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GET WITH THE PLAN: Couple need to shed debt

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Debt is weighing heavily on Norma and Pete.

Not only do they have a mortgage, but the couple has more than $26,000 in credit card debt from home renovations, more than $24,000 in business loan obligations from a failed business, $95,000 in personal loan debt with a family member, car and college loans.

"We want to stop living paycheck to paycheck and pay off debts," says Norma, 39.

The Union County couple, whose names have been changed, have set aside $26,926 in 401(k) plans, $17,336 in IRAs, $12,447 in college savings for their two kids, ages 9 and 7, and $100 in checking. They've stopped retirement plan contributions and debt paydown is their main concern.

The Star-Ledger asked **Jennifer Murray**, a certified financial planner with Stonebridge Financial Advisors in Morristown, to help get the couple's finances in order.

"With the couple's current federal tax withholding levels, their monthly take home-pay is $700 more than their monthly expenses," says Murray. "However, they aren't saving anything so they should look again at their expenses."

Their debt service each month (excluding their mortgage) is $2,600. Like most couples, they can probably find areas to cut back to free up extra cash, which is desperately needed for debt payments. A close look at their budget with an accounting of expenses should help them find some extra cash.

Next, the couple should examine their tax strategies. Their 2008 federal income tax return is on extension, but once it is filed, it's essential they sit with their tax preparer to re-evaluate their withholdings.

They're expecting a refund of more than $12,000. Rather than give the government an interest-free loan each year, they should adjust their withholdings so they can bring home more in each paycheck, and those extra dollars should be earmarked to pay their debt.

The expected 2008 refund should be put toward the debt, too, Murray says. Also, they should talk to their accountant to make sure they're getting the tax benefits from the business loss.

Mortgage refinances are a common way for families to increase their cash flow, but it's probably not a viable option for Norma and Pete. They refinanced in March 2008 to a 30-year, fixed-rate loan at 5.5 percent.

"Their loan-to-value is 82 percent, so it is unlikely that they can tap into the equity in their home to pay off some of the consumer loans, which have rates upwards of 27 percent," Murray says.

Instead, it may be time to talk to their family member about the personal loan. Norma and Pete should ask about deferring the payments so they can apply the $500 they're currently paying toward the higher rate consumer loans.

Norma stopped contributing to her company's 401(k) plan in January to free up cash flow. She had been contributing 6 percent with a company match of 3 percent, and Murray thinks it's time to restart contributions.

"The couple is way behind in saving for retirement," says Murray.

While paying for their kids' college education is important to Norma and Pete, Murray says that has to come last.

"Normally, I don't recommend using college funds to pay off debt, but they may want to consider that option due to their crushing debt level and high interest rates of 27 percent," Murray says. "Depending on when the 529 accounts were funded, they may not have a gain and therefore no penalty on the withdrawal."

DO IT YOURSELF
If you're looking for strategies to pay down debt, check the Debt Consolidation calculator at DinkyTown.net.

Get With the Plan involves readers anonymously divulging their personal financial information in exchange for free advice from a professional.

The feature is designed to illuminate personal-finance concepts and isn't a substitute for actual financial planning or dedicated professional advice.

Readers who would like to participate may contact Karin Price Mueller at **kmueller@starledger.com**.