mutual fund family.

As for eventually buying a new home, **Yoos** was optimistic. The Amatos' $80,000 of equity in their Worcester condo will one day make "a nice down payment," he said.

Having purposely plotted a career plan that emphasized personal reward over financial gain, the Amatos were relieved just to know they had financial options. "We definitely feel a lot better about our financial situation," said Janice.

By reconstructing expenses from the month of October, she figures, they'll have the three months of data needed to have a new budget in place by January.