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GET WITH THE PLAN: income needed to turn financial life around

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The Situation: Toni, 57, was left with a financial mess when she and her husband divorced five years ago. He refused to pay any portion of their kids' college educations and she agreed to release any hold on his retirement accounts so she could keep the family home. Now Toni is out of work, barely making ends meet and she's looking at the sole responsibility for college tuition.

The Way Out: Finding any kind of income is the key for this Union County woman, who is spending more than she receives from unemployment, spousal and child support. She may need to consider selling her home if she can't find a job, and taking additional loans to pay for college isn't something she can afford.

Toni, 57, is in a serious financial bind.

Her divorce five years ago left her with little but her home, which she wanted to keep for her two kids, now 20 and 17. But the price she paid was very high, agreeing to forgo any rights to her ex's retirement accounts.

Then her ex filed for bankruptcy protection, which destroyed Toni's credit because some of their credit accounts were joint accounts. That made refinancing her mortgage, which she was required to do as part of the divorce settlement, nearly impossible.

Instead, she decided to take the proceeds from an inheritance to pay off the mortgage, but that left her without a cash cushion.

Then she became unemployed. She currently survives on $241 per week from unemployment and a few hundred dollars in spousal and child support. The child support will be reduced in a few months, and unemployment will run out in September.

"I feel like such a leech," she says. "Many, if not all, of my problems would be solved if I could find a job."

Toni worries about more than current cash flow. She and her children are looking at tens of thousands of dollars of student loans because college tuition payments were not part of her divorce settlement.

"It was never discussed. They were still in grammar school and he was making all sorts of demands, including refusing to help pay their tuition," Toni says. "We didn’t want to push the envelope. Stupid, now I know."

She’s also considered retirement, she says, but she’s not hopeful because she doesn’t have a job to retire from.

Toni, whose name has been changed, has $2,800 in a cash balance pension, $81,500 in IRAs, $2,700 in a brokerage account, $500 in a money market, $4,100 in savings and $1,250 in checking. There’s also $4,900 in a college savings account, but that’s just about spent.

The Star-Ledger asked **Jennifer Murray**, a certified financial planner with **Stonebridge Financial Advisors in Morristown**, to help Toni get on a plan for success.

"With limited resources and currently unemployed, Toni is in a very tough spot," Murray said.

While some mistakes were made, Murray said, Toni can take steps to improve her situation.

First, she has to take a close look at her monthly spending.

"Her expenses run about $4,709 per month or $56,508 per year," Murray says. "On a monthly basis, her expenses exceed her income by $1,606. Yearly, this is a drain of $19,267."

There are several items contributing to the shortfall, and Toni has some possible actions to consider.

First, she inherited a property when her parents passed away, but the value of the property is about the same as the yearly cost.

She should get rid of it, and fast.

"I recommend that she sell the property so as not to continue to have the cash drain," Murray says. "Proceeds should be used to pay off credit card debt and repair the roof."

The next immediate concern is college expenses for Toni’s two children. Next year, both will be in college, and Murray says with tuition, room and board for in-state schools running $25,700 per year, this is a big expense.

Already, Toni has taken $24,500 in parent loans.

"With less than $10,000 in savings — excluding retirement assets — she is not in a position to help the children with these expenses until she is working again," Murray says. "That, unfortunately, is the reality."

Murray says that she believes Toni’s Estimated Family Contributions would be quite low, and the children would qualify for loans and grant aid.

Given the situation, Murray says now is the time to act.

"I suggest that she contact the college’s financial aid office at the schools and explain her situation," she says.

Finding a job — any job — is essential for Toni to get on more solid financial footing.

"As soon as you start working again, apply for a home-equity line of credit for emergencies and to possibly to help with the children’s college tuition," Murray says. "Paying off the mortgage with your inheritance may have seemed like the right thing to do at the time, but it drained you of what liquidity you had."

Having liquidity or a line of credit is essential when you are out of work, Murray said.

If Toni is unable to find work soon, the prudent option would be to consider selling her home.

"With a shortfall of $19,000 per year, she cannot continue like this," Murray says. "Additionally, once her unemployment ends in September and her spousal support is reduced in June, her shortfall will be closer to $37,000 per year."

Murray says Toni should also sell her stock to pay off some credit card debt.

If all goes well and Toni does find a job, she has a long way to go for retirement savings.

"She will need to save upwards of $20,000 per year toward retirement — that could include a company match on a 401(k) — to have a retirement living expense of $45,000 in today’s dollars," Murray says.

That’s assuming that she retires at age 70 and works part time until age 75, receives a rate of return on investments averaging 6.5 percent per year with inflation averaging 3.15 percent per year, and that she continues to stay in her house.

Selling the home would free up cash to earmark for retirement, and it could lower her monthly expenses.

Get With the Plan is designed to illuminate personal finance concepts and isn’t a substitute for actual financial planning or dedicated professional advice. To participate, contact Karin Price Mueller at ***kmueller@starledger.com***.