

Money Makeover: Are they ready for baby (and more)?

By **DEANNE GAGE** Special to the Star
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The People

Briana and Peter are in their early 40s and are expecting twins this fall. They collectively earn around \$115,000 a year but the couple is used to living on considerably less. Briana's academic positions fluctuate in duration and compensation. Right now, she's finishing up a one-year contract. Peter is a self-employed psychotherapist who can choose the amount of hours he works. They are happy renting an apartment for now and don't own a car, preferring to walk or bike most places instead.

The Problem

As parents-to-be, they are worried about how they will balance their higher family expenses and pay down their student loans. Briana will take a one-year maternity leave and Peter plans to be on leave for two or three months. They have saved \$12,000 to meet expenses while Peter is on leave. Regarding the loans, Peter pays \$200 a month, while Briana's payments won't be calculated until early 2017 and will be based on her income. Finally, the couple wonders if home ownership might be feasible down the road.

The Particulars

Assets

Savings: \$12,000

Liabilities

Briana's student loan: \$60,000

Peter's student loan: \$7,000

The Plan

Briana and Peter have the potential to meet their goals, as long as they have a clear idea of their expenses and maintain a cash-flow plan, says **Sabine Lay, a certified money coach with Money Coaches Canada in Burlington.**

For instance, making ends meet while contributing to Registered Education Savings Plans are the couple's financial priorities for the first two years of parenthood.

Lay recommends that the couple start with \$50 a month per child toward RESPs. That way, they get into the habit of saving. To set up the RESPs, Briana and Peter will need to apply for social insurance numbers for the children, she says.

Adding RESP contributions to their budget means their expenses will total \$4,550 a month.

Briana estimates that she'll be eligible to receive \$350 a week in employment insurance. Since EI is a taxable benefit, she'll need to save around \$50 a month in case she owes taxes next year. Briana also

estimates that she'll receive approximately \$500 a month from the new Canada Child Benefit based on their 2015 net family income. CCB is a tax-free benefit, but Lay says the couple needs to confirm the amounts once the babies are born and adjust the budget accordingly.

Adding their \$12,000 in savings to the mix means that Briana and Peter should be able to stay on budget for three months with both of them on leave. When Peter goes back to work, he'll need to earn about \$2,650 in monthly net income to continue to meet their expenses.

In their second year of parenthood, EI payments will stop. CCB will continue but will change in July 2017, based on their 2016 net family income. Briana and Peter estimate their baby expenses will be \$2,000 a month, including part-time child care expenses.

Assuming their other expenses stay the same, they will now need to cover expenses of \$6,500 a month. If Briana returns to work part-time with a monthly income of \$2,100 a month and Peter works more hours, they should be able to make ends meet.

By the third year, Peter will continue to work more hours and Briana might be working full-time with a monthly income of \$3,700. At this point, they can start saving for a home and retirement. Assuming they continue to rent and they increase their childcare to full time child, the couple will need to cover expenses of \$8,000 a month, plus paying back Briana's student loan of approximately \$600 a month, Lay says.

Whether they can buy a house in the future depends on their income and expenses, not to mention housing prices themselves. Such a purchase is not likely a possibility until the kids are in school full time so that day care expenses are reduced, and even then they need the housing market to cool down slightly. If they are able to save about \$2,500 per month for a down payment on a house and they do so for four years, that would give them a down payment of \$120,000, enough for a 20 per cent down payment on a \$600,000 home.

A \$480,000 mortgage at a rate of five per cent (assuming rates will go up in the future) over a 20-year amortization period will cost \$3,154 a month plus property taxes, hydro, gas, home insurance and maintenance costs.

"There will be other expenses tied to a house purchase, so if they can save another two to five per cent (or \$10,000 to \$24,000) for the move and possible renovations, they will be ahead of the game," Lay says.

Lay also recommends that the couple purchase term-life insurance, to ease the financial burden if a surviving spouse needs to raise two small children on his/her own.

Lay adds that Briana and Peter need to set up wills, in which they can name an appropriate guardian to potentially look after their children.

Finally, Lay suggests that the couple deposit all their income into a joint chequing account. They'll be able to better track the family expenses and will each have access to money when needed.