Money Makeover: This couple needs to get a handle on expenses

Janis and James are on track to pay down debt, but annual and quarterly lump sum expenses can de-rail their plans.

By **DEANNE GAGE** Special to the Star
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THE PEOPLE

Janis and James, both 40, live in Toronto with their infant. James works outside the home, earning $130,000 a year, and Janis is at home with their baby. She does not receive any maternity leave because she was downsized from her job prior to getting pregnant. She also had not built up enough hours to qualify for employment insurance benefits. She does, however, receive $117 a month in tax-free money from the Canada Child Benefit.

THE PROBLEM

While the couple is able to meet expenses on James's income, they are not able to put a dent in eliminating their line of credit. They also had to put investing and saving on hold as they manage on one income and the added expense a baby brings to a household. They could use some help factoring in expenses that fall outside of the usual monthly expenses such as car repairs, gifts and travel. They would like to feel more in control of their finances and not be surprised as things come up. They are living within their means, barely, but are finding it difficult to save money for things that come up and also build emergency funds.

THE PARTICULARS

Assets:

James's RRSP: $95,722

Janis's TFSA: $100

James's TFSA: $100

House: $800,000

Liabilities:

Mortgage: $445,000

Line of credit: $38,897

THE PLAN

The couple have a good start in realizing their issues, now it’s time to establish a strategy that works, says Karen Richardson, a money coach at Money Coaches Canada in Kenora, Ont.

She recommends they first set up multiple bank accounts for their expenses at low-cost financial institutions that won’t charge them fees for transactions. “The accounts will not only help them remember what they need money for throughout the year, but also help them stick to spending the right amounts in each category,” Richardson says.

Specifically, she recommends one bank account for monthly fixed costs like the mortgage payments and utilities. Janis and James’s fixed expenses are $5,034 a month.

Another bank account should be set up for variable spending, where they deposit a specific amount with each pay cheque. Richardson recommends $700 per pay cheque for the couple and says it will give them enough spending money for their groceries, pet food, gas, transportation, snacks, dining out and diapers and wipes. “This money will be replenished each pay day, but it will keep their spending between pay cheques to what they can afford, and more importantly they can spend this money guilt-free knowing they have set the right amount aside,” she says.

Currently, the couple are spending $960 a month on groceries, much higher than what Richardson recommends for a family of their size. Her general rule of thumb for families is $300 a month per adult and $160 per month for a child under 3 (which includes diapers and wipes). So the goal is to aim for $760 a month instead, saving $200 a month.

“Meal planning weekly will help them stick to the same amount, save, as well as look at what is on sale at the store that week and planning around that,” she says. She also recommends they decrease their entertainment spending from $400 a month to $300 a month.

Finally, James and Janis need to leave enough money for those non-monthly lump sum and annual expenses such as small home repairs, car maintenance, travel to visit family overseas, kids' activities, clothing and personal care. They could set up one account or multiple accounts with no fees for these expenses.

"By allocating all of their income to include their annual expenses their monthly budget is covering all their needs, not just the spending between pay days and they are more likely to stay on track," Richardson says.

Currently, the annual and lump sum expenses are making it difficult for the couple to stay on track. With the recommended savings in their variable spending (groceries and entertainment/eating out), they now have $300 a month they can allocate to expenses that they only need money for annually or every so often. It will be important for them to prioritize where this money should go together.

"This is the area where people who make good-intentioned budgets get derailed," Richardson says. "We not only need money between pays but also at annual and quarterly times. Couples who communicate monthly to make sure their priorities haven't changed or keep each other aware of what is coming up next helps them stay on track."

They may have to put some things on hold, such as gym memberships and travel if they don't have enough saved. "These things won't have to be on hold forever, but if they can go without some of it for now, it will help keep them from adding to their debt until Janis finds a job," she says.

When Janis resumes working again, she should allocate her income to lump sum and annual expenses shortfalls first and increasing their line of credit payments.

Currently, they are on track to eliminating the debt within 10 years. Richardson would like to see it gone in half that time.

"Once the line of credit is paid down, the more available credit they could utilize in case of an emergency," she says. "Otherwise, it would be difficult to save emergency funds while they are paying child care costs."

The couple also needs an insurance review. They each have term policies but they fall well short of taking care of the mortgage, other debts and future child care expenses. They should consult an insurance broker to get the most competitive rates.