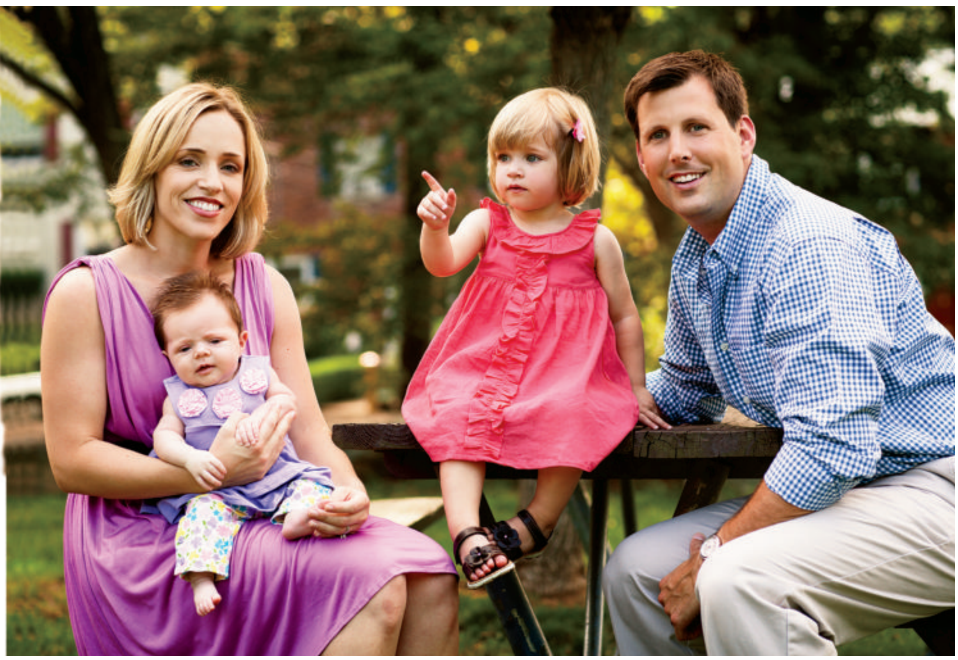
THE FINANCIAL FIX

▶ **Shawn and Mary Kate DeRose,** *Alexandria, Va.*

THE CHALLENGE: Mary Kate would like to work only part-time. But can her family afford it? **By BETH BRAVERMAN**



GOALS

Meet current expenses on a smaller monthly income ($8,600 rather than $11,000)

Keep saving enough for retirement

ASSETS

$7,500 in cash

$38,500 in retirement funds

$2,100 in college savings accounts

SHAWN AND MARY KATE DEROSE live comfortably on a combined $133,000 income. They pay their debts, save for retirement, even have room to splurge on dinners out and high-end gym memberships. But the birth of their second child, Regan, in May has Mary Kate, 33, a literacy coach for a school district, thinking of dialing back to part-time work. "In a perfect world, I'd be able to spend more time with my girls," she says. Her employer will let her go half-time for half pay: $32,600. But is that enough—along with the $78,000 that Shawn, 33, earns as an assistant principal—to support their lifestyle?

With a $3,600 monthly debt load that includes payments on a mortgage, home-equity loan, auto loan, and credit cards, their budget will be tight, warns Alexandria, Va., financial planner Tim Wesling. They'd need to cut debt by $500 a month and other expenses by $1,300, he says. That's more than the DeRoses had bargained for. Says Mary Kate: "We really have to think about it." ■

THE SOLUTION

1 Cut the debt. The DeRoses are paying 7.8% on a $63,000 home-equity loan. They could refinance and shave more than 2 percentage points off that rate, reducing their minimum payment by $200 a month. Wesling also wants them to nix the $300 a month they put on credit cards (for meals out, clothes, and the like).

2 Take the ax to expenses. The couple will save $500 a month on day care, but that still leaves them with $800 to cut. They might get rid of their older car and reduce costs across their budget to do it.

3 Keep saving. Shawn should continue stashing 10% of his income for retirement even as the couple trims elsewhere. As he gets raises, he should direct the cash to retirement and the home-equity loan.

FOR BRINGING UP BABY, BRING DOWN DEBT

A healthy debt-to-income ratio is 36% or below. A $2,400-a-month drop in pay will put the DeRoses well above that—unless they make changes.

TOTAL MONTHLY INCOME ONCE MARY KATE DIALS BACK

$8,600

IF THEY ...	Total monthly debt	Debt-to-income ratio
...make no changes	$3,600	42%
...refi the home-equity loan	$3,400	40%
...cut back on credit card debt	$3,300	38%
...refi *and* cut back on card debt	$3,100	36%

PHOTOGRAPH BY ROB HOWARD: STYLING BY PASCALE LEMAIRE: GROOMING BY SUSAN HEYDT

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