Money Makeover: Getting a handle on a cash flow crisis

Ursula and Warren have some difficulty understanding where their money is going.

By **DEANNE GAGE**
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THE PEOPLE

Ursula and Warren are a married couple with two young daughters. Ursula, 35, works as an executive assistant and recently returned to full-time hours after being on an extended maternity leave. Warren, 38, is a corporate manager. They collectively earn $152,000 a year and live in Toronto.

THE PROBLEM

The couple has some difficulty understanding where their money is going. Ursula manages the family finances but needs help getting organized. Warren would like to have more input. Ultimately, they both know they need to create and stick to a budget, and they would value some assistance learning how to do that properly.

THE PARTICULARS

Assets

House: $635,000

Warren's RRSP: $21,500

Ursula's TFSA: $850

Kids' RESPs: $19,000

Liabilities

Line of credit: $10,000

THE PLAN

After reviewing Warren and Ursula's monthly income and spending, Sheila Walkington, money coach, co-founder and CFO of Money Coaches Canada, says that they could benefit from a cash-flow management plan.

But step one is for them to get on the same page about their priorities for their money, both individually and as a family. Warren, for instance, would prefer to spend on family experiences. Ursula likes spending on home décor.

"Each of them needs to feel they have a say in how the family finances are allocated," Walkington says. "They need to be clear on what they can afford now, and what they need to put on hold till their cash flow allows. This will help them make financial decisions with more confidence and ease."

Ursula considered a jar and envelope method, which would require the couple to move completely to paying for everything in cash. But Walkington doesn't believe it's practical.

"Jars and envelopes are not that convenient in a modern world where payments are automatic and credit or debit cards are often the go-to method of payment," she says.

Instead, Walkington suggests they replicate the jar system by using online bank accounts, which you can easily make deposits on payday. Also the couple would be able to monitor account balances.

With this in mind, the couple should consolidate the family's finances and have all of their income flow into one primary joint bank account. This account should be the one to pay monthly bills like the mortgage, daycare, RRSP contributions and debt repayments, Walkington says.

Next, she advises they set up another joint chequing account to pay for variable line items in their budget such as groceries, gas and entertainment. Each payday, they could transfer a set amount to this account to cover these expenses. "The goal is to make this money last from payday to the next payday," Walkington says. "Using debit or cash only and checking the online bank balance in the account often will give them an up-to-date status on what they have left until the next payday."

For short-term lump sum and annual expenses, such as house repairs or travel, Ursula and Warren could set up additional savings accounts (online banks have them for free) and "nickname" them to hold funds.

By transferring money from their main chequing account to these savings accounts on every payday, the couple will always know exactly how much money they have to spend in each category for the rest of the month and they will also know that they have savings set aside to pay for the larger bills that come up throughout the year.

Of course, the couple will need to make sure their spending matches their income and their priorities. “If Warren wants to take the family out for dinner once a week or if Ursula wants new cushions for the couch these are expenses that will need to be worked into their plan,” she explains.

As for retirement savings, Walkington feels that’s something that can come a few years from now. She says the couple has high daycare fees ($2,300 a month) on top of monthly mortgage payments. Ursula and Warren also have $10,000 on their line of credit from a home renovation that they hope will be paid off in a year. They are paying $862 a month toward that debt.

Walkington advises Ursula and Warren to refrain from any major purchases or expenses (such as major travel, new furniture or home renovations) for the next year.

When the debt is paid off, and in a few years, when their youngest daughter is in school full time, the couple’s daycare costs will decrease, Walkington notes. That will free up money for larger purchases and to put towards savings for retirement.

Ursula and Warren are managing their cash flow much better now they understand what to do. As Ursula put it: “We are having fun with our money now — trying to make it work into the budget (like a game) as opposed to feeling like a ball in a pinball machine and never knowing what is going on.”