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# Family Finances

*By Anne Bokma*
*Photograph by: Illustrations: Dean Tweed*

## Meet Penny Wise

**She's the parent who never seems stressed out about money. She's savvy about her purchases, but never comes off as stingy. Here's how to be just like her.**

Mark Fenton, a 46-year-old flight coordinator in Hamilton, Ont., was laid of from his job for six weeks last year. While six weeks without an income might be enough time to seriously damage most people's bank account and credit cards, he and his wife, Jennifer Dawson, 40, weathered the storm. They had plenty of savings socked away and were able to manage their living expenses without feeling sucker-punched. Did they win a lottery or something? On the contrary, Mark and Jennifer have always been very careful about how they spend their money. In fact, they did so well that when Mark went back to work he negotiated a job share arrangement so that he could pursue his dream of writing a novel. "For a lot of people a layoff would be a crisis, but that wasn't the case for us," says Mark. "We live simply and had savings set aside."
That's the kind of financial security most people can only dream about. But Mark and Jennifer currently have a household income of $45,000 and regularly put money away in investment vehicles such as RRSPs and RESPs for their two teenage daughters. They proved that through careful financial planning it is possible to get their family's finances on a firm footing. Here's what you can learn from them:


**Develop a household budget:** Keep a record of your household spending for one or two months so that you know exactly where your money is going, says Toronto personal finance blogger Chaya Cooperberg. "When you don't know where you are spending your money, then you can't manage your money." She uses an Excel spreadsheet to track fixed expenses such as mortgage and car payments, as well as non-fixed expenses such as eating out and clothing. The real work is upfront because you need to determine how much you are spending in a host of categories. Chaya says it takes about an hour a month to review the budget and ensure their spending is on track. "It's helped make us a lot more conscious of how we spend our money. If we have a major financial decision to make, we go to our spreadsheet to see what we can afford."

**Cut the debt:** Canadians are carrying an enormous debt load, with the debt-to-income ratio hitting an all-time high of 148 percent last December. This debt load eats up our surplus cash, money that should be invested in savings vehicles. Mark and Jennifer try not to get into any debt in the first place and never carry credit card debt. Simply put, they live within their means. How?

- although they qualified for a $600,000 mortgage, they chose to buy a $200,000 home
- they only have one vehicle
- their vacations mostly consist of camping (although in the last few years they have managed trips to Cuba and New Mexico)
- they buy second-hand clothes
- they rarely eat out
- they don't sign their kids up for expensive organized activities.

It's a simple life, but a good one, says Mark. "The price to pay for carrying a lot of debt is just too high because it causes stress and worry."

**Be careful about borrowing:** Low-interest lines of credit are a huge temptation for many Canadians, says Diane McCurdy, a certified financial planner who operates McCurdy Financial Planning in Vancouver and is the author of How Much Is Enough? Balancing Today's Needs with Tomorrow's Retirement Goals. "Lines of credit are a slippery slope and it's easy to abuse them," she says, noting that people use them to pay for $50,000 kitchen renovations, a new vehicle or a fancy vacation. "Borrowing for your first car is okay and so is borrowing for your home. Everything else you should save for. Remember any interest you give to someone else you could be spending on yourself."

**Figure out how much you'll need to retire:** Do you envision spending your sunset years travelling the globe and belonging to a high-end golf club? Or do you expect something less expensive – perhaps taking courses, volunteering, gardening or reading novels? Whatever your plans, you need to plan your finances accordingly, says Dennis Tew, chief financial officer of Franklin Templeton Investments Corps. in Toronto. We've all seen the ads from the financial services industry urging us to sock away $1 million in our RRSPs if we hope to have a comfortable retirement. "For some people that will be a windfall, and for others it won't be nearly enough," he says. "You need to have a sense of what it's costing you to live now and what you'll need in the future. That can change over time so you should reassess this every year."

**Invest in RRSPs (Registered Retirement Savings Plan):** It's the single best savings option for Canadian families, says Tew. That's because of the magic of compound interest and the tax refund you'll receive. If this is all you do in terms of a savings plan, it's probably enough – as long as you invest regularly over the long-term, says Tew.

**Open a Tax-Free Savings Account:** Billed as the single most important savings vehicle since the introduction of the RRSP, the tax-free savings account (TFSA), introduced in January 2009, is a type of registered investment account that allows you to earn income (for example, investment income and capital gains), tax free. You can contribute up to $5,000 a year and withdraw any of your contributions plus your investment returns at any time without paying tax. Whatever money you withdraw from the account creates an equal amount of contribution room.

**Set up an enforced savings plan:** Wayne Watson, a stay-at-home dad in Toronto, manages his wife's income and puts money aside each month in RRSPs, RESPs, and is currently considering opening a TFSA. He has also set up an automatic deduction of $100 twice a month, which is directed into a high interest savings account. He also deposits any RRSP refund he gets into the account. "It's a painless way to save for a family vacation," says Wayne.

**Hire a pro:** Only about one-third of Canadian adults use the services of financial planners and many people are under the mistaken impression that you need buckets of money to invest before you hire a pro. While it's certainly possible to take care of your finances yourself, most people simply don't have the time to keep up to date on tax laws, new products and the vagaries of the market. "The more I see of the capital markets and how the investment environment works, the more convinced I am that unless you are focused on money management full time, it's very difficult to stay on top of everything you need to in order to make the right decisions," says Chaya. "I stay on top of broader trends in the market, but I rely on my financial advisor to keep track of my portfolio allocations."

## Dreams of the future

**Save for your children's education – NOW**

Within months of the births of his three children, now ages 4, 6, and 8, Jamie Golombek, managing director of tax and estate planning for CIBC Private Wealth Management in Toronto, had set up a Registered Education Savings Plan (RESP) in each of their names. Every year he contributes $2,500 into each of the plans, for a total of $7,500. By the time they reach 18, Jamie is hoping each of his children will have an education savings nest egg of between $60,000 and $80,000. He's convinced it's the best money he could ever spend on his kids.


"RESPs are definitely one of the best investments parents can make for their children and the number one reason is because the government will give you free money for contributing," says Jamie. "And who doesn't love free money?"

The free dough is the 20 percent Canada Education Savings Grant (CESG) paid by the federal government on annual contributions up to $2,500. That's a total of $500 per child per year in grant money – or $7,200 over 17 years, the length of time the CESG is available for. (There's a maximum lifetime contribution limit of $50,000 on RESPs.)

Lower-income families can also receive the Canada Learning Bond (CLB) Supplement. This is provided through the National Child Benefit Supplement, which you may receive if your family qualifies for family allowance. The CLB provides an additional $2,000 education grant per child. (Go to canlearn.ca for details.)

It's not just the grant that makes RESPs so appealing. It's also the tax advantages. Money in an RESP grows tax-free, and, when your child eventually withdraws the funds, their tax bill is likely to be small since they will be in school and not earning much of an income.

With the current cost of a four-year degree at $77,000 (for a student living away from home) and projected costs expected to rise to $137,000 in 17 years, it's no wonder parents are taking advantage of this tax-free savings tool to pay for their kids' education.

According to Statistics Canada, 68 percent of kids 17 and younger whose parents believed they would pursue post-secondary studies had some education savings set aside in 2008, a big jump from only 43 percent in 1999. The most common way of saving for a child's education was RESPs – 69 percent of those children with education savings had RESPs.

If you haven't set aside money in an RESP by the time your child heads off to college or university, you may have to dip into your own retirement savings, take out a home equity loan, or postpone your retirement in order to help them out. Or your child can take out a student loan. These are scenarios you want to avoid at all costs, says Jamie. "If there is even a remote possibility that your kids will go on to post-secondary education, I would urge you to contribute toward an RESP, even before contributing toward an RRSP. The government is giving you a rate of return of 20 percent and you can't beat that anywhere in the market."

**Get started.** First, apply for a social insurance number for your child through Service Canada. Then, consult with an RESP provider such as a bank, credit union, group plan dealer or certified financial planner to help you open an account. (Be sure to ask about fees and any conditions for withdrawing your money if your child does not pursue post-secondary education.) Then you'll have to decide how – and how much – to invest. You and your provider can select from a mix of investments, including mutual funds, stocks, GICs or bonds.

**Figure out what to buy.** There are two types of RESPs: self-directed or group. With self-directed RESPs, parents decide, often in conjunction with a financial advisor, what kind of investments to hold. With group plans, parents' savings are combined and invested by the dealer, who insures the portfolio is balanced. Investments are required by law to be in safe, government guaranteed vehicles such as T-bills and government bonds.

**determine how much to invest.** Ideally you would sock away $208 every month or $2,500 in a lump sum once a year to be eligible for the maximum $500 CESG. But even if you can only set aside $25 a month, every little bit counts, says Carey Vandenberg, a chartered financial planner and principal of C.E. Vandenberg & Associates in South Surrey, B.C. "It's better to start off with smaller investments and build on that than to be very aggressive and then find it's too much and stop the contributions."

**Consider your child's age.** Be more aggressive with your RESP funds when your child is young – if the market takes a hit, there will be plenty of time for it to recover by the time your child is ready for university. "In the early years it certainly makes sense to have a portfolio geared toward equities because you have an 18-year-horizon," says Jamie. However, by the teen years you should stay away from equities because you don't want to face stock market risk within a few years of needing the money. "Readjust your portfolio depending on when you need the money. If you'll need it in two years, it should be in something secure."

Play catch-up. If you didn't start an RESP when your child was born, you can make up for it when they are older. You can make maximum annual payments of up to $5,000 per year (and you'll receive 20 percent or $1,000 in grant money). Carey, whose children are 17 and 19, says he gradually increased the amount he put in their RESPs as they got older. "When parents are younger they might not have as much money to set aside as they do when they are older and more established – that's when you can catch up on your RESP contributions."

Withdraw the money. When your child goes off to post-secondary studies, he or she will claim the money as income. If your child decides not to go to school you can withdraw original contributions for non-educational purposes with no tax consequences, but you will be taxed on any earnings you've made. And the CESG money generated by the original contributions will have to be paid back.

**WATCH YOUR SAVINGS GROW**

A monthly automatic deposit is the most painless way to save funds for your child's future education. Here's how the numbers add up based on three different monthly savings amounts over 17 years, assuming a four percent rate of return.

| MONTHLY DEPOSIT | TOTAL INVESTMENT | GRANT+ INTEREST | VALUE AFTER 17 YEARS |
|---|---|---|---|
| $50 | $10,200 | $7,348 | $17,548 |
| $100 | $20,400 | $14,696 | $35,096 |
| $208 | $42,432 | $29,321 | $71,753 |

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