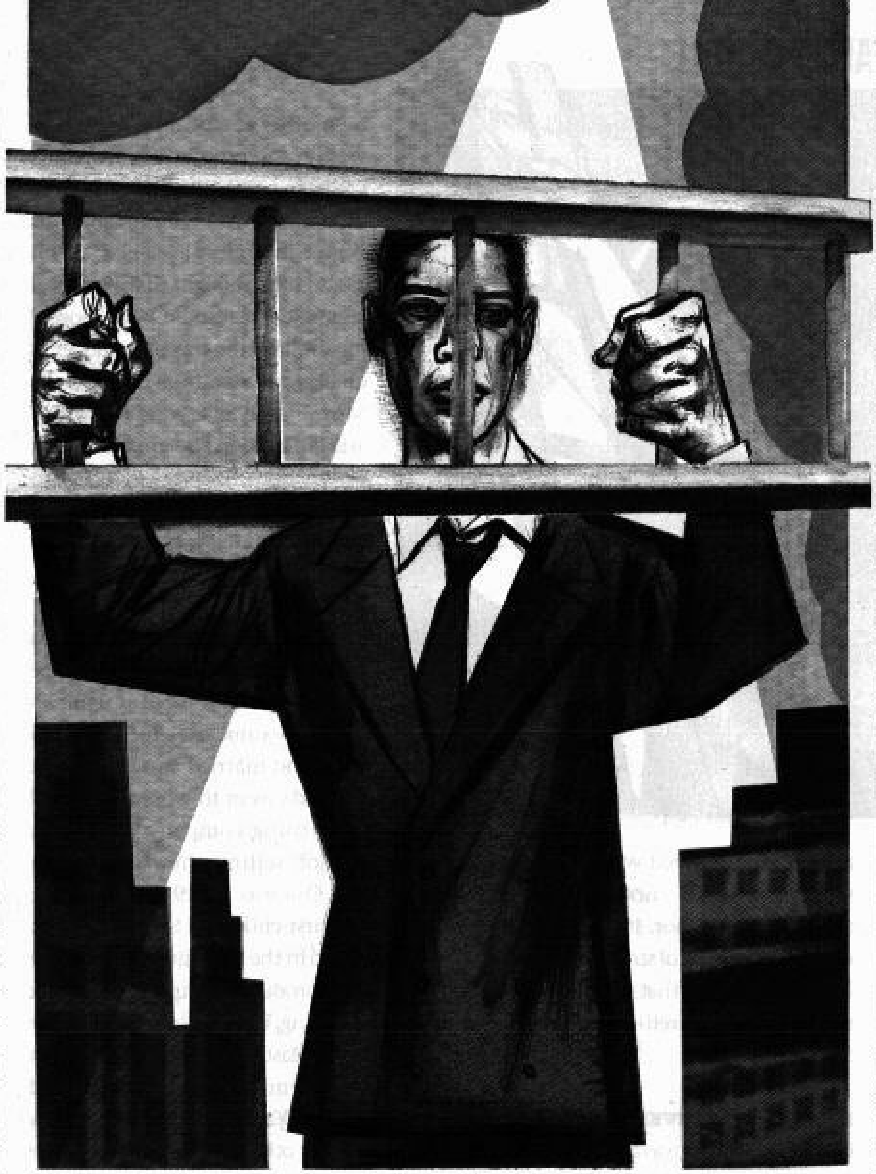

Rich man, poor man

Is Sam Reynolds crazy to give up a $250,000 job and become a social worker?

By Julie Cazzin

SAM REYNOLDS WANTS TO change his life. His wife Amanda wishes he wouldn't.

A year ago, Sam resigned from his $250,000-a-year job as head of sales and marketing for a major consumer products company. He received a generous severance package as well as stock options that totaled $350,000. But instead of looking for another job in his field, Sam has decided to pursue his dream and become a social worker. "Yes, I made great money for several years, but it was a high-stress, high-pressure job," says Sam, 45. "I'm sick of corporate life and I want to do something more meaningful. This is my window to do just that for the next 10 years."

Amanda, also 45, feels differently. Sam will probably make about $40,000 a year in his new field and Amanda thinks he's underestimating how tough the transition to a more modest lifestyle will be. She has been a stay-at-home mom for more than a decade and has counted on Sam to provide for her and their three kids—Karina, 14, Rebecca, 11, and James, 7. (We've changed the Reynolds' names to protect their privacy.) "We've gotten used to a certain lifestyle and now Sam's asking us to throw it all away," says Amanda. "I don't think he's thought out the long-term implications of his decision. It makes me feel nervous for our future."

Sam has crunched the numbers and he disagrees. He points out that their sprawling bungalow in Markham, Ont., is paid off. He and Amanda have $650,000 in savings plus $850,000 in RRSPs. He figures that is more than enough to guarantee them a good lifestyle, even if he only earns $40,000 and Amanda doesn't go back to work for another couple of years.

Sam glows with enthusiasm as he lays out the details of his plan. He figures he's been a good provider for years and deserves a chance to try something new. He says he's been thinking about his career transition for at least three years, although he admits he never talked to Amanda about his plan before quitting his job. "There wasn't anything to talk about," he says. "I feel very confident that we can do this."

To help convince Amanda of the validity of his plan, he's devised a budget that shows their family's yearly expenses as well as their savings. "I figure I can make $40,000 a year and we can draw down $35,000 from our investment portfolio each year," says Sam. "That should cover our $75,000 in annual expenses, which includes all that I think we need to live comfortably."

Amanda is skeptical. She hates the thought of withdrawing money from their savings. She feels they are jeopardizing their childrens' university tuitions as well as their own chances to retire at 55. "My biggest fear has always been a stock market crash and here it is," says Amanda. "We've lost over $150,000 from our stock portfolio in the last 12 months—and that's on top of the $100,000 we lost back in 2006 when the tax on income trusts was changed. I don't want to be dependent on stock market returns to pay our household expenses."

Amanda thinks Sam is being wildly unrealistic about what life on a smaller budget will be like. "We've gotten used to several trips a year with the family, eating in high-end restaurants and buying ➤

Illustration by JOE MORSE

each other as students at the University of Toronto. In 1985, Amanda graduated with a bachelor's degree in English while Sam finished his degree in political science. "Who would have thought that a political science degree would have allowed me to climb the corporate ladder as quickly and as easily as I did," laughs Sam. "Today everyone has MBAs and PhDs. I don't put much stock in designations, because I know that in my case, it was never the degree that got me ahead. It was the fact that I can sell anything, especially myself. Amanda will vouch for that."

After graduation, the Reynolds spent three months skiing in Europe and another four months sightseeing. They came back to Toronto in 1986 and married two years later. Amanda went to work for a small advertising company while Sam landed a job selling chewing gum in northern Ontario. In 1993 the couple had their first child and Sam moved on to a new job in the sales division of a large consumer products company. His work was fascinating, but grueling. "When I left the company last year, I controlled a media budget of $50 million, and my salary had reached $250,000," says Sam. "But I was on a plane every other week to either Europe or Asia on company business. I hated being away from the kids for such long stretches of time. Believe me, I won't miss eating out or being in a strange hotel room. That kind of life gets tedious after a while."

Sam has developed an interest in the simple living movement, which stresses spiritual rather than material satisfaction. In fact, it was after reading Carl Honoré's *In Praise of Slow,* a book that challenges its readers to lead less hectic lives, that Sam began to think about what he really wanted to do. His company had recently merged and management wanted to purge staff. He decided to quit and take advantage of a $350,000 severance package. He used the money to pay off his mortgage.

Sam is now taking social work courses at a local college and loving every minute. "He didn't even tell me he was enrolling in a social work program," says Amanda. "He just showed up in a suit one morning. I thought he was going to a job interview, but he was going back to school."

Sam hopes to find a full-time job in social work by September. For now the family is living on their savings. "I'm already interviewing for jobs in social work," says Sam. "They're entry level positions, but you have to start somewhere. I love to coach people and mentor others. It's the perfect field for me."

Sam has drawn up a budget for the family for the next 10 years. He's confident that their RRSP, if left untouched, will allow Amanda and him to retire at 55 without ever making another contribution. "We just need to control our expenses a bit more and maybe put in a vegetable garden. I think we can do it without much pain."

But Amanda has looked at Sam's budget and she thinks Sam is dreaming. For instance, there's no money allocated to travel in the budget, yet the Reynolds have grown accustomed to taking three family ski trips to Colorado every year, at a cost of $9,000 per trip. "Up until now we've had hundreds of thousands of Aeroplan Miles from Sam's company credit card to dip into," says Amanda. "We'll miss that."

Sam isn't worried. He thinks they can have just as much fun driving to nearby ski resorts for their winter outings. "There are a lot of ways you can travel cheaply and have a great time," he asserts. "As for nice restaurants, if I never eat in a fancy restaurant again it will be fine with me."

For now, Sam's budget allows for $75,000 a year in spending. Sam figures that's what it will take to cover all the necessities as well as the kids' camps and activities. And if Amanda doesn't want to go back to work right now, that's fine, although Sam hopes

anything we wanted when we wanted," says Amanda. "It's not that we're huge spenders. We're not. It's just that we've never had to think of stretching our dollar. I can't help feeling that we may wind up in the poor house in retirement if we follow Sam's plan."

AMANDA HAS NEVER HAD TO BUDGET before. "My father was a great lawyer and a poor businessman, but he always brought in a good income," says Amanda, who grew up in Kingston, Ont. "My mother, brothers and I never worried about money. There was always plenty to go around."

Sam's dad was a high-school teacher in Toronto and his family was full of savers. "My dad worked very hard, did his own taxes and taught us from an early age about saving 10% of your income," says Sam. "Any allowances my sisters and I got always had 10% taken off the top and put into our savings account. Because of that I've always been a good saver."

The couple met when they were teenagers, while working at a golf resort in Prince Edward Island during the summer of 1982. "That summer job gave us the chance to work and get away from home," remembers Sam. "But I won't lie. It also gave us the chance to party while we earned a bit of money for school."

Sam and Amanda continued to see

WHERE THEY STAND

Assets	
House	$750,000
RRSPs	850,000
Savings and investments	655,000
Stock options	150,000
RESPs	70,000
Cars	15,000
TOTAL ASSETS	**$2,490,000**
Liabilities	
TOTAL LIABILITIES	**$0**
Net worth (total assets minus total liabilities)	**$2,490,000**

Illustration by JOE MORSE

HOW SAM THINKS THE MONEY WILL BE SPENT

Yearly disposable income	
Sam's income	$40,000
Plus: interest/dividends/ capital gains from savings	66,000
Total gross income	106,000
Minus: taxes and other deductions	-31,000
NET DISPOSABLE INCOME	$75,000
Yearly expenses	
Shelter (includes property taxes and all expenses)	$20,500
Transportation	10,950
Groceries	11,750
Kids' camps and activities	23,000
Entertainment/restaurants	4,600
Clothing	2,900
Donations	1,300
TOTAL EXPENSES	$75,000

A MORE REALISTIC BUDGET

Yearly disposable income	
Sam's income	$40,000
Plus: interest/dividends/ capital gains from savings	$90,000
Total gross income	$130,000
Minus: taxes and other deductions	-37,000
NET DISPOSABLE INCOME	$93,000
Yearly expenses	
Shelter	$19,500
Transportation	9,400
Groceries	15,000
Kids camps and activities	23,000
Entertainment/restaurants	4,600
Family vacation	10,000
Clothing	5,000
Donations	1,300
Miscellaneous	5,200
TOTAL EXPENSES	$93,000

she could start earning $25,000 or so a year, beginning in two years. Her paycheque would provide a nice buffer for the family finances. "I've done a lot for my family but I really need to do something for myself now," says Sam. "I'm not afraid for our financial future. But it's important to me that Amanda feels confident we can do this."

What the experts say

Sam Reynolds should be applauded for having the courage to walk away from his $250,000-a-year job and pursue his dream, say our experts. "It's not common to see people take such a drastic turn," says Marc Lamontagne, certified financial planner with Ryan Lamontagne Inc. in Ottawa.

David Martin, private client manager for United Financial Corp. in Halifax, says it's refreshing to see someone take charge of their life in such an energetic fashion. Both he and Lamontagne agree that Sam has constructed a reasonable financial plan. But what worries our experts is the disregard that he's shown for Amanda's feelings. To remedy the situation, our experts suggest that the Reynolds should adopt the following strategy.

Fine-tune the budget The budget Sam has drawn up is based on the notion that the Reynolds will spend $75,000 a year—about half of it coming from Sam's salary and the remainder from their $650,000 non-RRSP savings portfolio. To make this work, the Reynolds will have to withdraw $66,000 a year from their non-RRSP savings.

Our experts say this is quite a safe strategy. Even if Amanda never goes back to work, and the Reynolds' portfolio makes only 6% a year, Martin calculates their non-RRSP savings should last the family for 14 years, or until the Reynolds are nearly 60 and their kids are gone. At that point, their RRSP should be worth close to $2 million—more than enough to finance a comfortable retirement for the couple.

But the experts doubt whether the Reynolds will be able to stick to such a tight budget. "It will be a huge challenge for a family who has spent years living on $250,000 a year to suddenly begin living the simple life," says Martin. "It's too drastic a change." He recommends that the family redo their budget, adding $20,000 for groceries, clothes, a family vacation and other miscellaneous expenses.

The Reynolds should be able to live comfortably on $93,000 while still maintaining their dream of retiring at 55, according to our experts. Assuming Sam is earning $40,000 a year, the Reynolds will have to withdraw $90,000 from their non-RRSP savings portfolio to be able to spend $93,000 a year after tax.

This plan means that the Reynolds' non-RRSP savings will run out in just under 10 years. But at that point their RRSP should be worth about $1.5 million, enough to retire on at 55 if they so choose. "That's a big pool of money and that should provide them with a comfortable retirement," says Lamontagne. "And of course, their budgets will get adjusted downwards as there will be no more camps, less groceries and less clothing to buy for the kids."

Address the stress But the experts point out that there's another problem—the Reynolds' marriage is under a lot of stress. Sam sees the family's money as his own. For someone who wants to be a social worker and a coach, he hasn't done much to communicate with Amanda or make her feel part of his life-changing decision. "That's a real problem because Amanda and Sam have very different tolerances for risk, mainly because they have very different levels of investment education," says Lamontagne.

Our experts recommend that the Reynolds find a financial adviser they can sit down with every six months. The adviser can give Amanda an unbiased opinion and ensure she feels comfortable at each stage. "Withdrawing money from savings is difficult for many people," says Lamontagne. "Understanding how investments and volatility works will ease her fears."

Our experts stress that there is lots of room to adjust the plan as the years go by. If Amanda gets a job in two or three years—even at a modest $35,000 a year—the couple could reduce the amount they withdraw from their savings and leave much of their principal intact. Or, if Sam decides he dislikes social work, he could always go back to a higher-paying job.

The couple should make a $2,500 RESP contribution annually for each of their kids, even if the cash has to come out of their savings portfolio. This will guarantee them the $500 educational grant from the government. And as they cash in their stock options, they can earmark some of that money to help pay for the kids' post-secondary education. "They have choices," says Lamontagne. "That's a great thing. They shouldn't have any worries." **M**

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