MONEY MAKEOVER

A STUDY IN SMARTS

PhD candidate Leslie has her finances together but she needs a game plan for future savings

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Star Touch

THE PERSON

Leslie is a 34-year-old PhD candidate who has considerable savings and lives quite frugally. She shares a rented semi-detached house with three roommates, paying just $560 a month in rent, and she takes control of managing the finances for the entire household. She keeps her living expenses to $2,700 a month, including her tuition fees. Even though she's not taking classes, her $5,000-a-year tuition is something she must pay as a PhD candidate. She has no debts.

THE PROBLEM

Leslie is at a crossroads. She's currently not working. She received $2,500 from a scholarship and will receive a $1,200 paycheque later this month, but that's the only income for the year. She's living on her savings and trying to decide whether to concentrate on finishing her thesis now or conducting an extensive job search. She thinks she can complete her thesis by August, but even then it could take another three to five years for her to land a job in academia. Leslie calls her employment situation "precarious and sporadic." While she's likely to get a four-month teaching contract this summer, there are never any guarantees. She has $42,500 in her Tax Free Savings Account and another $20,000 in cash. Her TFSA is her rainy-day account. But in the event no catastrophe presents itself, she'd love to continue to save toward a home down payment once she has a job situation sorted out.

THE PLAN

It's admirable how much Leslie has her finances under control, says Julie Langevin, CPA, CA, a money coach at Money Coaches Canada in Timmins, Ont. "She plans ahead and even on a very modest income, and has managed to set aside money to cover her costs during the time she has no teaching contract," she says.

Leslie's bank balance is enough to keep her afloat for 10 months if any tuition fees are excluded, she notes. She can try job hunting and finishing up her thesis simultaneously, but Langevin feels that doing both will require more time to finish the thesis. "If she extends her thesis past August, she'll have to pay tuition fees again," she says.

Langevin recommends that Leslie prepare a spending plan for the next 12 months. Once this is complete, she can than determine the exact amount of money she needs each month and can transfer a fixed allotted amount from her savings account to her chequing account to imitate a paycheque.

“This should be set up as automatic transfers either monthly, bimonthly or bi-weekly, whichever corresponds better with her spending habits,” she says.

Leslie would also benefit by listing her short-, medium- and long-term goals, Langevin adds. “For example, with her goal to purchase property, she could determine how much down payment she wants to accumulate and when and how much she is willing to pay to purchase property,” she says.

She should also look at securing a down payment that substantially reduces or avoids paying mortgage loan insurance from the Canada Mortgage and Housing Corporation (CMHC). A 20 per cent down payment is required to avoid paying CMHC mortgage loan insurance.

Because Leslie has a considerable amount in her savings account, Langevin suggests that she move $5,500 directly to her TFSA (the maximum contribution for this year). “If Leslie needs that money in the latter half of 2016, she can still access it without penalty if held in a high-interest savings account,” Langevin says.

As for an investment strategy, Langevin advises that Leslie keep her savings in a GIC or high-interest savings, since it’s for short- to medium-term savings. Leslie can shop online to get the best rate for GICs.

Leslie might be well suited to buying a home with a rental unit attached to it, she adds. “With her experience with her roommates, collecting rent, charging a flat fee for water and utilities, having a separate bank account for everything rent-related that contains a buffer to pay for incidentals, Leslie has the know-how to be financially responsible owning a rental unit,” Langevin notes. “The rental income would offset part of her costs of owning a home. If she goes this route, she should focus on purchasing a property she can afford alone and not depend on renting it out to make ends meet.”

Finally, with her savings and lack of debt, she doesn’t need life insurance at this time, Langevin says. But as soon as Leslie gets serious about purchasing a home, Langevin recommends she start obtaining quotes for term life insurance at least one month prior to the purchase. “This should be sufficient time to have life insurance in place prior to taking on a mortgage,” she says.