

FINANCIAL POST

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The designer

Dana Lacey, Financial Post

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Four months ago, Wanda Malteser bought a condo in Oakville, Ont., for \$171,000. "Bad timing," she jokes. Three months ago, she was diagnosed with cancer of both lungs and brain. Two months ago, Wanda had brain surgery and is scheduled for lung surgery and chemotherapy in the new year. "I'll be back to work by April," she predicts.

Wanda is a workaholic. Normally, the 54-year-old designer works seven days a week, pulling in \$78,000 a year. But since September, she's been too sick to work. As a 15-year veteran of her company, she continues to earn \$3,500 a month as she recovers (she will start working from home in January; until then, she hopes her well-established clientele will stay loyal.)

Her expenses include \$1,027 a month for the mortgage, \$800 a month for groceries, \$320 a month for car payments and \$375 a month for property taxes and home maintenance. Wanda never seems to have any money. She wants to buy a wig, but her insurance only covers \$200 of the \$700 it costs. "I bought a \$12 hat instead."

When she got sick, her daughter took over her finances and was shocked at what she saw: "Even before the diagnosis, she was way in over her head." Wanda has no savings, no RRSPs and more than \$30,000 in credit-card debt, including \$12,000 owed to Sears and Leon's Furniture.

Wanda admits she doesn't know where her money goes -- she tends to spend blindly. She also has trouble saying no. A son in his late 20s only recently moved out, while her mother constantly guilted her into "handing over wads of cash," upwards of \$1,000 a month. Wanda cashed out her RRSPs a few years ago to buy a house, which she later sold in order to give her mother money. Despite the cancer diagnosis, Wanda still hasn't learned how to say no.

The cancer treatments are covered by OHIP, but not the cost of daily commutes to Toronto. She pays \$700 a month in gas, not including parking. She is insured through her job for critical care, up to \$10,000, but hasn't applied yet. She's trying to figure out what her insurance entitles her to. Meanwhile, she's ignoring her mounting debt, as she has for several years. She just booked an appointment with a credit councillor: She's worried she might have to file for bankruptcy.

Wanda wants to reel in her spending habits and set up a savings plan. If she gets insurance money, should she spend it or focus on paying down her debt? On top of these questions, Wanda has no pension and vague plans for the future. But she doesn't see retirement as an end to work. "I'd like to switch careers, maybe," she says. "But I'll keep working."

BY THE NUMBERS

INCOME PER MONTH

Salary \$3,500

EXPENSES PER MONTH

Mortgage \$1,027 Groceries \$800 Car payments \$320

Property taxes/maintenance \$375 Gifts to mother \$1,000 Gas \$700

ASSETS

Condo Bought for \$171,000

LIABILITIES

Credit-card debt \$30,000

What the experts say

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Peter Ficek, CFP, Calgary Before any financial planning can be done, Wanda first has to bring her financial affairs to order.

Although there are some decisions she can make right now, most of the changes she needs to make are rooted in her attitude towards money.

Spending \$800 a month on groceries is excessive for one adult, even when working full-time. I am sure this amount includes luxury rather than just necessity items, and she could scale down to less than half of that. She needs coaching on not only what to buy but how to buy it! It also feels like I have been whacked by an exclamation mark with her \$700-a-month bill for gas. Surely, public transportation or special transportation for the challenged in Toronto are possible. Just one month of saving this cost would be enough to buy her that wig she needs. She might also be able to meet her minimum credit card payments with the savings. Choose your priorities wisely, Wanda.

Since she is not using her vehicle for employment purposes, she may be able to scale down her auto insurance coverage to usage other than for employment. This should substantially reduce the cost.

Wanda seems a good-hearted person. Instead of her mother asking for money or her son staying at home, perhaps it is their turn to return the favour.

Wanda should pay particular attention to her T1 General Tax Return for 2008, as she may be able to qualify for numerous refundable and non-refundable tax credits. This money should be saved if possible. In addition, she should spend time researching provincial legislation related to programs for people with disabilities or illness. She may be able to receive special treatment or funds. As well, she should join a cancer support group as these groups often have a lot of information readily available.

By putting her finances in order, she will reduce stress and increase her chances of recovery. We should continually adjust our spending to our level of income. This is extremely important when the future seems uncertain.

Most of all, Wanda should realize that not all is lost, and that her financial situation may change, based on whether or not she is able to work full time. It is better to start late than never.

David Phipps, CFP, Assante Wealth Management, Ottawa Wanda's unexpected health problem has turned what was a poor but manageable financial situation into a crisis. The most important thing Wanda can do to improve her financial situation is to focus on recovery: Her future financial well-being depends on her ability to earn an income.

Her current living expenses are reasonable, but the level of credit-card debt suggests there are significant uncategorized expenses. To get control of spending, Wanda should start to carry a small notepad and write down every expenditure she makes, no matter how small. A clear picture will soon emerge of where her money goes and the discretionary items that can be cut.

Meanwhile, Wanda must come to the difficult realization that there is simply no money left to give to family members. This Christmas will be a good test. Wanda will have to forgo purchasing expensive gifts for her mother, son and daughter. Stick to one credit card: Department store credit cards are a financial hazard that promote over-spending, have outrageous interest rates and offer few tangible benefits.

Wanda needs to understand what benefits she is entitled to under her critical illness and disability insurance plans, and then go through the labour-intensive process of completing the steps necessary to collect any monies to which she is entitled.

Typically, critical illness insurance policies will pay out their benefit in a lump sum one month after diagnosis with a covered critical illness. Wanda needs to speak with her company's group insurer to find out if she qualifies for critical illness insurance and, more importantly, disability insurance coverage. Wanda's credit counselor should assist her in understanding any insurance protection that she may have on her credit cards.

Wanda needs to make it through the next six months, regain her health and get back to work full-time. The next step will be to build a small emergency fund of a few thousand dollars in a risk-free liquid vehicle such as the new tax-free saving accounts (TFSA) available in January. Once the small emergency fund is built, all savings should be directed to debt reduction. She should make minimal payments to the mortgage until all credit card debt is eliminated, then aggressively pay down the mortgage. Any additional funds can then be directed to RRSPs. This takes Wanda into retirement with no debt, a home that's paid for, CPP and Old Age Security (OAS) for income, plus supplemental income from part-time work and possibly a TFSA/RRSP nest egg.