Business / Personal Finance

Couple must change their ways after spending dad's $700,000

Even at age 46, Jane's dad was stilling helping support her and her family. Then he retired – here's what happened when the money stopped.

COLIN MCCONNELL / TORONTO STAR

Dave and Jane will have to make some big adjustments to their spending habits in order to survive on Dave's $77,000 salary.

By: James Daw Published on Sat May 04 2013

Jane's father was still helping her at age 46 after lending her family nearly $700,000.

He had supported her failing business for a decade, made car lease payments after the recent birth of her second child and paid the property taxes on the $500,000 Toronto house he sold on favourable terms to her and husband, Dave.

Then her world changed: Her father retired at 70. He was tapped out, feeling pressure to support his daughter financially, yet in agreement with his wife this had to stop.

"I'm left feeling like a fish out of water," Jane confessed, wondering how to get by on her husband Dave's $77,000 salary. "It's embarrassing to be this age and be so unskilled with finances. My father always over-protected me financially."

Many parents keep giving money to children late into life, says Certified Financial Planner Diane McCurdy of Vancouver, who offered to help Jane and Dave find their way on the road to financial adulthood.

Prolonged family support can lead to bad habits, unwise financial decisions, and the temptation to burn through any inherited money in a hurry, warns McCurdy, author of *How Much Is Enough?* and president of McCurdy Financial Planning Inc.

She persuaded Jane during probing telephone conversations that she could, and should, find a full -time job. So Jane has done so. She persuaded Jane's father, with moral support from his wife, that he should stop helping Jane financially. So he is preparing to cut off the money flow.

McCurdy then cut through Dave and Jane's cancerous spending habits like a surgeon. Jane now reports that Dave has quit smoking, even without McCurdy asking. Tobacco and alcohol were costing the couple about $1,000 more each year than their deluxe cable television package.

McCurdy urged them to give up cable television, along with their leased second car, one third of their food budget, new clothes for a while, summer camp for their eldest child, dinners out and theatre tickets, recreational club fees and the $200 a month they allocated for pocket money.

"At the beginning, Jane and Dave had many reasons not to change," McCurdy reports. "But gradually, as they saw the reality unfold, they began to open up and examine their various options."

Her father had just helped Jane fulfil her desire to buy a house. He provided the down payment so she and her husband could then borrow enough from a commercial lender to buy the house he had rented to them for 15 years.

They were left with a debt of about $455,000 that will be a challenge to repay over 20 years. They quickly borrowed a further $6,000 to finish the basement. This was a move that could have waited in McCurdy's view.

Jane has found an ideal job using the skills she learned running her own fashion business and is earning $48,000 a year. She will have daycare costs, but McCurdy argued it was best to start earning an income, given their debts and expenses.

She proposes they repay a $6,700 personal line of credit over 3.5 months instead of 4.4 years. This will save them $680 in interest charges. Next she proposes they put $2,000 a month toward a three-month emergency fund, then start chopping away at their mortgage and restoring some fun in life.

"When interest rates increase in the future, they will have a cushion to absorb any extra monthly mortgage costs," McCurdy predicts.

She urged the couple to buy at least $500,000 of life insurance, suggesting a policy that could be renewed in 10 years and would pay the death benefit if either or both spouses were to die. They should also prepare wills and select potential guardians for their children, McCurdy warns.

Retirement planning will have to wait. Dave and his employer contribute to a pension that will pay a defined benefit (no details provided). They will each be eligible for unreduced Canada Pension Plan benefits at age 65 (projected amounts not provided) and Old Age Security benefits at age 67, when their youngest child will be 23.

"Jane and Dave now realize her parents are tapped out, and they want to be responsible for their own financial future," says McCurdy. "They have a window to turn this around and do it themselves. From our first conversation a month ago their transformation has been astounding."

Related: Read more of Jim Daw's Monday Makeovers

Diane McCurdy's Six Parent Traps

Lending money after a loan goes unpaid.

Offering advice you were never asked to give.

Buying instead of helping with a purchase.

Preventing a lesson by solving a problem.

Hoping financial wisdom will spring from a book.

Thinking money sense will dawn after an inheritance.

The Clients

Jane 46, Dave 45

Their situation

Jane's father helped as her business failed and they bought a home he once owned. But Diane wondered how their newly expanded family of four would get by on Dave's $77,000 salary with a $455,000 mortgage.

The strategy

Find Jane a job. Eliminate expenses, including cable television, the second car and dinners out. Repay a line of credit, save three month's pay for emergencies, then pay more toward the mortgage. Buy more life insurance. Delay retirement planning.

Assets

House $500,000

Retirement savings $6,000

Education savings $6,100

Savings accounts $4,100

Employer pension plan $3,000

Total: $519,200

Annual income: $125,000

Expenses/savings (12 months)

Tax and payroll deductions $29,000

Mortgage $23,172

Debt/savings/extra mortgage $24,000

Child care $14,400 (estimate)

Vehicle operation $8,528

Household expenses $4,992

Pension savings $4,236

Property taxes $3,672

Food $7,200

Alcohol/tobacco (820?)

Life insurance $1,800

Personal care/therapy $2,160

Public transit $600

Pet $300

Bank charges $120

Gifts/donations $0

Vacations $0

Clothing (for now) $0

Recreation $0

Total: $124,180