HEALTHQUEST

A QUARTERLY NEWSLETTER FOCUSING ON MENTAL HEALTH ISSUES AND CONCERNS.

KEEPING YOUR FINANCIAL HOUSE IN ORDER

Mike and Leanne, both in their late 30's and earning $37,500 each, are facing a financial crisis:

- Their good credit rating history is about to be ruined. They're over their limit on a major credit card, haven't paid the last two months' minimums, and the credit card collection officer told them they have 10 days to pay or their wages will be garnisheed.
- Their bank's lending officer declined their loan application to bring the credit card payments up to date because their "Servicing Ratio" (mortgage and debt payments relative to their gross income) is too high;
- Last but not least, they have no company pension plans and they're worried they'll be destitute in retirement;

Last night, after yet another argument about money, they finally decided to try to confront their financial issues rationally.

Unfortunately, the only realistic solution they could come up with to get themselves 'out of the hole' and ease their cashflow was to sell their house and then buy a cheaper one, or even rent. The kids, however, would be very affected by that. Then this morning, Leanne's best friend told her about a Financial Planner who helped her out with a similar problem.

Despite Leanne's uncertainty about how a Financial Planner could help their situation, she decided to take a chance and make the call.

The Financial Planner asked Leanne what she and Mike owned, what they owed, what their gross and net incomes were, what their debt and living expense payments were, and what their future plans were.

Then the Financial Planner suggested that Leanne and Mike approach another lending in-stitution for a consolidation loan - one loan to pay off all the credit cards. This would:

- get the past-due credit card issue cleared up and help to save their credit rating;
- reduce their monthly debt payments by $300; and
- immediately save them about $90/mth. in interest costs.

But Leanne reminded the Financial Planner that her bank had already turned them down for a loan of just $1,200 to bring her one credit card up-to-date. How could she then get a loan for $12,000 to pay off all the credit cards?

The Financial Planner indicated that perhaps the lending officer wasn't being creative enough. Yes - Leanne and Mike's Servicing Ratio would be too high if they got just another $1,200 loan on top of the other existing credit card debts; but if all the debts were rolled into one loan, then their Servicing Ratio would be well within prescribed limits.

Leanne was also assured that not all lenders operate under the same guide-lines at any given time; in fact, in their particular situation, if Mike and Leanne were to approach 10 different lenders for their con-solidation loan, probably 6 of those 10 would say yes. The lending officer who declined them just happened to be one of the 4 at that given time who wasn't, for whatever reason, able to make the loan. This relieved Leanne a bit, but she still felt the $300/mth. drop in monthly debt payments as a result of the consolidation loan wouldn't be good enough. After all, there still wouldn't be enough left for retirement savings. The Financial Planner then discussed the option of remortgaging:

- consolidate the existing mortgage (125,000);
- amortize the new mortgage of $137,000 over 25 years for a monthly payment of $1,225, compared to $2,500/mth. total mortgage and debt payments they're making now;
- they would then have extra cashflow of $1,275/mth.;

Leanne was ecstatic about the increased cashflow, but realized that it would then take them 25 years to be debt-free instead of the 10 years it would probably take with things as is - notwithstanding the fact that she couldn't stand the idea of 10 more years of stress and strain caused by their inadequate cashflow.

However, the Financial Planner pointed out that if some of the monthly cashflow savings of $1,275 were used for retirement savings plans (RRSP's), then they'd actually be better off in 25 years!

Mike and Leanne's plan had been to start RRSP's when their mortgage and debts were paid off in 10 years. They also had agreed their ideal "debt and/or savings" spending amount would be $2,000/mth. vs. $2,500/mth. they were presently struggling with. Under their plan, in 10 years:

- they'd be debt free;
- they would then start saving $2,000/mth. in RRSP's. Their consequent annual RRSP tax refund of $10,080 would be invested back into RRSP's;
- at an 8%/yr. return on their RRSP's they would then expect to have $980,000 in RRSP's 25 years from now;

A good plan but:

- how would it resolve the past-due credit card issue?
- life would continue to be very stressful for another 10 years - how could they keep paying $2,500/mth. for 10 years when they can't keep up now?;
- In 10 years when they plan to start the RRSP, they probably wouldn't be able to put all that "savings" money into their RRSP's due to contribution limit rules; hence, their plan would result in lower tax refunds, and a much lower end result;

The Financial Planner's plan would:

- give them extra cashflow of $1,275/mth. now;
- they could keep $500/mth. of that for extra spending money;
- if they invested the remaining $775/mth. now into RRSP's and reinvested the annual RRSP tax savings of $3,900/yr. at 8%/yr. growth, in 25 years:
  - they'd be debt-free;
  - they wouldn't be exceeding their RRSP contribution limits and;
  - their RRSP value would be $1,046,000;

Leanne couldn't believe it. Compared to their plan, the Financial Planner's plan would enable them to:

- quickly resolve their past-due credit card problem;
- end up in 25 years with more in RRSP's, and keep within existing contribution limit rules;
- have an extra $500/mth. discretionary spending money right away, instead of waiting 10 years!

In other words, over the next 10 years they'd be able to "spend" $60,000 more than under their existing plan, and still have more money at retirement!

Leanne couldn't wait to tell Mike. She felt as if a huge weight had come off her shoulders; and she began to think of what they could do with the extra $500/mth. cashflow savings - like that Hawaiian vacation that until now had seemed like a fading dream?

WHAT CAN YOU DO TO BE FINANCIALLY SUCCESSFUL?

The financial aspects of modern life are pervasive; hardly a day goes by where money isn't discussed. It impacts our family life, and our work environment, our social lives and our physical and mental well-being. The reality is that financial success depends on taking control of your situation by doing something about it now.

Typical indicators or errors of people who have not taken control of their financial situation are that they:

- experience "money crisis" as a regular event;
- often worry about what will happen if…?;
- have unrealistic or no budget;
- don't budget for irregular expenses (eg. Christmas, holidays, etc.);
- have overextended credit;
- borrow at the wrong places and pay too much in interest;
- rent instead of own;
- have no RRSP's;
- choose an RRSP at the last minute without considering the underlying investments, fees, or options;

People who have taken control of their financial situation enjoy: better family harmony;

- more peace of mind;
- less stress through less uncertainty;
- a sense of freedom;
- relieve the stresses created by the pressures and uncertainties experienced with:
  - Debt/Credit: such as negotiating with creditors;
  - Job Termination, Early Retirement and Retirement: such as dealing with severance offers;
  - Estate Planning: such as ensuring assets are passed on to heirs as intended;
  - Investments: such as understanding risks and rewards of various asset classes;

It's said that money can't buy happiness, but the proper management of your financial situation sure can make life a lot easier.

Put yourself in the position of taking advantage of your financial affairs, rather than letting your financial affairs take advantage of you.

If you have any questions about this topic, or if you wish to discuss a personal situation you may be experiencing, we invite you to contact your EAP counsellors to arrange a telephone or in-person counselling session.

All contact between you and your counsellor is completely confidential.

English Service: 1-800-387-4765
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