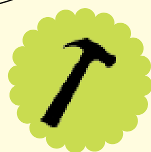
A money troubles

We talked to three Canadian families about their biggest financial worries – and what to do about them. BY TAMAR SATOV



PAYING OFF A RENOVATION

Pattie Reynolds, 43, industrial engineer & **Eric Stotts**, 41, architect

KIDS:
Lincoln, 6, Vaughn, 4

LOCATION:
Halifax

HOUSEHOLD INCOME:
$175K to $200K

WHEN PATTIE REYNOLDS AND ERIC STOTTS decided to start a family in 2007, they figured they had a solid financial footing. They had purchased their house – the same one Reynolds grew up in – two years earlier, and were both well-established in their careers. "We got started on our family later in life – I had my babies at 37 and 38 – so we thought we were in a good position," says Reynolds.

But six years later, the couple finds themselves in a substantial hole. They took out a line of credit to finance upgrades to their almost-50-year-old home and to create a play area for the kids in the basement, and they also borrowed during Reynolds's maternity leaves to supplement her employment insurance (EI) , which was a significant shortfall from her usual income.

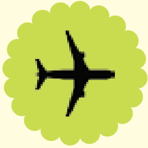
"We're not necessarily extravagant – I budget us pretty strictly to try to pay down the line of credit and we've got our wills and life insurance all set up," she says. "But things come up that we want to do and it's hard to stay disciplined."

What they should do now

Cynthia Kett, a chartered accountant and certified financial planner with advice-only firm Stewart & Kett Financial Advisors in Toronto, agrees that Reynolds and Stotts have already taken some positive steps to better their financial future. They pay into their companies' group Registered Retirements Savings Plans, or RRSPs (with matching contributions from their employers), put any cash gifts the kids receive into a joint Registered Education Savings Plan (RESP), and save for emergencies by making monthly deposits into Tax Free Savings Accounts (TFSAs). But, as the couple suspected, debt repayment should be their first priority, says Kett.

"I recommend they redirect their monthly TFSA deposits to their highest rate debt instead," she says. Why is it a better strategy to pay off debt before saving? Well, when you consider that they're paying the interest on their debts with after-tax dollars, the 4.75% interest rate on their line of credit is effectively 8.41% in pre-tax earnings (assuming a marginal tax rate of 43.5%). And their credit card, with a stated interest of 20%, jumps to a whopping 35.4% in pre-tax earnings. "Debt repayment gives a high, guaranteed rate of return on their repayment amounts – far better than they could get in the current investment markets," says Kett. If necessary, they can always tap into their line of credit for emergencies once they've freed up some capacity on it, she adds. ▶

HOUSE: PAULO VOLKOVA/THE NOUN PROJECT HAMMER: FISSION STRATEGY/THE NOUN PROJECT



SAVING FOR A VACATION *post-divorce*

Alberto Della Porta, 42, operations engineer

KIDS: Vienna,10, Gabriel, 7

LOCATION: Toronto

HOUSEHOLD INCOME: $75K to $100K

Breakups inevitably strain a family's resources, particularly when the parents share joint custody of the children and there's a need for two separate households. That's the reality facing Alberto Della Porta, who got divorced from his wife, a registered nurse, three years ago. "There's not as much extra money anymore, so it takes longer to save up," says the Toronto father of two, who pays monthly child support to his ex. "There are things that I wouldn't think twice about spending on before – and now I can't."

Della Porta is careful with his finances – he limits himself to debit card and cash purchases to ensure he doesn't take on any new credit card debt, and he already contributes to his company pension plan, puts his yearly bonus into his RRSPs and makes a small monthly payment to each of the kids' RESPs. But, he'd like to start setting money aside for a family vacation and to build an emergency fund. "I have a budget and I'm constantly looking at it to see if there's anywhere I can tighten."

What he should do now

"Alberto is making good progress towards his financial goals – they only require a little fine tuning," says Kett. Channelling his annual bonus into his RRSPs is a wise move: Not only will he boost his retirement income, but he'll also get a substantial tax refund, which he can use to pay off existing credit card debt. "The former credit card payments can then be redirected towards his TFSA to save for his vacation," says Kett, who thinks he'll be able to achieve his goal within one-and-a-half to two years.

She also suggests combining the two RESPs he currently has for each child into one family RESP. That way, if one of the kids decides not to go to college or university, the family won't lose out on the Canada Education Savings Grants (CESGs) the government contributed to that child's RESP. "Instead, the other sibling could receive all the Education Assistance Payments out of the plan," says Kett. ▶

Behind closed doors

A 2012 survey for the American Institute of Certified Public Accountants found that couples fight about finances more than any other subject, averaging three money arguments a month. (The same is likely true of us milder-mannered Canadians, but apparently we're just too polite to talk about this stuff with pollsters.) What sets couples off? Here are the top sources of conflict, according to the survey:

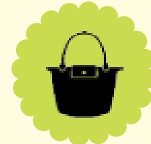
* **Must-haves vs. nice-to-haves**
Almost six in 10 (58 percent) couples who argue about money say differing opinions about "needs" and "wants" causes most of their fights.

* **Budget bombshells**
A stressful, unexpected expense – such as a leaky roof or a car repair – is behind money arguments for nearly half (49 percent) of the couples.

* **Empty accounts**
Not putting enough aside in savings is a major sticking point for almost a third (32 percent) of couples who fight about money.

* **Secrets and lies**
Thirty percent of adults who are married or living with a partner have been deceitful about their finances at least once, including hiding purchases and making major buys without consulting their significant other.

PLANE: EDWIN HERRENSCHMIDT/THE NOUN PROJECT



TRYING TO STAY HOME WITH THE KIDS *on one income*

Terri Wolfe, 37, teacher (on maternity leave) & **Darryl Nanka,** 40, trucking repair shop manager

KIDS: Charisma,15, Hailey, 13, Caleb, 13, Daniele, 10, Justin, 6, Tessera, 1

LOCATION: Winnipeg

HOUSEHOLD INCOME: $75K to $100K

Finances were tight when Terri Wolfe and Darryl Nanka married two years ago – she had four kids from a previous marriage and had just finished teachers' college; he had one child and had just gone through a divorce. They borrowed to pay for their wedding, a modest honeymoon and a 1,500-square-foot six-bedroom home. As a result, the number of debts they're now repaying is oppressive: credit card, line of credit, mortgage, student loan, car loan – and they owe money to relatives, too. "I want to get out of debt and get rid of the bad feeling I have every time we spend money," Wolfe says.

Last year, baby made eight for this Brady Bunch–style blended family. Wolfe, who was a stay-at-home mother in her first marriage before she became a teacher in 2011, would like to do the same with baby Tessera when her maternity leave ends in a couple of months. But she suspects that's unrealistic. "I'd like to stay at home as much as possible – maybe just work part-time – but I don't see a way to do that and pay the bills."

What they should do now

"Their debt is high relative to their family assets, so paying down their debt should be their first priority," says Kett. First, Nanka should apply his upcoming expected bonus to his credit card balance, as it has the highest rate of interest of all their debts. Each month, after they make the minimum required payments on everything else they owe, they should use any extra cash to pay off as much of the remaining credit card balance as possible. When that's done, they should tackle the debt balance with the next highest interest rate and so on.

Kett would also like to see the couple put some financial safety nets in place – including wills and powers of attorney – to make sure others can quickly step in to help their children if the need arises. Similarly, while Nanka has some life insurance, Kett suspects the family is under-insured. "They should consult with an insurance broker to determine the amount of coverage necessary to provide for their children financially if something should happen to one or both of them while the kids are still young," she says. "Then they should buy as much term insurance as they can reasonably afford, given other demands on their cash flow."

As for Wolfe's desire to be a stay-at-home parent or work part-time, only the latter might be possible, and just for the short term. Even though they have retired relatives who are willing to provide low-cost child care, Kett estimates Wolfe would have to earn $34,000 of pre-tax income per year to cover her share of the family's expenses. "Once their youngest is in school full-time, Terri will need to work more and begin saving for her retirement." she says.

PURSE: MATHIAS VAGNI/THE NOUN PROJECT

Can you afford another baby? Find out at **todaysparent.com/babycosts**