

## "Time to move ahead"

Charlotte Dobson has lost her health, her home, her husband. Now she's ready for some good news  
by Julie Cazzin

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HREE YEARS AGO, CHAR-

lotte Dobson was setting the table for dinner when her hands seized shut. As she tried to grip glasses, forks and knives, her fingers stubbornly refused to open. The paralysis passed but the next morning Dobson's hands began shaking uncontrollably as she tried to apply her lipstick before work. A visit to the doctor's office later that week confirmed the worst—Dobson, only 43 at the time, had multiple sclerosis, a chronic disease that affects muscle movement and includes symptoms such as blurred vision, temporary paralysis, acute pain and tremors. There is no cure. "The doctor's diagnosis changed my life," says Dobson. "I used to lead an active life, skiing, skating and swimming all the time. But that's all over now."

Since that afternoon, Dobson has lost much of what remained of her health. (We've changed her name and some details to protect her privacy.) It hurts her to walk long distances or write. She can't vacuum or dust without pain.

Dobson's illness also devastated her marriage. Soon after her diagnosis, her husband, John, an electrician, walked out on Dobson and their two daughters after 23 years of marriage. "We had an old-fashioned marriage," says Dobson. "Even when I started working full-time 13 years ago, he never helped out around the house or spent much time with the kids. It wasn't a problem while I was healthy and able to

handle everything, but as soon as I got sick, our family life fell apart."

As her illness progressed, Dobson could no longer do her \$50,000-a-year job as a loans manager. She went on long-term disability. Soon afterward, John insisted on selling the family home in Hamilton, Ont., and Dobson found herself living in a three-bedroom apartment with her two daughters.

Last spring, after two years of wrangling, the Dobsons finally reached a divorce settlement that granted Charlotte \$188,000 cash but no spousal support. Today, she lives on \$32,503 in annual disability payments from her former employer as well as \$5,400 in interest from her cash settlement, all of which sits in a savings account earning 3%. "Our divorce was really antagonistic," says

Dobson. "John argued that he had made most of our income, so he didn't want to give me any money at all. I finally settled for a lump sum payment just so I wouldn't have to deal with him anymore."

Dobson continues to live in a three-bedroom apartment with her two daughters, but that arrangement will soon change. Marie, her eldest daughter, is graduating from university this spring and will be moving in with her boyfriend, while younger daughter Rachel will be moving into a university residence this fall. "They're good kids and I'm lucky I have them," says Dobson, "but I've been honest with them. I don't have any money to help them with their education and I won't be able to provide them with a free place to stay for much longer."



## FAMILY PROFILE



Dobson has to make the most of her two largest assets—her \$40,000 RRSP and the cash settlement from her divorce. Should she buy a home with the cash and pay off the mortgage over the next few years? Or would she be better off renting and investing her money? “Retirement scares me,” says Dobson. “I haven’t contributed a lot to the Canada Pension Plan, nor to my employer pension plan. My disability payments stop when I turn 65. I hate to think that I’ll be living below the poverty level as an old woman. Can you help me?”

**DOBSON GREW UP IN PETERBOROUGH,** Ont., the oldest of three children. Her father was a member of the armed forces and her mother looked after the house. “My dad was old school,” says Dobson. “He was good with money and paid for everything in cash. And he expected us kids to work part time for the little extras like clothes and movies. I started babysitting at 12 and worked all through high school at part-time farming jobs.”

In 1980, Dobson began studying business administration at Mohawk College in Hamilton, Ont. Soon afterward, she met her future husband, who was just finishing up an electrical technologist diploma. They married a year later and moved to

North Bay, Ont. “John always worked shift work so my getting a job was out of the question,” says Dobson. “It just would have been too much to juggle day care and shift work. So I threw myself into looking after the house and kids. But the one thing I did do for myself was take courses at the university. I studied history and finished my bachelor’s degree.”

In 1993, the Dobsons moved to Hamilton. But even though John made a decent wage, the family still had to budget. “We didn’t have cable TV for years so we could pay for soccer and swimming lessons for the kids instead,” says Dobson. “Our vacations were simple—mainly visiting family in Peterborough and Ottawa for a week every summer.”

A year after the move to Hamilton, Dobson started working as an assistant loans manager at her local bank. She continued to work at the same branch until 2005, when her illness made it impossible for her to continue. Since then, she has received an annual disability payment of \$32,503 from her former employer. The payment is not indexed to inflation and will end when she turns 65. “You think you’re always going to be healthy,” says Dobson. “You certainly don’t think about disability plans but mine has been a lifesaver. I was put on medication and told that my illness won’t get better and may, in fact, get worse. For a while I went through denial but now I accept it and try to keep a positive attitude.”

Dobson’s husband couldn’t do the same. “John wasn’t able to adapt to my illness, and the divorce itself took longer to settle than it needed to,” says Dobson. “I’m just glad it’s over and that he’s out of my life. I have closure.”

For the past year, Dobson has been living on her disability payments plus the interest generated by her \$188,000 divorce settlement. She’s paying \$1,050 a month in rent for a three-bedroom apartment. Other necessities—groceries, insurance, gas, maintenance on her seven-year-old Honda Civic, as well as clothing, haircuts, phone, internet and cable—chew up the rest of her

income. “I have no debt,” says Dobson, “but almost every penny that comes in is spent on basic living expenses.”

Dobson wonders whether it would be cheaper to continue renting or to buy a small home. She could use the bulk of her savings to put a large down payment on a \$240,000 home, then pay off the rest in seven or eight years—perhaps even sooner if she buys a home with a basement apartment that she could rent out for extra income. “I know that buying a home would sap my savings,” says Dobson, “but I like the idea of owning a home again. It makes me feel more secure.”

Dobson’s other option is to keep renting an apartment—perhaps a smaller, less expensive two-bedroom unit. In that case, she thinks she might use \$50,000 or so of her savings to buy a piece of vacant land. Then, when her disability payments stop at 65, she could sell the land and use the money to augment her retirement income from CPP and Old Age Security. “This approach allows me to own real estate and still keep some money in the bank for investment and retirement savings,” says Dobson. “It also gives me some diversification.”

To extend her diversification, Dobson is in the process of transferring her \$40,000 RRSP to a new financial adviser. “I was watching CP24 news a couple of months ago and they highlighted a financial adviser who seemed very knowledgeable,” says Dobson. “I went to Toronto to visit with him and I liked him. He says he’ll diversify my holdings, but keep me in a fairly high-risk portfolio. I’m young so I have time on my side for it to pay off.”

For now, Dobson spends a lot of ➤

### WHERE SHE STANDS

#### Assets

Savings account	\$188,000
RRSP	40,800
Company pension plan value	20,000
Car	4,000
<b>TOTAL ASSETS</b>	<b>\$252,800</b>

#### Liabilities

<b>TOTAL LIABILITIES</b>	<b>\$0</b>
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<b>Net worth</b>	<b>\$252,800</b>
(total assets minus total liabilities)	

## FAMILY PROFILE

time reading. She goes out a couple of times a month with friends. "I used to be a gardener, but apart from planting a few flowers, I don't have the energy to do much of that anymore," she says. "But I'm ready to look after myself as best I can. It's time for me to move forward."

### What the experts say

Dobson is fortunate to have had disability insurance through her former employer. "If Dobson didn't have that disability insurance, she would have been living on her \$188,000 nest egg, then would have had to make do on welfare when her money ran out," says Janet Freedman, a certified financial planner in Toronto and author of *Hit by an Iceberg*, an account of her own

struggles after she fell and became quadriplegic eight years ago.

Dobson's case demonstrates why everyone should carry disability insurance. If you're employed, chances are that your employer offers some coverage, but you should check into the details. Unlike most expenses in life, this is one bill you should insist on paying yourself, because if you pay 100% of the premiums, any benefits you receive are tax free. "But if your employer pays even a small amount of your premium, then your disability payments are taxable. You want to avoid that," says Marc Lamontagne, certified financial planner with Ryan Lamontagne Inc. in Ottawa.

Dobson's payments aren't tax free. Also, her disability payments aren't indexed to inflation. She will have less and less buying power with each passing year, then will lose the disability payments completely when she turns 65. To prepare for that day, she has to start planning now. Here is what Lamontagne and Freedman think Dobson should do:

**Apply for benefits now.** Canada Pension Plan offers special payments to people who are disabled, even before retirement age. If Dobson applied, she would probably receive a couple of thousand dollars a year. That sum would be deducted from her disability payments, but would increase her CPP benefit in retirement, say our experts. "She'll end up with 75% of the maximum CPP payment annually—about \$8,000," says Lamontagne.

**Buy or rent?** Neither expert thinks Dobson should buy real estate. Paying off a mortgage of even \$80,000 over the next 10 years would eat up about \$850 a month of her limited income. Utility payments, property taxes and maintenance would raise her all-in cost to \$1,450 a month or more. And pouring her money into real estate would reduce the amount of income that her portfolio could generate. "Buying real estate uses up her nest egg," says Freedman. "Plus, she'll have to hire help for the garden, snow removal and housework. She can't afford to do this."

**Forget vacant land.** Our experts advise Dobson to steer clear of investing in vacant land. An empty plot of land produces no income and its future value is tied to the fortunes of a specific neighborhood, which is nearly impossible to predict. A better

option for Dobson would be to invest part of her savings in a mutual fund that holds a diversified selection of real estate investment trusts. "Most REITs are undervalued now and pay a nice income," says Lamontagne. "We like the Sentry Select REIT Fund. It offers better diversification than a REIT index fund."

**Cut your expenses.** Our experts think Dobson should pinch pennies now to build up her savings. Freedman suggests Dobson could raise the deductible on her car insurance, insist on low-fee mutual funds in her investing portfolio, and move to a smaller apartment. "She'll also save 50% on her grocery bill then," says Freedman. "That all adds up to \$6,000 a year that she can use for future living expenses."

**How to invest the money.** Lamontagne believes that Dobson will do well with a mix of low-cost mutual funds and exchange-traded funds. He advises a mix of 20% Canadian bonds, 10% REITs, 25% Canadian large and small-cap stocks, 25% U.S. stocks, 10% international stocks and 10% value stocks. He estimates this diversified portfolio will give her an annual return of about 7%. He'd also like to see her keep \$15,000 in a savings account for emergencies. "This will prevent her from having to cash in part of her portfolio during market dips," says Lamontagne. If Dobson sticks to this plan, her \$228,000 (her settlement plus RRSP money) should grow to more than \$600,000 by the time she hits 65.

**Look into annuities.** Lamontagne recommends that Dobson start investing in annuities in her early seventies to ensure she never runs out of money. Every year for three years beginning when she turns 72 she should buy an annuity that will guarantee her payments for life. Eventually, she should devote about 30% of her portfolio to the annuities. "Her CPP and OAS should give her \$14,000 annually in income starting at age 65," says Lamontagne. "At that time, she can also begin withdrawing \$18,500 a year from her portfolio, thus ensuring that she maintain her annual income at a comfortable \$32,500 for life. She will do just fine." ■

### HOW THE MONEY IS SPENT

#### Yearly disposable income

Dobson's income from private disability	\$32,503
Interest on savings	5,400
Minus: taxes and other deductions	5,700
<b>NET DISPOSABLE INCOME</b>	<b>\$32,203</b>

#### Yearly expenses

##### Shelter

Rent	\$12,600
Home insurance	420
Phone/internet/cable	1,800
<b>Total shelter</b>	<b>\$14,820</b>

##### Transportation

Car insurance	\$1,500
Gas	3,000
Maintenance	1,500
<b>Total transportation</b>	<b>\$6,000</b>

##### Personal

Groceries	\$7,440
Vacation	1,000
Hair cuts	240
Restaurants	480
Gift for holidays and birthdays	600
Bank fees	180
Books/newspapers/magazines	240
Clothing	360
Gardening and outdoor supplies	120
Miscellaneous	723
<b>Total personal</b>	<b>\$11,383</b>
<b>TOTAL EXPENSES</b>	<b>\$32,203</b>

#### Annual income available for investment

(Total income minus total expenses)

\$0

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