WEALTH ADVISER

Helping a Family Move into a Bigger Home

By JESSE SUNENBLICK

April 28, 2014 9:15 a.m. ET

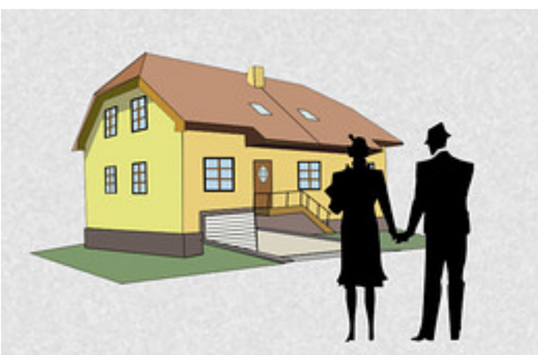
The couple was in their late 30s and expecting their second child.

Also in Wealth Adviser:

Managers Are Rotating Into Cyclical Stocks

Why Federal Workers Make Great Clients

Visit the Wealth Adviser Page



They wanted to move to a four-bedroom house to accommodate their growing family, but weren't sure if it was financially prudent. The husband's $150,000 salary accounted for 75% of the family's income, and he worried about carrying a larger mortgage should something happen with his current job.

"They fit a niche that I see over and over--growing families that know they should be saving, but aren't sure how much," says Linda Rogers, owner of San Diego-based Planning Within Reach, which provides financial planning to families but doesn't manage money. "At the same time, they're outgrowing their house. They feel paralyzed."

To give the couple the clarity they needed to make a decision, Ms. Rogers created financial plans for three scenarios: stay in their current $450,000 house and their employment situation remains unchanged; upgrade to a bigger house, which would cost about $750,000, and the husband keeps his job; purchase the bigger house and the husband loses his job.

To perform her calculations, Ms. Rogers first gathered data on the couple's spending habits by giving them an expense sheet to record their monthly expenses. She took note of certain line items should the couple need to cut expenses later. For example, the couple was spending $1,200 on private-school tuition for their 5-year-old daughter, and $400 monthly on dining out. Both husband and wife also had a unique, hot-button spending issue--clothing and entertainment--that combined cost them $600 a month.

Ms. Rogers then simulated the three scenarios that presumed no changes to their monthly spending. Currently, the couple was able to save $1,500 a month. If the couple moved into the bigger house with a larger mortgage and the husband kept his job, they would be able to save $550 a month.

However, the third scenario presented problems. If the couple moved into the bigger house and the husband lost his job, the reduction in the family's income combined with new health-insurance costs would result in a $1,300 monthly deficit. This would make the home purchase impractical.

If the couple wanted to move and be confident they wouldn't hit a cash-flow crunch, they would have to change their lifestyle. But Ms. Rogers was wary of making explicit suggestions.

Linda Rogers

"I try not to be judgmental, which I think is good advice for all advisers," she says. "After filling out the expense sheet they had an awakening. They completely stopped eating out and they agreed to cut their hot-button spending issues in half without me even saying anything."

The couple also reasoned that they could look for houses only in neighborhoods with good public schools. That way, if the husband lost his job, they could move their daughter out of private school without worrying about the quality of her education. Ms. Rogers then created a new budget and found that these changes would eliminate the cash-flow deficit in the worst-case scenario.

In the end, the husband didn't lose his job. But it was Ms. Rogers' planning that gave the couple enough confidence to buy the bigger house. "Even if the worst happened, they had a plan in place," she says. "And it was also preventative. They came to me before they really needed to take action, which is ideal."