

## The big owe

The Campbells have a nice home and a six-figure income. So why are they sinking deeper and deeper in debt?

By Julie Cazzin

**A**

t first glance, it's

difficult to see why Doreen Campbell is so worried about money. She and her husband, Jack, both 32, own a nice four-bedroom home in Pickering, Ont., an hour's drive east of Toronto. They have two beautiful young kids, two cars, and a combined income of \$127,000 a year.

But Doreen, who earns \$47,000 a year as secretary with a small publishing company, feels that she and Jack have lost control of their finances. The clearest evidence of their distress is mounting personal debt of \$70,283—and that's on top of a \$257,100 mortgage. "We have two decent incomes, but every year we just seem to keep going deeper and deeper into debt," she complains. "Why can't we make this work?"

The Campbells (whose names we've changed to protect their privacy) aren't throwing their money around in obvious ways. They bought their home in a nice but not luxurious subdivision three years ago for \$320,000. Their only vacations are family camping trips. Their food bill is less than \$6,000 a year, because both are strict vegetarians who eat most of their meals at home.

Still, the Campbells are taking on more debt each year. "I hate debt and can't sleep at night," says Doreen. "Jack is more cavalier about it all. But I'm insist-



ing that we clean up our finances now."

Jack, a self-employed computer consultant, admits that he has a bad track record when it comes to managing money. He launched a restaurant 10 years ago and when it failed, he had to file for bankruptcy. "Bankruptcy decimates your financial picture," says Jack. "My past keeps coming back to haunt me."

But the bankruptcy isn't Jack's only questionable financial decision. Four years ago, the Campbells desperately wanted to move from the townhouse they had been living in. They had no money, so Jack decided to put off paying income tax on the approximately \$80,000 a year he makes from his consulting business. He used the money that should have gone to the taxman

for a down payment on a new home.

His tax-free holiday continued the next year and the year after that. Only after unrelenting pressure from Doreen did he eventually agree a year ago to pay most of what he owed. Problem is, he paid the taxes by using his credit card and line of credit. And the couple still owes \$11,500 on their 2005 tax bill.

The Campbells have some big expenses, including a hefty thousand-dollar payment every two weeks on their accelerated mortgage plan as well as a nearly \$2,000-a-month day care bill. At Doreen's insistence, they're pouring most of what's left over into paying down their line of credit—but unfortunately that means they're also ignoring Jack's 2006 tax bill. "The accountant says ▶

## FAMILY PROFILE



I should set aside money every month towards paying those taxes, but I haven't done that yet," says Jack.

Jack and Doreen aren't sure what to do next, especially since Jack's major customer—a financial-services firm—is unwilling to commit to any contract longer than a one-year deal. "I get pretty nervous every December when it's renewal time for my contract," says Jack. The Campbells want a plan that will get them back into the black, with more security than they feel now.

**DOREEN IS THE FIRST TO POINT** out that she and Jack are opposites when it comes to money. She grew up in Hamilton, Ont., the daughter of a school teacher and a stay-at-home mom. She spent her high school and college years working part time as a cashier at a local grocery store. "What I made as a cashier, I got to keep and spend on myself," says Doreen. "But I was a good saver. Almost all of my RRSP savings come from the contributions made during those years."

Jack was raised by a single mom in Barrie, Ont., 80 km north of Toronto. Money was always tight. Jack went to college to study restaurant management in North Bay, Ont. Soon after graduating, he and

his friend, Dave, decided to open their own cafe. In hindsight, it was a big mistake. The rent was high, customers were scarce, and the two lost \$45,000 before admitting defeat. They closed down the cafe and declared bankruptcy.

Having had enough of the food business, Jack took a crash course in computer programming. Then in 2001, he met Doreen. Nine weeks later, the two married. "We can both be impulsive at times," says Doreen, "but we're a good match for one another. He's an optimist and he brings out the best in me."

The newlyweds moved into a rent-to-own townhouse development in Burlington, Ont. They paid \$1,500 a month in rent, and at the end of a year, took the developer up on a purchase option, which allowed them to use their rental payments as the down payment on a \$250,000 three-bedroom townhouse. "We got lucky," says Jack. "We had very little money and with my bankruptcy record, no other builder would have taken a chance on us."

The downside, though, was the neighborhood, which was seedier than they had expected. In 2002, when the Campbells were expecting their first child, Max, they knew they had to move. So they sold their townhouse, pocketed a \$30,000 profit and used that windfall in conjunction with the money that should have gone to pay Jack's taxes as a down payment on their current home. "We really couldn't afford a new place, but we wanted a better neighborhood for the kids," says Jack.

A year and a bit after Max was born, Doreen discovered that she was pregnant. "Lucy wasn't planned," says Doreen, "and it just devastated our budget to have me off work again so soon." Making matters worse was their discovery that Jack still owed \$22,000 in student loans dating back to his restaurant-management course. He had assumed that his bank-

ruptcy had erased the loan. It hadn't.

The Campbells are still struggling to bring their finances under control. "We pay our monthly bills and then throw most of what we have left against the debt," says Doreen. She insists, though, on keeping enough in a savings account—\$7,800 to be exact—to cushion the family's finances if Jack's contract were not to be renewed.

Doreen feels the best option may be to have a financial expert draw up a strict repayment schedule for the family's debts. She thinks if Jack sees a black-and-white plan that will plot the couple's route to financial security, he will do everything he can to make it work. "I think he's slowly changing his ways. We have two kids now. It's time to start moving forward."

### What the experts say

Our experts agree that the Campbells must take immediate action. "Their situation is very troublesome," says Sandra Foster, a financial educator and president of Headspring Consulting in Toronto. "The couple has been living beyond their means. They can't wait any longer."

The couple should:

**Begin paying income taxes now.** "Putting off paying income taxes is ▶

### WHERE THEY STAND

#### Assets

Home	<b>\$340,000</b>
Jack's RRSP	<b>4,700</b>
Doreen's RRSP	<b>20,985</b>
Max's RESP	<b>4,462</b>
Stocks and bonds	<b>350</b>
Chequing account	<b>717</b>
Savings account	<b>7,800</b>
Doreen's car	<b>5,000</b>
<b>TOTAL ASSETS</b>	<b>\$384,014</b>

#### Liabilities

Mortgage	<b>\$257,100</b>
Credit card (at 4%)	<b>22,858</b>
Jack's student loans	<b>20,000</b>
Line of credit (at 9%)	<b>15,925</b>
Jack's 2005 taxes owing	<b>11,500</b>
<b>TOTAL LIABILITIES</b>	<b>\$327,383</b>

#### Net Worth

**\$56,631**

(total assets minus total liabilities)

## HOW THE MONEY IS SPENT

### Yearly Disposable Income

Jack's income	\$80,000
Doreen's income	47,000
Minus: Doreen's taxes and other deductions	17,434
Minus: Jack's taxes	15,000
<b>NET DISPOSABLE INCOME</b>	<b>\$94,566</b>

### Yearly Expenses

#### Debt Repayment

Credit line	\$20,880
Student loans	2,400
Credit cards	720
<b>Total debt repayment</b>	<b>\$24,000</b>

#### Shelter

Mortgage payment (includes prop. taxes)	\$27,773
Home insurance	534
Hydro	1,600
Gas	1,474
Cell phone	345
Home phone	363
Internet	676
Cable	621
<b>Total shelter</b>	<b>\$33,386</b>

#### Transportation

Car lease	\$6,504
Car insurance	2,273
Gas	4,320
Maintenance	310
Tolls on 407	120
<b>Total transportation</b>	<b>\$13,527</b>

#### Personal

Groceries	\$5,680
Day care	23,400
Clothing	3,600
Restaurants	1,800
Haircuts	430
Home improvements	1,000
Furniture	1,500
Vacation	500
Bank fees	120
RRSP and RESP contributions	900
Books/newspapers/magazines	150
Gift for holidays and birthdays	700
Gardening and outdoor supplies	350
Miscellaneous	2,500
<b>Total personal</b>	<b>\$42,630</b>

**TOTAL EXPENSES \$113,543**

**Annual Income Available for Investment - \$18,977**

(Total income minus total expenses)

## FAMILY PROFILE

more common than people think," says Lee Bernstein, a Toronto tax accountant. "And it usually works fine until things blow up in your face." At that point, the penalties are severe. You currently pay 9% in interest on overdue balances. And if the taxman thinks you're not moving fast enough to pay down your debt, he can garnish your wages.

Our experts suggest the Campbells could reduce bickering and stress by sharing the responsibility for making sure Jack's tax bill is paid. His contribution should be to deduct 20% from every cheque he receives and put the money in a savings account controlled by Doreen. She can then send the money to Canada Revenue Agency each quarter. Any amount left owing at the end of the year should then be fairly small.

As well, the Campbells should phone their local Canada Revenue Agency office and arrange to pay regular amounts toward the \$11,500 still owing on their 2005 tax bill. Foster predicts the Campbells will receive a more humane response than they might expect: "The taxman knows he can't bleed a stone. He'll probably be quite flexible, but he wants to see you make the effort."

**Consider consolidation.** The Campbells should look into amalgamating all their debt into one large loan, says Barbara Garbens, a registered financial planner and president of BL Garbens Associates in Toronto. They may be able to reduce the average interest rate by doing so. And they will definitely simplify their finances, since they will have to make only one payment each month to a single institution, rather than several payments to many creditors.

**Use their savings to pay down debt.** The Campbells have \$7,800 languishing in their savings account. "They should take that money and throw it at the line of credit," urges Garbens, "then use the line of credit for their emergency fund if the need arises. Right away, they'll cut their line-of-credit debt in half." That will

save them \$700 a year in interest expense.

**Cut their expenses.** With Lucy turning 18 months old in November, the Campbells will be able to reduce their day care bill by about \$3,120 a year. As well, our experts suggest the couple stop making RRSP and RESP contributions until they've paid off their line of credit and other consumer debt. For further savings, the couple could cut \$1,500 from their \$3,600 clothing budget. All of this should result in yearly savings of about \$5,500.

**Stop the accelerated mortgage payments.** With so much personal debt, the Campbells should stop trying to pay their mortgage on an accelerated schedule. "They're trying to do too much," says Foster. "They should talk with their bank." They could probably shave \$2,500 off their annual mortgage bill by shifting from biweekly payments to a less onerous monthly schedule.

**Doing the numbers.** By using their \$7,800 in savings to pay down debt, the couple will save \$700 a year in interest. Add this to the \$5,500 a year they will save from cutting personal expenses, and the \$2,500 they will save by switching to monthly mortgage payments, and they should be able to pay off \$16,500 of their debt over the next year and about \$10,000 each year for three years after that. That would leave the Campbells four years from now with only a mortgage and student loans to face. By then, both kids will be in school, bringing day care bills down to under \$4,000 a year. The Campbells could pour their day care savings into paying off Jack's student loans, then go back to aggressively attacking their mortgage. At that point, they could also resume contributing money to RESP's and RRSP's. And give themselves a big pat on the back for escaping from their debt trap. **M**

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