Business / Personal Finance

As their business falters, couple tries to stay on track

This week's Monday Makeover looks at a family whose small business has hit a bump. They're struggling to stay on track.

PETER POWER / FOR THE TORONTO STAR
This week's Monday Makeover looks at a family whose small business has hit a bump. They're struggling to stay on track.

By: Deanne Gage Special to The Star, Published on Sun Aug 03 2014

Ted and Aurora have been living the good life in a small city an hour outside of Toronto where Ted runs a small roofing company. His income fluctuates, but he generally clears about $70,000 a year. That covers the bulk of the family's expenses, while Aurora's $32,000-a-year job as a part-time law clerk goes towards savings.

After this year's unseasonably wet spring, Ted's business has suffered. The couple is living on half of the amount they are accustomed to spending. They are using their personal line of credit to cover Ted's business expenses, because he couldn't withdraw an income for two months. Aurora's salary now pays part of the bills, with the rest covered by a second line of credit.

Ted expects things to pick up in the fall. Starting in September, he has lined up many roofing contracts and he anticipates drawing a consistent pay cheque.

Still, the couple realizes they need a plan to get back on track. They also hope to retire in 15 years, when Ted is 65 and Aurora is 58.

They have $243,000 in their Registered Retirement Savings Plans and another $23,000 in non-registered investments. They have saved $13,000 in Registered Education Savings Plans for their three school-aged children. They still owe $166,000 on their home valued at $550,000 and anticipate the mortgage will be paid off in 15 years as Ted is retiring. Their joint line of credit is at a$41,000 and climbing. They do not have company pension plans.

Related: Freedom 55 for this couple possible, but not advised

The Star asked Kevin Gebert, a certified financial planner at Greenrock Financial Group Inc. in Surrey, B.C. and author of Financial Fotographs, to work with Ted and Aurora.

There are not many areas where they are spending above their means. Gebert says they can shave $500 a month from their spending by cutting back on hobbies and sports equipment for their kids and some dining out.

The top priorities are balancing family expenses and eliminating debt. That means saying goodbye to RRSP and RESP contributions for the time being. He suggests using their non-registered investments to paying down their line of credit, but they should consult with an advisor first about the tax implications of that decision.

Gebert suggests holding off on any RRSP contributions until the New Year, if the income situation improves. The couple currently makes set RRSP contributions of $520 a month, or $6,240 a year.

"Any contributions made in the first 60 days of 2015 can be deducted against 2014 income or a future year," Gebert notes.

By not contributing, all they are doing is delaying their ability to receive a tax break from their RRSPs.

The couple should also delay their RESP contributions for now. When the roofing business picks up, they will able to catch up and take advantage of the 20 per cent Canada Education Savings Grant money from the government.

Their strategy of using a line of credit in the meantime is not ideal, but can work if they have a good plan to pay it off. But using a personal LOC to cover company expenses has to end since it will affect both of their credit ratings, he says. When Ted's roofing business picks up again, he should arrange for a business line of credit to keep business and personal expenses separated.

As for retirement, they will likely need to find more money to cover the first decade of their golden years. When Ted turns 65 Aurora will not be old enough to collect either Canada Pension Plan or Old Age Security. In fact, Aurora would also be affected by the new OAS rules, which would see her collect it at age 67 instead of age 65 previously.

If, starting next year, Ted and Aurora can continue to contribute $6,240 a year to their current RRSPs, they will have more than $647,000 in 15 years' time, assuming a five per cent rate of return. They would then be able to withdraw $30,435 a year from their RRSPs. They'll also have their CPP and OAS entitlements.

Gebert calculates that their RRSP would last 27 years, assuming they withdraw that same amount every year, accounting for three per cent inflation. If the couple lived well into their mid-to-late 90s, they could tap into their home equity and downsize, but may not be enough to maintain their lifestyle, especially if there are eldercare issues. The couple currently has no health insurance or dental coverage but Ted is investigating a group healthcare plan for his company.

More Monday Makeover stories

ENDMakeover facts

The client: Ted, 50, and Aurora, 42

The problem: Ted's variable income is affecting his family's finances and their ability to meet expenses. But he and his wife still hope to retire in 15 years and eliminate all their debts.

The advice: Delay retirement savings for now. Prioritize family needs and paying off debts. When income returns to a more stable level, beef up investing.

Free Monday Makeover

If you're interested in the free opportunity to revisit your financial plan with the help of our experts, contact Deanne Gage at deannegage@gmail.com