MONEY MAKEOVER

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A plan for getting by, working less

By Lynn Asinof, Globe Correspondent | November 15, 2009

Unemployed and single, Phyllis Werlin didn't think she could afford to retire. But the Malden resident - laid off twice in 12 months from technical support jobs - was eager to rethink her relationship with work.

"There are lots of things I would love to do rather than get another 9-to-5 job,'' she said. "Lots of people are reinventing themselves.''

Having just turned 50, Werlin knew she wanted to do some reinventing of her own. She just wasn't sure she could afford it. Looking for professional help in plotting her future, Werlin applied for a Boston Globe Money Makeover. Her question for fee-only financial adviser Dana Levit: If her current savings wouldn't support full retirement now, just how much did she have to earn each year in order to make ends meet?

Levit, of Paragon Financial Advisors in Newton, crunched the numbers, looking at Werlin's expenses, the expected return on her investments, and the size of her Social Security payments once she reached full retirement age. The one thing she didn't factor in was Werlin's life expectancy. Rather than risk Werlin outliving her money, Levit said, "I just plan for you never to die.''

The bad news, Levit said, was that her portfolio - built from savings and an inheritance from her father - just wasn't big enough for her to retire now. If she started taking money out of the portfolio today and wanted it to last, she could take only $34,000 a year, adjusted for inflation - not enough to support a lifestyle that currently costs $41,000. To comfortably make ends meet, however, the former tech-support staffer only had to earn between $7,000 and $12,000 a year for the next 16 years. After that, Social Security would kick in, providing Werlin with the extra funds needed.

"That's lower than I thought,'' said a pleased Werlin, noting that Levit's numbers give her real flexibility in making her next professional move. "Can I find a job that pays $12,000 a year? Yeah, I think I can.''

Levit's projections, of course, were based on assumptions, including an inflation-adjusted 6 percent rate of return on Werlin's portfolio, 3 percent inflation, Social Security payments of at least $12,000 a year, and a continuation of Werlin's frugal lifestyle. Just how risky were those assumptions?

Levit wasn't worried about Werlin's ability to stay on budget, pointing to a 13-page expense spread sheet that Werlin had provided. Her entries were so detailed that she could pinpoint the $23 she spent at Kupel's Bakery in March. "This is a financial planner's dream,'' said Levit.

The planner was also confident that Werlin would get the Social Security payments she needed, since current projections show her eligible for $18,500 a year, well more than the amount needed. The inflation-adjusted investment return projections were also conservative, Levit said. Still, the planner opted to provide an additional financial cushion. While Werlin only needs to earn $7,000 a year to maintain her current lifestyle, Levit said Werlin should actually aim for $12,000 to provide an extra measure of security.

Turning to Werlin's investments, Levit said the current portfolio is nicely allocated, with 60 percent in stocks and the remaining 40 percent in fixed income. But her current mutual fund selection includes a lot of overlap, with many of the funds holding the same stocks. "That means you're not actually getting as much diversification as you think,'' said Levit, who likes to use index funds that stick to a single asset class. That, she says, makes it easier to rebalance a portfolio when markets move.

Levit recommended that Werlin increase her international investments, which currently account for only 8 percent of her holdings, and shift some assets from large-company mutual funds into those that invest in small- and mid-cap stocks.

Turning to taxes and retirement, Levit said Werlin should think about Roth IRAs. Since Werlin has earned income in 2009, she can make a Roth contribution up to either the amount earned or $6,000, whichever is less. But Levit said Werlin should also consider converting some of her traditional IRA funds to a Roth. The advantage: Assets held in both types of accounts grow tax-free, but distributions from a traditional IRA are subject to income tax while those from a

Roth usually are not.

Typically, Roth conversions trigger big tax bills because the money must first be taken out of the traditional IRA. But in Werlin's case, investment losses and tax deductions will dramatically reduce her 2009 taxable income. According to Levit's calculations, Werlin could convert $5,000 of her IRA to a Roth and pay no extra taxes at all. Or she could convert $15,000 and pay just a 10 percent tax, Levit said.

Armed with Levit's recommendations, Werlin has already started making changes. She has purchased a much-needed new refrigerator and interviewed for a part-time customer service job. She's still pondering the Roth conversion. More important, she has enrolled in a class in synagogue music to further her work as a cantorial soloist, and she is thinking of taking additional classes in the future.

While she still has lots of questions about next steps, Levit's financial projections have given Werlin new confidence. "This is the time to do it,'' she said of her newly launched exploration of cantorial music. Having found that she has the flexibility to reinvent herself, she's wasting no time investigating the possibilities.

To be considered for a Money Makeover, fill out the application at the "Your Money'' section of boston.com/business, or call 617-929-2916. ■