Commission critical

Marilyn wants to quit her job to sell houses. Can she afford her new career?

By Julie Cazzin

After 12 years of commuting two hours a day to a stress-packed job in a sporting goods store, Marilyn Stetson has had enough. The resident of Cobourg, Ont., wants to give up her steady paycheque and build a new career selling real estate. "I'm very unhappy at my work," says Marilyn, a 46-year-old mother of two. "I'm sick of the commute and I want to be home more for our teenage daughters."

Marilyn's husband, Dan, 37, supports his wife's decision to shake up their secure life, but neither of the Stetsons is quite sure how they're going to make ends meet for the next year or two while Marilyn studies for her real estate license and builds her business. Dan, a computer programmer, earns $57,000 a year, but his salary by itself can't cover the family's $92,577 in annual expenses. The Stetsons (whose names we've changed to protect their identity) are already carrying a $192,000 mortgage on their house, another $94,000 mortgage on a rental property and $12,000 of debt on a line of credit. They have only minimal savings and no company pension plans.

"My plan is to quit my job in May, finish the real estate course by mid-summer, and begin selling real estate in the fall," says Marilyn. "I'm a hard worker, but I'm just not sure what to expect as far as future income goes. I have to admit that I sometimes feel like I'm jeopardizing our financial future for considering this. Am I being selfish by wanting to make such a drastic change? Can we afford it?"

Despite her doubts, Marilyn's innate optimism bubbles through. A gregarious, energetic woman, she's overcome challenges before. She got her first job in sales right after high school in Toronto at a local Fairweather clothing store. Soon afterwards, she married her first husband, Steve, a mechanic, and had two daughters, Maxine and Rachel—now 14 and 15 respectively. That's when things got tough. Marilyn was promoted to sales manager and given extra store duties. But she was also carrying a full workload at home when it came to cooking, cleaning and picking up the girls at day care. "Steve didn't really want kids and didn't help out at all," Marilyn says. "He went to work and came home. That's it. Then he moved us out to the country. I liked being around people, but he wanted to live like a hermit in his country house. That's still the way he is today. I left him after nine years of marriage and we got a divorce soon after."

In 1994, Marilyn met Dan, a mild-mannered outdoorsman who loved golfing, fishing and birdwatching. The couple married and began a new life together with Marilyn's daughters on a two-acre property near Cobourg, a lakeside ➤

Illustrations by SHONAGH RAE

community two hours northeast of Toronto. "We started our life together with nothing," says Marilyn, "and now we're really happy with how we're living."

Marilyn's work also went well during those years. She switched employers and found a sales job she loved in a sporting goods store. A string of promotions followed and seven years ago she was appointed store director, with responsibility for overseeing every aspect of her outlet from scheduling and training staff to in-store promotions and accounting. She thrived on the challenge. "My store was one of the top stores for sales and profits in all of North America," says Marilyn proudly. "That was quite an achievement for us."

Then in 2002 everything changed. New management at head office instituted strict rules that left local managers with no discretion and imposed higher and higher sales quotas. Marilyn felt beaten down. "We used to leave customers alone to shop, but now head office wanted us to be in the customers' faces all the time," says Marilyn. "We had to make sure to ask the customers to

WHERE THEY STAND

Assets	
Home	$340,000
Rental property	120,000
Dan's RRSP	36,171
Marilyn's RRSP	100,801
RESPs	6,681
Chequing account	600
Savings account	3,500
Cars	34,000
TOTAL ASSETS	**$641,753**
Liabilities	
Mortgage on their home	$192,000
Mortgage on rental property	94,000
Line of credit	12,000
TOTAL LIABILITIES	**$298,000**
Net Worth (total assets minus total liabilities)	**$343,753**

come back, to say 'hello,' to ask them if they wanted to buy something else before they left the store. There was no letting up. The customers complained we were in their faces, but if we told head office, they emailed back hostile responses like 'Just do it. What is the problem?' "

Even though her store's sales continued to be strong, Marilyn felt like a failure. Constantly under stress, she couldn't sleep and began to snap at her family. "My store used to break sales records," says Marilyn. "Now we couldn't because the bar was set too high."

Sick of the tension, she stepped down as store director two years ago and took up the less stressful position of associate store director. That meant a difficult $20,000 pay cut that dropped her annual salary to $65,000. Dan, who had recently been promoted in his programming job at an environmental company, was sympathetic. Still, Marilyn has grown to loathe her job.

Marilyn figures that if she's going to change careers, now is the time, when she still has the energy and drive to make the transition. Her two daughters no longer need constant supervision in the evenings. Steve, their father, has announced that he's willing to foot the bill for the girls' university educations, so the Stetsons don't have to worry about saving for tuition expenses.

What does worry the couple is paying the bills until Marilyn is again earning a good income. She's already finished the first of two required courses for her real estate license and plans to finish the second this summer so that she can begin selling properties by the end of the year. "I know it will be tough at first," says Marilyn. "All the agents I've talked to say that it'll take at least a year or two before I can expect to earn anything close to what I was earning at the store. I'm very motivated."

The Stetsons figure there are three ways they can survive the cash crunch they will face over the next year or two.

HOW THE MONEY IS SPENT

Yearly Disposable Income	
Dan's income	$57,000
Marilyn's income	66,383
Rental income	9,600
Child support	3,600
Minus taxes and other deductions	- $43,588
NET DISPOSABLE INCOME	**$92,995**
Yearly Expenses	
Debt repayment	
Line of credit	$3,000
Mortgage on rental home	6,500
Total debt repayment	**$9,500**
Shelter	
Mortgage payment (including property taxes)	$33,075
Home insurance	806
Hydro	2,184
Oil	1,800
Cell phone	780
Home phone	1,430
Internet	250
Satellite TV	768
Total shelter	**$41,093**
Transportation	
Car Insurance	$3,300
Gas	7,500
Maintenance	1,500
Highway tolls	100
Total transportation	**$12,400**
Personal	
Groceries	$10,400
Vacation	2,500
Haircuts	480
Real estate courses	1,000
Restaurants	1,200
Gifts	2,000
Bank fees	200
Books, newspapers, magazines	200
Gym membership	504
Clothing	2,400
Furniture	500
Gardening and outdoor supplies	200
Miscellaneous	2,000
RRSP & RESP contributions	6,000
Total personal	**$29,584**
TOTAL EXPENSES	**$92,577**
Available Income (Total income minus total expenses)	**$418**

One option is to collapse Marilyn's $100,000 RRSP and use the money to help out with household expenses. But since neither Marilyn nor Dan have a company pension, they're not sure of the long-term impact of sacrificing a big chunk of their retirement savings.

Alternatively, Marilyn could go in the opposite direction and borrow money to make a huge $40,000 lump-sum contribution to her RRSP this year. The Stetsons figure the big contribution would generate a healthy tax rebate that the family could live on for a few months. They would worry about paying off the RRSP loan when Marilyn's income is healthier.

Finally, the couple could simply tap into their $35,000 line of credit. This strikes the Stetsons as an easy and attractive option since they would pay only a 6% interest rate on the loan and they could pay off the debt as soon as Marilyn starts earning commissions.

The one asset the couple would like to avoid cashing in is the equity they've built up in their investment property—a small, two-bedroom home on a half-acre lot that they bought two years ago for $100,000. They figure the house is now worth $120,000 and it's been able to generate enough in rental income to carry itself since the day they bought it. That has allowed the Stetsons to double up on mortgage payments on their principle residence. "The second home was one of the best investment decisions I ever made," says Marilyn. "It's also what got me interested in real estate sales. We don't want to sell it if we can help it."

The Stetsons know they will have to cut their spending and they're confident they can do so. "Right now, we spend a lot of money because we can," says Dan. "We'll cut back."

Marilyn, however, feels they will have to do more than just pinch pennies for a few months. "I know we'll have to either take money out of our RRSPs, tap into our line of credit, or sell the investment property we bought two years ago," she says. " I just want to make sure we do this in the best way possible."

What the experts say

Barbara Garbens, a registered financial planner and president of BL Garbens Associates Inc. in Toronto, and Sandra Foster, a financial educator and president of Headspring Consulting in Toronto, agree the next two years will challenge the Stetsons. But the Cobourg couple can do a lot to ease Marilyn's career transition.

Look at the numbers. For starters, the Stetsons should be realistic about how long it will take Marilyn to replace her present $66,383 salary. Most new real estate agents make no money for the first eight months, say agents we talked to in the Cobourg area. Three-quarters of agents make $20,000 to $50,000 in the second year. In all probability, it will take Marilyn about four years to get back to what she is earning at her current job—and that's provided she stays the course. "Many agents find it hard to get going," says Deb MacTaggart, a real estate agent for the last two years with Coldwell Banker in Pickering, Ont. "You're running all the time and it can be exhausting."

The Stetsons are spending almost all of their disposable income. So when Marilyn quits her job, the family will have to replace about $40,000 in annual net income for a year or two if they want to maintain their standard of living.

Cut expenses and extra mortgage payments. Finding $40,000 a year is difficult, but Garbens feels the Stetsons can shave up to $20,000 a year off their spending without too much trouble. They can start by doing without their $2,500 vacation, cutting restaurant meals by $600, and holding off on the $6,000 contributions they would otherwise put into RRSPs and RESPs. As well, they've been making an extra $10,000 annual payment towards their mortgage. They could stop this payment for the next two years.

Don't touch the RRSPs. Both Garbens and Foster agree that collapsing Marilyn's RRSP is a bad move. Marilyn would lose out on investment gains and she wouldn't be allowed to replace her withdrawal in the future since RRSP contribution room can be used only once. Rather than wasting her contribution room this year, when her income will be quite low, our experts recommend she wait. "That $40,000 contribution window is of more use in the future when she's earning big bucks in real estate," says Garbens. "Then she could borrow, top up her RRSP and get a really big tax refund."

Get their line of credit in order. Given the sporadic nature of real estate commissions, a hefty line of credit could be a lifeline over the next two years. Both Foster and Garbens advise that the couple increase their credit limit to $70,000 or more while Marilyn still has a well-paid job and credit is easy to obtain.

Diversify. Our experts advise the Stetsons not to pour every free penny into their investment property. Instead, they should concentrate on building up liquid assets that could provide a buffer if the property market slows.

Get life insurance. Our experts agree that Marilyn should buy a $500,000 term life insurance policy. "The Stetsons' mortgage can't be paid on one income," says Foster. She recommends carrying the policy until the family's debts are paid off and the kids are out of university. By then, with Marilyn's real estate career kicking into high gear, the Stetsons' lives should be rosy. M

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