Money Makeover: These two need to get their cash flow under control

Ashley and Jason have little money leftover for contingency planning.

By **DEANNE GAGE** Special to the Star
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THE PEOPLE: Ashley and Jason are a married couple in their mid thirties. They have a school-aged son and an infant daughter. Ashley just started her second maternity leave, so they are living on a reduced income of $89,000 a year. Before mat leave, the couple earned $131,000 a year. When Ashley's leave ends, she'd like to go back to work part-time. Jason has aspirations of buying a small business from his boss when he retires in a few years.

THE PROBLEM: The couple are just barely living within their means. They might be a couple of hundred dollars over budget some months, but are able to make up the shortfall within a month or two. While they have no debt outside of their mortgage, there's little money for contingency planning. Ashley and Jason would like to establish a proper cash flow plan so they can get their money working for them.

THE PARTICULARS:

Assets

Ashley's Registered Retirement Savings Plan: $20,400

Jason's Registered Retirement Savings Plan: $51,500

Family Registered Education Savings Plan: $2,720

Jason's Tax Free Savings Account: $2,000

House: $650,000

Liabilities

Mortgage: $458,000

Monthly income: $6,500

THE PLAN: The key to avoiding carrying consumer debt is staying disciplined and setting up a system. If allocated properly, the couple's monthly budget can cover their expenses and allow them to start saving for their longer-term goals, says Sheila Walkington, president and a financial planner at Money Coaches Canada in Vancouver.

The couple needs to think about all the possible expenses that may come up in the year and place them into three categories, she adds. Monthly fixed costs and bills are the first category, which would include mortgage payments or rent, utilities, childcare costs and investment contributions. The next category is monthly variable spending. Items such as groceries and entertainment costs would fall into this bucket. Finally, Ashley and Jason need to consider their annual or lump sum expenses that only come up periodically such as car repairs, home maintenance and kids' activities.

Their expenses came in just slightly higher than their income (less than $100 a month over budget), but a few tweaks to their budget in discretionary spending (i.e. groceries) can get them back on track to breaking even.

Ashley and Jason currently bank at three different institutions. Jason's pay goes into one account, Ashley's goes into another and the third account is used for emergency savings. But Walkington says this setup makes it difficult to manage money as a family. She suggests they pick one financial institution for their accounts, which will provide more clarity and accountability. Ideally it's a financial institution that has low or no fees.

She recommends they allocate the bank accounts as follows:

There should be one bank account for monthly fixed costs, which would just leave enough to cover those expenses.

Then they should set up another account for their variable spending. "Transferring $500 per paycheque will give the couple enough spending money for their monthly variable expenses while still leaving enough money for their other goals," Walkington says. "The key is to make the money last until the next pay day, so when the money is gone they need to stop spending. Given the account is replenished every two weeks they will quickly learn to spend within their means."

Finally, they could set up another or several no-fee savings accounts for their annual or lump sum expenses. "By allocating all of their income into separate designated accounts from each paycheque, it quickly becomes clear how much money they have to spend (or not) on upcoming expenses," Walkington says. "If there is $150 a month in their 'clothing' account, for example, that is exactly what they have to spending on clothing. If there is $1,000 in the travel account, they know they can afford to take a $1,000 vacation or wait a few more paydays until the money builds up."

When their cash flow has more wiggle room, the couple should aim to save $200 a month per child towards their kids' Registered Education Savings Plans. Saving that amount will maximize how much they will receive from the government-sponsored Canada Education Savings Grant (CESG) for the RESP. The CESG pays out 20 per cent of RESP contributions to a maximum of $500 a year, and there's a lifetime limit of $7,200. But in the short term when finances are tight, Ashley and Jason could encourage any gifts from family members to be directed to the RESPs, Walkington suggests.

When Ashley goes back to work and daycare costs decrease in a few years, that's when they should ramp up on their retirement savings. They could use the money that would have gone to daycare toward that purpose.

Ashley and Jason have life insurance and an estate plan in place. Walkington recommends they also include disability insurance to their "what if" plan to help cover expenses if one of them were to become disabled and unable to work.