THE GLOBE AND MAIL

FINANCIAL FACELIFT

Can these newlyweds save a down payment for a home in a hot market?

DIANNE MALEY
Special to The Globe and Mail
Published Friday, Jan. 01, 2016 4:17PM EST
Last updated Friday, Jan. 01, 2016 4:19PM EST

Dave and Donna left Europe in 2014 to move back to her native Toronto so they could buy a house of their own. During the five years since they met, the property market in the city where they lived soared beyond their means. Even Toronto is looking iffy.

"We're aggressively saving for a first-home deposit while still living the lifestyle we enjoy as newlyweds," Dave writes in an e-mail. They enjoy dining out and taking the odd trip. He is 42, she is 33.

Toronto housing market at risk, OECD report warns (BNN Video)

Together, they bring in $167,500 a year working in a media-related industry.

While they pay a hefty rent for people who are trying to save – $2,500 a month – they fetch $100 a month from sub-letting their parking space.

They wonder where they should put the $3,000 a month they are saving, Dave says. He figures they have four options: an online savings account earning 2 per cent a year; tax-free savings accounts earning the same rate; registered retirement savings plans (to take advantage of the Home Buyers'

Plan); or a combination of all three. They have nothing in registered plans at the moment.

“Our goal is to maximize interest and minimize tax with the aim of buying a home at the end of 2016 or the start of 2017.” They want a detached home, not a condo. Dave’s father will be kicking in $40,000 to help with the purchase.

We asked Vickie Campbell and Ayana Forward, financial planners at Ryan Lamontagne Inc. in Ottawa, to look at Dave and Donna’s situation.

What the experts say

With the escalating price of homes in the Toronto area, Dave and Donna should ensure that they to stick to their budget and don’t spend more than they can afford, the planners said in a joint e-mail. They should bear in mind that the value of their home may decrease if there is a drop in housing prices.

With their anticipated savings, Dave and Donna should be able to buy a house for $650,000 early in 2017. The planners recommend they put 20 per cent down, or $130,000, to save on the cost of mortgage insurance and give themselves a comfortable equity cushion. They have $47,000 now, they will have saved another $45,000 over 15 months and Dave’s father will contribute $40,000, for a total of $132,000.

That would leave them with a mortgage of $520,000. With a 25-year amortization and a 5-per-cent interest rate, the mortgage would cost about $3,000 a month. The planners have assumed a higher-than-current interest rate over the life of the mortgage. The couple must also plan for legal, closing and moving costs, as well as expenses involved in setting up their new home, Ms. Campbell and Ms. Forward say. Land transfer tax will run about $18,200, so they may find themselves short and have to save a little longer.

Looking ahead, “It is important to include in their expenses the additional cost of home ownership such as property taxes and maintenance,” the planners say.

Together, Dave and Donna have $56,000 of contribution room in their TFSAs. They could shift their $47,000 in savings to their TFSAs to take advantage of tax sheltering, they add.

The Home Buyers’ Plan, where taxpayers borrow from their RRSPs to buy a home, “can be an excellent vehicle,” the planners say. The amount withdrawn is paid back to the RRSP over 15 years.

The planners suggest the following strategy: First, Dave and Donna contribute as much as possible to their RRSPs. Any tax refund can be tucked into their TFSAs, along with any surplus savings. After maximizing their registered plans, they can open a high-interest savings account.

Next, the planners cast their eyes over the couple’s income and expenses. “If they are serious about their goal of home ownership, they should take a closer look at their expenses and see if they can cut back on anything that's not a priority," Ms. Campbell and Ms. Forward say. "A little more focus on lowering expenses may help them accelerate their savings rate."

The planners recommend that Dave and Donna have an emergency fund. In a pinch, they could draw on a low-interest line of credit. Money saved for the house should be kept in short-term deposits rather than longer-term investments.

After they have bought the new house, Dave and Donna should still be able to tuck away some money, the planners say. This could change if they decide to have a child.

"Without pensions, they need to prioritize putting money aside for their retirement," they note. "They will have increased household costs and the potential for daycare costs." RRSPs are the best savings vehicle for them because they can take advantage of the immediate tax savings, while sheltering and deferring tax. They are likely to be in a lower tax bracket when they retire as planned when she is 68 and he is 72. They should also take full advantage of their TFSAs.

This money should be directed to longer-term investments. Assuming a growth rate of 3 per cent a year after inflation, the savings within their RRSPs and tax-free savings accounts should provide them with the $70,000 a year they hope to spend when they retire.

+++++++++++++++++++++

CLIENT SITUATION

The people: Dave, 42, and Donna, 33.

The problem: How to save for a down payment on their first home.

The plan: Keep saving until they have a 20 per cent down payment. Keep their savings in short-term deposits. Review expenses for possible savings.

The payoff: A sound financial footing in an expensive city.

Monthly net income: $10,210

Assets: Savings $47,000 (bank accounts)

Monthly disbursements: Rent $2,500; other housing costs (insurance, utilities) $113; transportation $215; groceries $650; clothing $300; gifts, charitable $85; vacation, travel $750; other discretionary $135; dining, drinks, entertainment $1,070; grooming $170; clubs $45; other personal $75; drugstore $15; telecom, TV, Internet $168; savings $3,000. Total: $9,291

Liabilities: None

Want a free financial facelift [http://www.theglobeandmail.com/globe-investor/topic/Financial-Facelift]? E-mail finfacelift@gmail.com [mailto:finfacelift@gmail.com]. Some details may be changed to protect the privacy of the persons profiled.

ALSO ON THE GLOBE AND MAIL

Ottawa aims to cool housing markets by tightening mortgage rules (BNN Video)

-

More Related to this Story

- FINANCIAL FACELIFT Two houses, hot market, big dilemma for this soon-to-be-married couple
- FINANCIAL FACELIFT What's the best strategy for this 66-year-old to join his wife in retirement?
- FINANCIAL FACELIFT Small-business owners at an 'impasse' over secure retirement planning
- FINANCIAL FACELIFT Can this couple retire early and maintain their lifestyle?
- FINANCIAL FACELIFT Can this couple afford to retire comfortably in their late 50s?

Topics:

- Financial Facelift

Next Story

Top Links: Oil higher, but won’t prevent a nasty start to 2016 trading

Monday, Jan. 04, 2016 9:21AM EST

Alberta farm groups oppose passing of new labour bill

Sunday, Jan. 03, 2016 6:12PM EST

Closing arguments to begin in trial of dad accused in girl's burning death

Monday, Jan. 04, 2016 9:18AM EST
Share this selection

- Tweet
-

Log in

Don’t have an account? Create one here.
We did not find an account associated with the account below:
Create new account Cancel
With your social account
OR with your email and password
Your email address
Your password Show

Keep me logged in

Trouble logging in?