Modern money management isn't just about paycheques and bills.

# Modern Money Management

STACY YANCHUK OLEKSY



Families in Canada utilize a variety of resources to provide care and support, including time, sleep and meals. Each resource is deeply intertwined with, or is otherwise affected by, *money*: we devote significant time to earning an income, our sleep can be interrupted by stress about family finances and most of our meals aren't free. Examining factors *inside* and *outside* the family home can help to contextualize and explain how we manage money in a family context.

## Financial factors *inside* the family

Families are diverse and complex, and Canada is home to a variety of family structures, including single-parent families, co-parented/joint custody families living in separate households, two-parent families, blended families and multigenerational families living under one roof. Money management strategies are also marked by diversity and complexity due to the variety of *circumstances* (e.g., family composition and living arrangements) and *aspirations* (e.g., education, caregiving and transfers of wealth) that inform money management decision making.

### *Diverse family circumstances add complexity to money management*

Modern money management isn't just about paycheques and bills. Many modern families are managing a variety of income sources and types aside from their full- or part-time earnings. This includes sources such as investment income and private retirement income (reported by 29% and 13% of Canadians, respectively).[1] Having multiple income sources can add further complexity to a family budget that must be managed. For example, a single parent who is working part-time, receiving child support, living in subsidized housing while receiving child tax benefits and GST rebates would likely have a more complex and diverse income stream than someone who only received income from one full-time job – and their budgets and money management strategies would need to take this complexity into account.

### *Family members living across borders face complex money management realities*

Canada is an increasingly diverse nation: more than one in five people were born outside the country, according to the *2011 National Household Survey*.[2] Many newcomers are balancing creating roots here while continuing to provide support to their families still living in their country of origin. They face not only the task of learning a new monetary, banking and

Retirement income now needs to last us longer, and many financial planners are helping Canadians plan until the age of 90.



credit system, but also the pressures and expectations they may feel to take care of the family who helped them get to Canada. In the meantime, their families living "back home" may need assistance with things such as medical and/or funeral expenses and travel costs.

For those families *not* living here, Canada can seem like the land of milk and honey. However, breaking into the job market is often more difficult than expected for many newcomers. Many immigrants have faced difficulty getting their credentials and experience recognized and translating this into gainful employment. Furthermore, incomes in Canada have generally not kept pace with the cost of living, which puts additional pressure on newcomers just to make ends meet, let alone send money back to their families.

To meet their financial needs, some newcomers have resorted to borrowing money to send back to their family, creating a negative snowball effect. Many of those who borrow money find themselves having to work more to pay back the debts owed while continuing to support their local family and sending money back home. The effects of money management difficulties can be quite serious: if a newcomer became insolvent and found it necessary to declare bankruptcy, this could impact his or her ability to become a permanent citizen or to sponsor family members.

*Adult children returning to the parental home can create a financial "domino effect"*

A growing number of adult children are returning home to their parents as single adults, as couples or even as young families. More than four in 10 (42%) of all young adults in their 20s were living in the parental home in 2011, either because they never left it or because they returned home after living elsewhere; among those who return, 2.1% do so with a spouse or common-law partner.[3]

This can lead to extra costs for parents, some of whom may have been preparing to downsize their home but cannot do so while adult children are still living with them. Parents may incur additional living expenses (groceries, utilities, etc.) due to added family members – particularly if they are also helping provide care for grandchildren. Extra costs aren't inevitable, as children living in the parental home often contribute financially to offset the cost. But if this is not the case, there can be a financial impact both in terms of direct costs (e.g., household expenses) and opportunity costs (e.g., less money for savings or lost income).

*Family aspirations reflect – and are affected by – money management needs*

Post-secondary education for both young and mature students can affect family finances. Tuition costs are steadily increasing and many students are incurring debt by filling budget gaps with conventional borrowing methods that have been targeted at them (*student* lines of credit and *student* credit cards).

The costs associated with post-secondary education can affect whether a student works while in school, the duration of their studies, along with their general well-being (e.g., food, adequate housing and leisure). Students who graduate with high levels of debt can have their employment prospects hampered by being forced to take the first job that they find. Some may be affected because an employer checks their credit report and notices that they may not be able to service their debts with the income the employer is offering. Student debt can also affect how a graduate manages their income and expenses once they have graduated. They may have to adjust their expectations and aspirations by either delaying or foregoing plans to travel, buy a home, get married or have children.

*Life expectancies are rising*

Modern medicine and technology have enabled us to live longer lives. According to the most recent statistics, women and men aged 65 today can expect to live another 22 and 19 years, respectively (up from 19 and 15 years, respectively, in 1981). While this is great news, there are financial implications to living longer.

Retirement income now needs to last us longer – financial planners have reacted by helping Canadians plan until the age of 90. With longer lives, family members will require more savings to cover living expenses as well as irregular yet large expenses, such as vehicles and residential costs, which can affect a person's ability to live in a setting of their own choosing.

A growing number of Canadians are taking on a caregiving role to family members with a chronic health condition, disability or aging need – 28% of

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## Modern money management is complex because families are complex.

the population, according to Statistics Canada.[5] Costs associated with caregiving can have an impact on the amount of savings being put aside for emergencies and/or retirement, along with the ability to withstand financial emergencies. Families may also experience the loss of potential income as a caregiver takes time away from work to provide care.

Caregivers may also limit their career advancement or alter their career path because of the time they devote to caregiving responsibilities. Depending on the living arrangements of the care recipient (living with kin versus independently), additional expenses may be incurred. Furthermore, families may be supplementing the cost of another family member's care, which can affect their financial planning. (To learn more about modern caregiving and its impact on family life, read "Modern Caregiving in Canada" by Janet Fast and Donna S. Lero.)[6]

### Financial factors *outside* the family

With family members to feed, bills to pay and budgets to make, it can be all too easy to go about our daily lives without considering the role our surrounding contexts play in shaping how we secure and manage our economic well-being. Our decisions about money management don't occur in a vacuum, and taking a look at the broader economic context can reveal how financial factors outside the family can affect how money is managed.

*Credit access is increasingly prevalent… and so is debt*

Prior to 1950, individuals and families bought goods and services with cash. If a person didn't have the cash, they didn't get the item. For larger items, families would have to first save the full amount and then make the

**Debit card.** A debit card allows a person to make purchases without cash by providing direct electronic access to their bank account(s). Payments are immediately withdrawn from the account and spending is limited by the cardholder's account balance. Overdraft protection can allow cardholders to exceed their balance by a predetermined amount, which is then typically subject to interest fees.

**Credit card.** A credit card allows a person to make purchases that are paid for on behalf of the card holder by the card issuer, which creates an account balance that begins accruing interest from the date of the purchase. Cardholders do not need to repay the balance in full, as long as the required minimum payments are made. Credit cards usually have a specified limit that cannot be exceeded.

**Charge card.** A charge card allows a person to make purchases that are paid for by the card issuer, which creates a debt that must be repaid in full by the due date. Unlike credit cards, interest is not charged and failure to make the full payment by the payment date results in late fees and restrictions on card use.

**Personal line of credit.** Lines of credit provide people with access to an approved limited amount of money they would not otherwise have. Personal lines of credit are offered by banks to people with good credit standing, who pay interest on money withdrawn. Unlike a personal loan, a personal line of credit is open-ended.

**Personal loan.** A personal loan is an amount of money provided by a lender that must be repaid with interest and a predetermined timeline of repayments. With *secured* loans, such as mortgage and auto loans, the borrower must pledge an asset (e.g., property or the vehicle being purchased) that can be repossessed by the bank if the borrower defaults on payments. This is *not* the case for unsecured loans, which include credit card debt, overdraft and lines of credit.

**Cash advance.** A cash advance is a service that allows most credit and charge card users to withdraw cash through an ATM or over the counter at a bank or other financial agency, up to a limit. A fee is typically charged, as is interest on the amount taken. (Rates are usually higher than regular credit card transactions.)



The accessibility and comfort people have with credit can affect families in a variety of ways, since all elements of family finances are interdependent.

purchase. This changed in the mid-20th century with the creation of Diner's Club and various store credit/charge cards. People could use these services to *charge* the cost of a product or service to the card and pay later – with interest. The use of credit as a financial tool soon spread as people sought new ways to manage their money.

Since the mid-1980s, credit has become a staple of modern financial life and is now easier to access than ever before. Canadians no longer simply rely on credit for major purchases, such as vehicles and home renovations, but also for small purchases and daily living expenses, such as groceries, taxi fare and coffee.

While it's true that the emergence of credit has provided families with a new form of financial flexibility, it's not without its costs – namely, rising levels of household debt. Households have been taking on more and more debt relative to disposable income: in 1980, this ratio stood at 66%, but it has since been on a steady incline, reaching 166% in 2013.[7, 8]

The accessibility and comfort people have with credit can affect families in a variety of ways, since all elements of family finances are *interdependent*. For every dollar a family member puts toward a credit card bill, loan payment or line of credit payment, that dollar is not going toward household savings to cover irregular and seasonal expenses, emergency savings or investments, such as Registered Education Savings Plans (RESPs), Tax-Free Savings Accounts (TFSAs) or Registered Retirement Savings Plans (RRSPs). These savings might be needed later on in life to weather life's storms, such as job loss, underemployment, illness, injury or divorce.

*As interest rates decline, so do incentives to save*

Interest rates in Canada have fluctuated through the decades, affecting the borrowing behaviour of families by determining how big their interest payments will be. The 1970s saw some of the highest interest rates in history, which hovered around 20%. However, interest rates have steadily declined since the 1990s, which has created a market for easy accessibility of credit and reduced the value of savings.

Low interest rates also mean that there is less incentive for families to save money. The average interest rate for a savings account is now less than 2%, which means that for every $1,000 a family saves, they would earn only $20 in one year. Borrowing money (e.g., with a high-limit credit card or line of credit) therefore becomes their emergency savings plan.

## Modern money management is complex because *families* are complex

Families in Canada must balance income sources with costs in order to fulfill a core responsibility: providing support for each other. But families are highly adaptive and resilient, and this source of internal strength is a valuable asset. Financial literacy is increasing in Canada as people become more aware of the skills required to effectively manage family finances. The Financial Consumer Agency of Canada recently appointed a new Financial Literacy Leader, and a growing number of organizations are providing financial education through workshops, webinars, online resources and one-on-one appointments. Factors that can affect money management may come from inside and outside the family, but so do strategies and solutions.

*Stacy Yanchuk Oleksy is Director of Education and Community Awareness at the Credit Counselling Society.*

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