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p.30 A PLAN TO BLAST YOUR CREDIT-CARD DEBT!

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money matters

We all know we should save for both a rainy day and our retirement dreams. The problem is, a lot of us aren't saving enough. Stock markets are down, prices for necessities are up, consumer debt is at an all-time high and incomes are stagnant. So how can families manage to plan prudently and tuck away more in their savings? A little advice from the right people can work wonders. So we asked three personal finance experts to take a look at the spending, savings and debts of two families who are trying to do just that, then offer advice on how they can make their financial dreams a reality

BY LYNDSIE BOURGON
ILLUSTRATIONS BY DANIEL FISHEL

THE FINANCIAL EXPERTS

Kathy Waite is a Saskatchewan-based financial planner and owner of Eureka Investor Guidance.
Annie Kvick is a financial planner with Money Coaches Canada in North Vancouver, B.C.
Ian Black is a financial planner and principal at Macdonals, Shymko & Company Ltd., in Vancouver.

Find out how to determine if you can afford another child in our iPad edition.

lana & dayle morris

Lana and Dayle Morris* live in Edmonton with their small, soon-to-be-expanding family. They have been living in their three-bedroom bungalow since 2010, when they moved from Newfoundland to Alberta for work (Dayle is the head of a provincial not-for-profit, and Lana works as a volunteer coordinator for a non-profit, from her home office). In 2012, the couple welcomed their first son, and they are expecting their second child this fall.

Lana longs for a bigger space for their growing family. "I just really want a two-storey house. I'll find the bungalow crowded now that we're going to have a second kid," she says. "We would like to move the family to a bigger, two-storey home with a den. But I feel like maybe that's irresponsible, considering we have considerable debt from student loans and our car. I also wonder if we should be putting more away for our retirement."

Complicating matters, Lana will be back on maternity leave in September—that works out to a $25,000 income cut, and the daycare costs will double when she goes back to work. Lana uses the money tracking website *mint.com* to monitor where they spend their money, and she notes that they always seem to close out the month with less than $40 to spare. "One thing that always surprises me is groceries," she says. "And a lot of it goes to travel, because both our families live away. And now that I'm working again, I can't believe how expensive daycare is." Lana and Dayle want to know if they should focus on paying off the remaining debt on a student line of credit, save more for retirement or invest in a bigger house.

FINANCIAL GOALS To move into a larger house once their family expands while also paying off debt and saving the right amount for education and retirement.

MONTHLY NET INCOME:	**$8,740**
MONTHLY EXPENSES:	
Mortgage and property tax	**$1,750**
Phone, Internet, cable	**$295**
Utilities	**$310**
Insurance	**$320**
Child care	**$800**
Groceries	**$1,000**
Transportation	**$660**
Entertainment	**$98**
Eating out, coffee	**$700**
Personal expenses	**$750**
Savings contributions	**$625**
RESP	**$100**
Miscellaneous	**$1,000**
Debt payments	**$800**
DEBTS:	
Student line of credit	**$30,000**
Car loan	**$25,000**
Mortgage	**$306,000**
SAVINGS/INVESTMENTS:	
Self-directed RRSP (Lana)	**$10,000**
RRSP (Dayle)	**$35,000**
LIRA (Dayle)	**$15,000**

expert advice

KATHY WAITE "When feeling overwhelmed by decisions, I suggest that families plan short-term and long-term. In the short term, Lana and Dayle can potentially save $2,000 per month by reducing by half what they spend on eating out, entertainment and miscellaneous expenses. They could also take a break on saving and put a pause on the $200 per month into the TFSA, because Dayle's company is matching his RRSP contributions. Stopping their son's daycare [while Lana is on maternity leave] will also save $800 per month. Long term, I would suggest they put off moving until at least one of their children is out of daycare. House rich and cash poor isn't much fun! Trading up the home in a few years at the expense of saving isn't so bad because a mortgage is enforced savings and the proceeds are tax-free."

ANNIE KVICK "Lana and Dayle are actually on track with their retirement goals. If they want to have more money in retirement than they do today, they can kick up that savings once their children are older. But since they don't have a rainy day fund today, it would be great if they could both save up for one and work hard at paying off their current debt load before buying a bigger home. The first year back from maternity leave will be costly, with two kids in daycare for a full year. But after that year, their oldest will start Kindergarten and the cost will go down again. They should try to save up for those two upcoming years. I recommend they reassess again in two years."

IAN BLACK "This is a transition time over the next several years, and Lana and Dayle have no free cash at the moment because they are paying down debt, which is a better place for it to go than savings. But they don't seem to have an emergency fund. Since he earns more, Dayle should have more life insurance coverage. I think Lana and Dayle are living close to the edge, but I wouldn't be too concerned about growing the savings. It's paying down debt as quickly as they can."

FOR THE AGES

There's no one-size-fits-all approach to financial planning, but there are some typical guidelines that can help you manage your finances through various stages

20s ♦ Focus on paying off your loans, and start saving early. ♦ Work toward a down payment on a home and start saving (however minimal) using a TFSA. ♦ Buy life and illness insurance now, while you're young and healthy. ♦ If starting a family, apply for the Child Tax Benefit and UCCB as soon as your child is born.

30s ♦ If you have children, apply for the Child Tax Benefit and UCCB as soon as they are born, and save consistently for your kids' education. ♦ Focus on starting or increasing your savings towards your child's education. Every dollar counts, and the earlier you start, the more the savings will compound. ♦ Teach your children about money, and help them understand how to save, spend and donate. ♦ If there's any extra cash leftover, save toward something good (like a vacation) instead of spending on consumer goods. "Have some great family vacations before your kids are teens and find you too embarrassing to be seen with," says Kathy Waite. ♦ Make sure you have joined any company-matching RRSP programs, and save extra. ♦ Draft a will if you have not already done so.

40s ♦ Catch up on any retirement savings that you may have let slip. If you haven't started yet, do it now. ♦ If you want a bigger home, consider how much you'll need to live off of for retirement—and only buy if you can afford to save at the same time. ♦ Talk to your bank about ensuring your investments stay in your account by minimizing fees and taxes.

50s ♦ Ideally, any debt you have should be minimal (or gone). ♦ Retirement planning is key, so don't leave it. You still have time to catch up, but don't take on added risk on your investments to do so. ♦ Hire a fee-only certified financial planner to create an individualized savings plan to reach your retirement goals. ♦ If your kids are in university or college, hopefully you have an RESP base that you can top up with your monthly cash flow. ♦ Update your power of attorney and ensure your will is solid.

*Names have been changed

CRUSH CREDIT CARD DEBT

Wishing you could banish that hefty credit card balance so you can put more money toward your long-term dreams? Personal finance expert Preet Banerjee offers up a two-phase plan in this excerpt from his book *Stop Over-Thinking Your Money!*

Transfer high-interest balances to low-interest balances

If you have room on a line of credit, start by transferring the credit card balances there. A credit card with a $5,000 balance at 28 percent interest is costing you more than $115 in interest per month. Transfer that to a line of credit that charges five percent, and you've saved yourself almost $100 per month—which must go towards paying down the line of credit. The next thing you need to do is call your credit card company and have the credit limit reduced or have the card cancelled to prevent you from getting into trouble again. I know some people may rely on credit as their emergency reserve, but I also know they have multiple credit cards.

Once you've shifted your balances to the lowest interest-rate facilities, you need to ensure that you don't use your credit cards, or get a new loan, or borrow in any other way, until you're rehabilitated. Freeze your cards in a block of ice, cut them up, do whatever it takes to prevent you from using them.

Develop a plan of attack for paying down your debt

Create a list of all your debts, not including the mortgage. If you have three credit cards, all with a balance, list them. Many people have no rhyme or reason in their approach to paying their credit card bills. If they have $600 per month dedicated to paying off the three cards, they may pay $200 to each. That's not ideal. You need to focus on paying them off one at a time, while still meeting your minimum payments on each one (and slightly more than just the minimum is okay). That might mean payments of $50 per month to two of the cards and $500 per month to one card. The question is, which card do you pay off first?

You can either pay off the cards in order of highest interest rate first and lowest interest rate last, or begin with the card that has the lowest balance and deal with the one that has the highest balance last. Once one card is paid off, you focus on the next card until they are all paid off.

If you pay off the card with the highest interest

steven & cheryl lee

Steven and Cheryl Lee* live with their two sons, ages two and five, and family dog in Mississauga, Ont. They both bring in substantial incomes and are working hard to save money for their children's education and their own retirement. Cheryl works as a high school teacher, and her position and salary are secure. Steven recently accepted a new job in the pharmaceutical sales industry and received a raise that has left the family a bit more financially sound. "Prior to moving to my new position, things were a little tighter," says Steven. "Last year we had two kids in daycare, and we were spending more on daycare than we were on our mortgage." The Lees had been putting extra money into their mortgage, but that stopped. "We had to cut our mortgage payments back to the minimum. But when our eldest son started school, we increased the mortgage payments again."

Still, Steven feels that his industry is a bit risky; his move to the new company came after his previous employer went through a number of layoffs during his time there. He has also been spending a lot of time at work and is missing out on time with the family. The Lees also aren't sure where they should be putting any money that they might be able to save if they are able to make cuts elsewhere. "We're putting money into the RRSPs, but we're not maxing out every year," says Steven. "If we have extra money lying around, should we invest it in the RRSP or into the mortgage?"

FINANCIAL GOALS In order to make things work, Steven has been working a lot of overtime in his job and feels that he may be missing out at home. They can't see where they could cut spending to save money. Are there any tweaks they can make that will allow them to maintain their lifestyle but also save more money?

MONTHLY NET INCOME:	**$8,108**
MONTHLY EXPENSES:	
Mortgage and property tax	**$2,451**
Phone, Internet, cable (expensed for work)	**$0**
Utilities	**$160**
Insurance	**$382**
Child care	**$1,406**
Groceries	**$400**
Transportation	**$275**
Entertainment, eating out, coffee	**$500**
Savings contributions	**$350**
RESP	**$418**
Miscellaneous (pet care)	**$60**
Debts	**$341**
DEBTS:	
Mortgage	**$321,563**
RRSP loan	**$20,000**
SAVINGS/INVESTMENTS:	
RRSP (Steven)	**$230,605**
RRSP (Cheryl)	**$5,425**
RESPs	**$26,890**

expert advice

ANNIE KVICK "The reality is that there is no easy answer between the RRSP and the mortgage. There are so many benefits with both, and so many variables. But my first recommendation is to start saving any surplus towards an emergency fund before paying anything more toward the mortgage or the RRSP. It's also important to have at least three to six months' worth of living expenses in case of a "rainy day"—unexpected home repairs or losing a job. The TFSA is perfect for this. Second, I would recommend they take a really good look at their spending habits—their kids will grow up before they know it. They are making good money, but often we don't really know where it is going. They can start tracking their money for one or two months and they will likely 'find' money."

KATHY WAITE "Steven and Cheryl are planning for the long term but living with day-to-day uncertainty. I think they need to look back through at least three months of bank and credit card statements and list everything they spent to have a more realistic idea of where they can cut back. When it comes to deciding between paying down the mortgage or saving for retirement, consider this: You can't sleep under your RRSP, so if there is any financial or job insecurity, paying off the mortgage is a no-brainer. Overpaying now could also lead to a mortgage vacation later, if you need it at times of high expenses. As well, paying down the mortgage now leads to more disposable income when the children are in university, easing the strain."

IAN BLACK Steven and Cheryl should reassess their spending, notes Black, as it seems quite low, especially on the grocery front. His advice? Start tracking exactly what they spend in order to pinpoint where they can find additional savings.

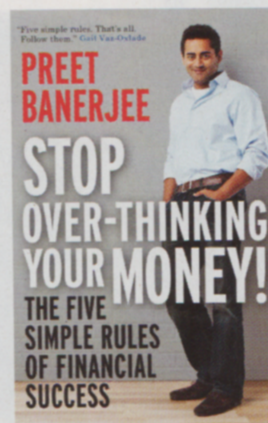
EXCERPTED FROM *STOP OVER-THINKING YOUR MONEY!* BY PREET BANERJEE. COPYRIGHT © PREET BANERJEE, 2013. REPRINTED BY PERMISSION OF PENGUIN CANADA BOOKS INC.

rate, you're reducing your overall interest payments fastest and, from a pure numbers standpoint, it's the best way to go. It makes you debt-free the fastest, although usually not by a landslide. But, in my experience, people respond better to paying off the card with the smallest balance first. The psychological victory they enjoy by slaying a credit card once and for all is a powerful motivator.

Now, the next card in line receives a $550 monthly payment ($500 plus the $50 minimum payment you were making before). Once that's paid off, the last card gets $600 per month. This is commonly referred to as the "debt snowball" method. Unless you have strong objections to the approach, use the snowball method and pick the debt that will get paid off the fastest, regardless of interest rate. Don't overthink it, just do it.

A word of caution to anyone thinking about taking credit card and other debt balances and adding them onto your mortgage. The idea that you can "consolidate" debt into your mortgage is sometimes offered as an attractive solution to a heavy debt burden. The illustrations and calculations can show monthly increases of freed-up cash to the tune of hundreds of dollars, because a 25-year loan at four percent for $10,000 in debt doesn't cost as much as an open-ended $10,000 balance on a credit card at 28 percent. Many see it as a fresh start. Just one debt payment—the mortgage, and no credit card debt.

But not everyone who consolidates their debts has learned their lesson. In many cases, they've just given themselves more rope with which to hang themselves. I've seen cases where people consolidated multiple times because they kept on overspending. They may have started with a $250,000 mortgage, and 10 years later it's $300,000: they can do this only owing to the fact that real estate has been increasing in value steadily for the better part of two decades. That increase allows them to use the built-up equity in their home to finance dumb spending decisions. They clean up their credit card debt only to rack it up again. Wash, rinse, repeat. That's great advice for shampooing your hair, awful advice for managing your debt.



Discover other strategies for reducing debt and saving more in *Stop Over-Thinking Your Money! The Five Simple Rules of Financial Success* (Penguin Canada), in bookstores now.

"It's difficult to quantify that, but there seems to be some unaccounted for money that should allow them to shovel more into their mortgage or RRSP loan. They've cut fairly well. If they have excess cash flow, it should go against the highest-rate, non-deductible debt, which is probably the RRSP loan." CF

SAVINGS PRIMER

It can be more than a little confusing to make sense of the savings options available. Here's what all those financial acronyms mean

◆**TFSA** A tax-free savings account allows Canadians over age 18 to save money tax-free. You can contribute the dollar limit for the year ($5,500 for 2014), as well as any unused TFSA contribution for the previous year and any amount withdrawn from the account the previous year. Income and withdrawals from the TFSA are generally tax-free. In general, cash, mutual funds, securities listed on a designated stock exchange, GICs, bonds and, in some cases, shares of small business corporations can be held in a TFSA. You can also set up a self-directed TFSA if you wish to build and manage your own investment portfolio.

◆**RRSP** A registered retirement savings plan is established by an individual, set up through a financial institution and registered by the Government of Canada. The individual and their spouse or common-law partner can contribute to the plan. You can contribute to your RRSP until the last day of the year in which you turn 71.

◆**RESP** A registered education savings plan provides education funding for a beneficiary who must be under age 21 when the plan is created. An individual (usually a parent or relative) enters into an RESP with a promoter (often a bank, financial firm or insurance company) and then contributes to the plan. Contributions are not tax deductible. The promoter later makes payments to the beneficiary to help finance his/her education. Payments from the contributions are not taxable. However, income earned by an RESP is paid to the beneficiary as an educational assistance payment and is taxable. The lifetime limit on all RESP contributions for a beneficiary is $50,000.

◆**RDSP** A registered disability savings plan allows parents (and others) to save for long-term financial security for a person (child or adult) who has a disability. Contributions are not tax-deductible, and they are not included in the income of the beneficiary when they are paid out of the RDSP. However, income earned by the RDSP, as well as the Canada disability savings grant, Canada disability savings bond and rollover amounts (e.g., transfer of a tax-deferred RRSP from a deceased parent), are taxable when withdrawn. The lifetime limit for a beneficiary is $200,000.

◆**LIRA** A locked-in retirement account is a type of pension plan that keeps your money invested and continuing to grow until you retire; they must be established as an RRSP. Income can't be drawn from a LIRA; it must be transferred to a life income fund (LIF), a registered income life fund (RLIF) or an annuity.

◆**GIC** A guaranteed investment certificate is an investment that ensures your full investment will be returned and that you will earn interest at a fixed or variable rate (or based on another predetermined formula). It is considered the safe retirement investment option.