Putting a Price on Living the Dream
Personal Finance 2021

"We just don't know how this mountain of debt got created!" exclaimed Allison Mitchell. *"And now we don't even know where to begin climbing!"*

"I know one thing," said her husband Scott, *"we definitely aren't richer than we think - no matter what the commercials say."*

"It's a good thing that we have a friend like you to help us out with all this," Scott said as he gently pushed a large tote of receipts and overdue notices toward you.

Meet the Mitchells!

Scott and Allison Mitchell are 38-year-old high school sweethearts who had grown up in Southwest Manitoba and now lived in Souris. The Mitchell Clan included their two boys (Jim and Garrett) who were 14- and 16-years-old. They really enjoyed life in their relatively new home which they had purchased back in 2018 for $290,000.

Scott was a hard-working history teacher at the local high school, while Allison was the part-time librarian. She enjoyed the work-life balance that the job offered her, as it allowed her to be close to the boys yet be available to run to hockey games at a moment's notice.

And boy, were there hockey games! Both Jim and Garrett had surprised their parents (neither of whom were particularly athletic) by excelling in their favorite sport to such a degree, that they had each made their respective AAA hockey teams. While Scott and Allison both enjoyed watching their sons pursue their passion, they had a sneaking suspicion that perhaps hockey had something to do with their current financial predicament.

The Mitchells did not quite understand why they might have money problems. They worked hard and made good money. All the folks in their circle of friends had dual-income households and drove nice vehicles. They loved their home but were self-aware enough to realize that it was average relative to the 2,000 sq. ft. mansions that some of their friends lived in!

Get Pucks Deep & Crash the Family Budget

Scott and Allison were not sure when exactly hockey went from being a fun game played by kids, to a 5x per week professional investment. They did know however, that every time they turned around, they were shelling out money for a new stick, or filling the tank with gas again.

After a recent family meeting to figure out exactly how much was leaving the family budget for hockey, everyone was shocked by the result. It turned out that when you added up team fees, equipment costs, mileage, nights at hotels, meals on the road, and team gear - the total cost of a AAA hockey season was roughly $10,000 (and that is after sponsorships were found).

But the important thing was that the boys were happy and getting to live their passion **gulp** right? It would break Scott and Allison's hearts to tell the boys they could not play hockey anymore - it almost was not worth considering.

Scott and Allison knew that hockey had not always cost this much, and that they would soon be done paying for the sport. They thought that perhaps once the boys were done, they would get to work paying down their credit cards and line of credit. However, in the meantime, perhaps there were some short-term solutions to help keep the overall debt limit down?

"Just for Now"

Neither Scott nor Allison had been big spenders earlier in life, and certainly were not raised to live "beyond their means". Scott had taken out a student loan to get through school, but that was paid off now, and the Mitchells had never really had to borrow much before. There was the odd time when a surprise car repair or hot water tank in need of fixing, might go on a credit card, but it was always paid off within a few months.

The last couple years, however, had looked different. Their two credit cards had gotten a bit of a workout as their daily costs had been going up, but their paychecks had basically stayed the same. Card #1 now had about $10,000 on it and Card #2 had $8,000. They mostly paid the minimum payments, and then paid down a little more when they could afford it. Long term they knew that spending on credit cards was not good, but it seemed like most people they knew had balances on their cards - plus they got all those free Aeroplan points to use toward the family vacation, right?

About two years ago, they had used their big bank's handy online chat feature to talk to a loan's specialist. They were very helpful and explained to the Mitchells that perhaps a Home Equity Line of Credit (often referred to as a HELOC) would allow them to *"borrow money cheaply"* and might be the answer to their spending needs *"Just for now."* Scott and Allison thought they kind of knew what a HELOC was, but maybe you could help them out a bit? What did it mean to *"borrow money cheaply"* anyway?

Driving Ourselves Crazy

When they had visited the local dealerships to buy their last two cars, the dealers had helpfully explained that if they were to trade in their older vehicles at that location, they would simply take the amount that was left on their old car loans and roll it into their next one. It had made the overall bill a lot easier to swallow - especially when divided up over 96 months. Really, when you broke the numbers down, it is like the salesperson had said, *"It's only $190 a week, Scott. That is only a couple meals out these days. You can easily afford it on that teacher's salary."* He had given Scott an excellent deal on a shiny new Chevy Silverado. It was the truck that

Scott had always wanted and had not been able to treat himself to when he was paying down student loans and paying for daycare. Two years later, he still loved the truck, but did wonder if $190 per week was as good a deal as it had sounded at the time.

Allison, on the other hand, had realized that they needed a solid family vehicle to haul these carpooling hockey kids around in, and four years ago had purchased a Santa Fe XL. She had felt a bit guilty at the time for getting the upgraded package - but it was ok she reasoned, because it was an end-of-year special sale, and she had also gotten a great clear-out deal. The $39,000 price tag was offset by a great 3.2% interest rate. They had helped her out by stretching the payments over 96-months, so that it was only $225 bi-weekly! The vehicle had served its purpose as it had hauled several championship players around over the years.

Earnings Before Tax

"On paper we make a lot of money," the Mitchells had said on the phone when they asked you to help them out, *"but it just seems to disappear once it's deposited into our bank account."*

Upon talking to the Mitchells, the following becomes clear:

Scott makes $91,837 per year in gross income but has substantial deductions. In addition to his provincial and federal taxes, he must pay 9% of his salary into his teacher pension plan, and an average total of $850 every month for his combined life insurance, union dues, Canadian Pension Plan, Employment insurance, family dental, and family Blue Cross extended health insurance.

Allison makes $22.37 per hour and works 30 hours per week. Her librarian job pays her 40 weeks per year. She has fewer deductions than Scott, and figures that in addition to her taxes, they subtract about $240 per month for CPP, Union Dues, Employment Insurance, and Long-Term Disability. Her pension takes about 6% of her income off of her cheque before it hits her bank account.

Additionally, Allison had taken on some bookkeeping responsibilities a few years ago, as it was flexible work that she could take with her on hockey road trips. She worked more hours in the summer. Overall, her gross income for this work was about $9,000.

The Mitchells knew that they got a small cheque from the government each month because they had children. Maybe you could tell them how much this cheque should be for, what exactly the payment was, and if they needed to pay taxes on it?

Finally, one outcome of the recent family meeting was that Nathan and Jordan would have to contribute a bit more to the cost of their respective hockey seasons. In the past, the boys had worked casually for minimum wage at the local gas bar when they needed some pocket money. When they had all sat down to add up the hockey costs, they had been very surprised, yet they didn't love the idea of working consistent shifts every week taking away from their "me time". As a money-smart young person, what do you think is a reasonable contribution for the boys to make to household finances?

Pension Possibilities

Scott's Pension Plan: If he retired at age 60, Scott would receive a cheque each month for 70% of the average wage that he earned while teaching. In order to fund this pension plan, roughly 9% of his gross income was taken off his paycheck each month.

Allison's Pension Plan: Allison is not as sure about her pension plan. What she does know is that she must pay 6% of her gross income into her pension and that the "pension person" at their seminar kept saying that non-teaching staff had a "defined contribution plan" and not a "defined benefit plan" like teachers had. Neither Scott, nor Allison knew what these terms meant. Perhaps you could help them out?

Investing for Today and the Future

Scott thought that he might have a possible solution for their spending issues: Investing.

A buddy at work told him that he could make, *"Like 30%"* in the stock market by picking the right stocks and mutual funds. It sounded like a great way to pay off their debt. Would you help Scott pick stocks & mutual funds? Or would you recommend a different direction? Please use long-term statistical proof to provide support for your recommendation.

The Mitchells were not sure they ever needed to learn about RRSPs and TFSAs because they felt like they never had extra money available for investing. Do you agree with their assessment? Is there a scenario where the Mitchells could make use of these financial tools?

While the boys would soon be done with AAA hockey, the possible future cost of post-secondary education was fast approaching. It was kind of the elephant in the financial room - the Mitchells did not like to talk about it. Allison's parents had given them money to start a RESP for the boys when they were kids and had contributed $4,000 to date for each of the boys. It was certainly possible that Jim and Garrett might get hockey scholarships, but they did not want to depend on that. What sort of bill should each of the boys expect if they choose to go to school close to home at Brandon University or Assiniboine Community College? How should the family best prepare for this future expense that they had been avoiding thinking about so far?

Overall, the Mitchells had a lot of options available to them, but also had a lot of tough decisions to make if financial stability was to be found. Hopefully, you're just the friend they need to help them get a plan in place!

Appendix A – Assets, Liabilities, and Expenses

<u>Assets:</u>
2019 Chevy Silverado: $42,700
2020 Santa Fe XL: $24,000
House: $310,000
Chequing Account - $3,600
Government Child Cheque - ?

<u>Liabilities:</u>
Silverado Loan: $50,700 (3.84% Interest)
Santa Fe Loan: $21,600 (3.2% Interest)
Mortgage: $202,140 (current 5-year term is 4.15% interest)
HELOC – “Home Equity Line of Credit” (4.5% interest): $20,000 (another $25,000 in borrowing room available)
Credit Card #1 (19.9% interest): $10,000
Credit Card #2 (29.9% interest): $8,000

<u>Monthly Budget (all numbers are monthly unless otherwise indicated):</u>
Mortgage $1,286
Land Taxes: $267
Truck Payment $190 PER WEEK
Car Payment $225 BI-WEEKLY
Utilities/Phones/Cable $375
Food $1,000
Entertainment $400
Hockey - $10,000 per child ANNUALLY
Gifts: $100
Vehicle Maintenance and Gas: $600
Vehicle Insurance: $260
Home Insurance: $130
Family Vacation: $500
Clothes: $300
Miscellaneous: $200

Appendix B – Summary of Scott and Allison's Main Questions

1) How much debt (if any) should the Mitchell's take on over the next 1-5 years?

2) Is the current Mitchell family spending plan sustainable? (Please show your math.)

3) What is a HELOC and how does it work?

4) What is the "child cheque" that the Mitchells believe they are getting from the government? How much should they be receiving (if any)? Is that money taxable?

5) What do you recommend the boys contribute to family finances?

6) Allison and Scott have different types of pension plans. What are the differences, and how will they look different in retirement?

7) Does Scott have a good solution when it comes to investing in order to pay down his debt? What should Allison and Scott learn when it comes to TFSAs and RRSPs?

8) What sort of plan should the family develop for Jim and Garrett's post-secondary future?