With a bit of careful saving, la dolce vita is within reach

By Lynn Asinof

Globe Correspondent / November 28, 2010

Susan Cunningham, 57, has been dreaming in Italian. Having spent five years working in Florence when she was younger, she now wants to figure out a way to live in Italy for six months of the year and spend the other six in Brookline. And she's more than willing to work in both places to make her dream a reality.

A dental hygienist with modest retirement savings, she knows she is dreaming big. She has been actively working to trim her expenses and boost her savings, but figured she needed help if she was ever going to live la dolce vita. So she applied for a Boston Globe Money Makeover, saying that she needed some perspective on whether her dream was a realistic one.

When she sat down with fee-only financial planner Dana Levit of Paragon Financial Advisors in Newton, Cunningham was ready to hear the worst, but Levit gave her hope.

"You're not trying to have it all,'' Levit told her. "You are willing to work to support this dream.''

Levit outlined several possible scenarios for Cunningham, providing a financial map that could eventually lead her back to Florence.

The first step, Levit said, was coming up with a plan for her properties. Cunningham currently owns a condo in Brookline, which she rents out at a profit of about $7,000 a year. She's living in a second condo in Lynn, which she is looking to sell. And she is buying a third condo — a Brookline studio apartment located within walking distance of the dental office where she works four days a week.

"Lynn was a mistake for me,'' Cunningham said, noting that she bought the condo in 2008 when she wanted to downsize but was priced out of the Brookline market. The move to Lynn put her closer to family, but meant that she had to buy a car. Now she's buying the studio apartment in Brookline in hopes of correcting that unfortunate detour.

Cunningham's downsizing plans earned kudos from Levit. But a less-than-robust real estate market in Lynn means she may be forced to rent out the apartment there until she can find a buyer for the two-bedroom unit. Given that uncertainty, Levit said Cunningham needs to start by looking at what happens to her finances if she has to hold on to all three properties.

After taxes and 401(k) plan contributions, the hygienist currently has about $50,000 of take-home income after adding in the rent she earns on the first Brookline condo. Her current expenses total about $45,000 a year, with the budget including $1,500 for an annual trip to Italy. That leaves about $5,000 that she's currently putting into savings. If she simply rents the Lynn apartment, Cunningham said, there would be little change in her financial situation since the Lynn rent would cover the costs of the new condo.

Unloading the Lynn condo, however, would make a significant difference in her ability to boost those savings, Levit said. "Moving to a less expensive living space and selling the Lynn apartment will save her an additional $7,500 a year, and selling the car will save another $4,000,'' she said. That would increase her savings by $11,500 a year. Some of that savings, however, would have to be used to pay off a $15,000 loan from relatives that she used for the down payment on the new studio condo.

If you include employer contributions to her workplace 401(k) plan, Cunningham is already saving $9,800 a year. So this reduced overhead could bring her annual savings to a total of $21,300. And that, Levit said, would make a huge difference in Cunningham's ability to build her $140,000 of retirement savings into an amount capable of supporting a two-country lifestyle.

To see how long the money would last, Levit created several financial scenarios. She calculated potential savings under each scenario, added it to the $140,000 base, factored in an investment return of between 6 and 7.5 percent, and calculated Social Security benefits at age 66.

Assuming that Cunningham retired at age 66, Levit said, the projections showed that given current saving and spending rates, Cunningham would deplete her portfolio by the time she turned 76. If she sold both the Lynn condo and her car, however, investment of the additional savings would allow her to stretch her money until age 89. And if she also continued to work part time from age 66 to 75, she could actually make her portfolio last through her 100th birthday.

Noting that Cunningham has almost no financial cushion, Levit said it was time to establish an emergency fund. She recommended that the hygienist start putting her extra cash into an online savings account from an Internet bank such as ING until the balance hit $18,000. She said the remaining $18,000 of emergency fund money could be tucked into a Roth IRA, since contributions can be withdrawn at any point without penalty.

Cunningham’s current retirement portfolio is locked into an annuity and mutual funds that carry both a sales fee and hefty annual management fee. But since both investments would be difficult and costly to unwind, Levit suggested that Cunningham leave those accounts alone for now and open a new Roth account using a lower-cost, no-load mutual fund. She suggested using a balanced fund with an asset allocation of 60 percent equities and 40 percent fixed income.

Levit’s recommended cost containment and aggressive savings plans might have been daunting to some, but Cunningham was thrilled. “This is very encouraging,’’ she said after reviewing the numbers. “It makes my dream come true, and it is not even painful.’’

Nonetheless, there are caveats, Levit said. “There’s not a lot of wiggle room,’’ she said, noting that Cunningham would not only have to maintain her frugal lifestyle, but also be willing to continue working past age 66 to make ends meet.

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.

© Copyright 2010 Globe Newspaper Company.