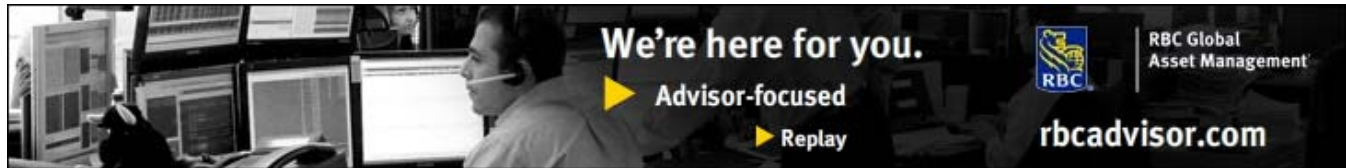


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The advertisement features a photograph of two young boys sitting under a tree. Below the photo is a dark green banner with white text. To the right of the text is a small image of a TD Advantage Investment Portfolio document. At the bottom left is the TD Mutual Funds logo.

## News from globeandmail.com

### Single mom should refinance her mortgage

*Saturday, July 05, 2008*

ANDREW ALLENTUCK

In Ottawa, a health care administrator we'll call Karen, 52, has been separated for a year. Her job pays her \$79,457 before taxes, a good salary, but not a lot with which to help two children ages 16 and 21 with their university educations and to plan her own retirement.

"I want to retire in six years if possible," Karen explains. "I could continue to work part-time or do volunteer work overseas, but I am afraid of unplanned expenses. I have put aside money for the cost of educating my children, but I don't know if I have enough for myself." Karen, who grew up poor, is anxious to maintain her comfortable way of life.

#### WHAT OUR EXPERT SAYS

Facelift asked certified financial planner Frank Wiginton of TriDelta Financial Partners in Toronto to work with Karen in order to develop savings and investment plans that will add to her income and security.

"Karen has done very well at managing her cash flow, even though she has to use her savings now and then to cover shortfalls. Her income of nearly \$80,000 per year now has the purchasing power of \$75,300 due to erosion by inflation. Her real income has decreased by almost \$5,000 while her potential expenses have gone up."

Karen's problem is a common one - little cash left at the end of the month. Her expenses eat up her \$3,900 take-home pay, though some of the expenses include such items as saving for future travel. Some of her expenses will end over the next few years. She pays child support to her ex-partner, for example, but when that item ends, she will have to pay for the kids' university tuition bills.

The solution is a tune-up of Karen's budget, Mr. Wiginton says. That means a reduction of expenses or an increase in income. The place to start is in rationalizing her assets and liabilities. She has \$48,000 in non-registered investments that produce income taxed at a high marginal rate. She also has a \$114,000 mortgage. Finally, she expects an \$82,000 repayment of a personal loan that is due to her in a year. Karen should make as much of her mortgage interest tax deductible as possible and extend the amortization of the mortgage in order to reduce her monthly costs, Mr. Wiginton advises. This move will raise the total interest she has to pay over the life of the mortgage; however, much of the interest will become tax deductible.

Therefore, she should pay down the mortgage with \$48,000 from her taxable assets, leaving \$66,000 in mortgage debt. Then take out a new mortgage for \$114,000, and put \$48,000 from the mortgage into income-producing investments. Interest to repay the \$48,000 is now tax deductible. The moves must be real, not just journal entries, and Karen should work with a tax counsel to ensure that she is in compliance with relevant tax law.

This process will reduce her monthly expenses by \$345 (annually \$4,140), the difference between what she pays now on the mortgage and the cost of paying the new, extended amortization mortgage, Mr. Wiginton says. She will also get a first-year tax deduction of about \$2,050, which is the interest cost for the \$48,000 of investment she will make with borrowed money. In the first year therefore, Karen will save \$6,190. For Karen to retire in six years, as she would like, with \$40,000 in gross annual income in 2008 dollars, she will need to top up her work pension. She can buy 6.75 years of service or stay in the company's defined contribution plan, essentially an RRSP, into which the employer puts 6 per cent of her gross salary each year. Karen tries to use up all of the room in her registered retirement savings plan each year.

In order to buy the previous year's pension contributions, Karen will need \$94,365. If she does the buyback with cash, she will get a past service pension adjustment. The adjustment will reduce her RRSP room. The mechanics are complex, but, in the end, it will be useful for Karen to do the buyback using her existing retirement assets, Mr. Wiginton says. She can use some of her \$191,400 in RRSP funds for this purpose, he adds.

That transaction will set Karen up for retirement income of \$40,000 from 2015, when she will turn 60, to \$47,500 the next year, and then sums rising to as much as \$107,000 when she is 85, assuming that she gets her Canada Pension Plan benefits beginning at age 60 with a reduction of the \$10,615 maximum 2008 benefit by 0.5 per cent a month for each month prior to age 65 at which Karen retires. That 30-per-cent total benefit reduction would give her \$7,430 a year in 2008 dollars.

When Karen is 65, Old Age Security benefits will begin to flow at a rate of \$6,070 a year in 2008 dollars. Fourteen years from now, when all benefits have flowed for a year, her total income should be \$61,840 before taxes of about \$14,700.

Contact us

Interested in a free Financial Facelift? [andrewallentuck@mts.net](mailto:andrewallentuck@mts.net)

## **Client situation**

### **THE PERSON**

Karen, 52, lives in Ottawa. She is a single mom with two children.

### **THE PROBLEM**

Raise cash flow to improve life today, plan retirement.

### **THE PLAN**

Reduce tax on non-RRSP assets, buy back pension credits.

### **THE PAYOFF**

More disposable income, lower debt, more money for retirement.

### **NET MONTHLY INCOME**

\$3,900.

## ASSETS

House \$290,000, RRSP \$191,400, GIC \$21,000, LIRA \$280,420, Loan due July, 2009, \$82,000, RESP \$39,000, cash for education \$26,000, cash \$9,000. Total: \$938,820.

## MONTHLY EXPENSES

Mortgage \$834, property taxes \$180, food & restaurants \$550, entertainment, \$100, clothing \$50, child support \$712, car costs \$250, house insurance \$50, car insurance \$87, charity \$110, gym \$60, pet costs \$40, RRSP \$200, travel \$125, miscellaneous \$300, savings \$252. Total: \$3,900.

## LIABILITIES

Mortgage \$113,000, credit card \$792. Total: \$113,792.

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