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Couple with four children struggle to balance financial demands

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With one income and four children, Francesca and Terry are struggling to meet competing financial demands – the mortgage, line of credit, children's activities.

They want to save for the children's higher education, build an extension on their home and save for their eventual retirement, but they have no money to spare. He is 45, she is 36. Their children range in age from one to seven.

"We are treading financial water at best with the threat of sinking always impending," Francesca writes in an e-mail.

Terry's $85,000 teacher's salary will come with a pension of about $3,500 a month at age 65 if he stays in the same job, which will help them maintain their standard of living when they eventually retire. For now, though, he has only three years of pensionable earnings.

In four or five years, Francesca will be back at work full time so things won't be so tight. "We know that we need to increase our RRSP and RESP contributions, but our cash is tied to debt payments," Francesca adds.

We asked Sheila Walkington, co-founder of Money Coaches Canada in Vancouver, to look at Terry and Francesca's situation.

What the expert says

Francesca and Terry's situation is typical for young families, Ms. Walkington says. "Despite having good incomes, their money is stretched right now while Francesca is home helping to raise their four young children." She is easing back into the work force, putting in two or three days a month and earning $225 a shift.

They need to find a way to get by on Terry's income and use whatever Francesca brings in for extras, Ms. Walkington says.

They're thrifty when it comes to clothes, gifts, groceries and personal care, "but expenses can get out of control quickly when you add in a few takeout dinners, occasional babysitting, travel to visit Francesca's family, the two older children's activities" and their one extravagance: season's tickets to the hockey game, the planner says.

They recently took out a line of credit to consolidate debts that had been building up over the past few years. If they are not careful, "they will soon find their debt creeping up again," Ms. Walkington says. Holding the line on borrowing is critical to their financial success.

The planner suggests the couple open a number of low-cost bank accounts to manage their expenditures – everything from groceries to the tax bill. They would have one main chequing account for fixed costs and regular monthly payments; a monthly spending account for things they tend to spend money on regularly; and one or two savings accounts for lump-sum and annual expenses.

On each of Terry's paydays (15th and 30th), they could transfer $730 from their joint chequing account to their monthly spending account to cover groceries and spending money. Their basic monthly costs add up to $1,505, while their fixed costs and regular monthly payments add up to about $2,655, including an extra $30 to cover monthly variations.

"If they run out of money before payday, it's rice and beans from the cupboard until the next payday," Ms. Walkington says.

For lump-sum or annual expenses, which total $1,800, they could transfer one-twelfth of the expected annual cost each month to a separate account. This category includes car insurance, hockey tickets, clothing and household maintenance.

Discretionary expenses, such as gifts and travel, should come from Francesca's income from part-time work, the planner says. "Their budget is very tight, so sticking to the system will be key to staying on track with their finances and not adding to their debt."

They have no extra money to pay down the mortgage at this time, the planner says. She recommends deferring the renovation until Francesca is back at work full time and the line of credit is paid off. She also recommends moving their bi-weekly mortgage payments to semi-monthly to match Terry's pay. "Otherwise, they have two months a year when they have three mortgage payments in one month, more than their budget can handle now."

If they do borrow more against the house, their goal should be to have it paid in full before Terry retires.

As for the children's education, they have just started saving $300 a month. Francesca's mother is contributing another $300 to $400 a year for each child instead of gifts. If the money is invested over the next 18 years, it should be enough to cover tuition costs for their four children at a local college or university, Ms. Walkington says.

Client situation

The people

Terry, 45, Francesca, 36, and their four children.

The problem

How to pay off debts and save for the future on a tight budget.

The plan

Keep a tight rein on spending. Pay off the line of credit first and postpone any further borrowing until Francesca is back at work full time.

The payoff

Avoiding the quagmire of creeping debt.

Monthly net income

$5,930 (variable).

Assets

His locked-in savings $43,500; RESPs $4,700; residence $290,000. Total: $338,200 (does not include commuted value of his DB pension plan).

Monthly disbursements

- **Fixed costs and regular monthly payments:** Property taxes $275; hydro $130; her life and critical illness insurance $55; mortgage $1,020; RESP $300; ppty. insurance $195; Netflix, newspapers $50; line of credit $200; telecom, Internet, cellphones $210; piano lessons $45; bank fees $10; nursery school $135. Subtotal: $2,625
- **Basic monthly costs:** Groceries and cleaning supplies $1,000; vitamins $10; takeout coffee $20; dining out, entertainment, spirits $450; babysitting $25. Subtotal: $1,505
- **Lump-sum and annual expenses:** $1,800

- **Total spending:** $5,930

Liabilities

Mortgage $233,000 at 3.7 per cent; $35,000 line of credit at 3.5 per cent. Total: $268,000

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