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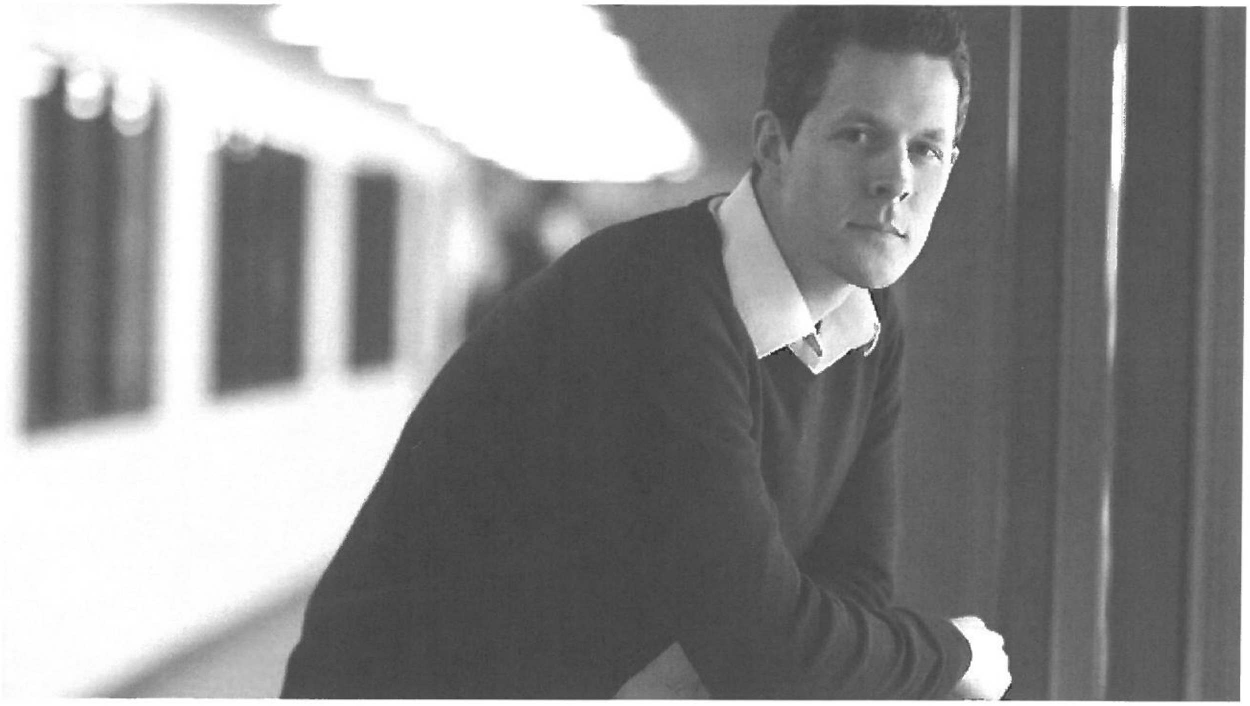

Alberta Boomer and Echo blogger Robb Engen's strategy was to wait to start a family until he and his spouse's finances were in order.

For The Globe and Mail

BUDGETING

How to spend on your kids and lower debt

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Like many parents, Kim Petch and her husband have wrestled with a dilemma at one time or another: Should they spend more on giving the kids a good start on life or pay down debt faster and save for retirement? They recently opted for a compromise solution.

Two of their teenage sons are taking music lessons to prepare for music programs at university. But the fees are hefty, and the Petches find they are putting aside plans to accelerate mortgage payments and contribute to registered retirement saving plans, says Mrs. Petch, who is author of the Balance Junkie blog.

After some deliberation, the couple decided to tell their sons that mom and dad would no longer pay for all of the fees, only half. "It won't do our children or anyone else any good if we're not able to support ourselves in retirement," they reasoned. Moreover, modelling "some prudent money management techniques" would be beneficial to the boys.

The average cost of raising a child in Canada to the age of 18 is between $175,000 and $225,000, depending on the study. It could be even higher depending on the circumstances of individual families. For example, some parents may finance their offspring's university costs or let them live at home until well into their twenties.

Another approach to balancing kids and debt calls for greater frugality. "When my kids were younger ... we were able to save some money to pay down debt by exchanging clothes with friends and relatives," recalls Mark Goodfield, a partner with the chartered accounting firm Cunningham LLP, based in Toronto. He also bought sports equipment used, often in early August before most other parents came in to the shops.

Avoiding organized sports not only saved Sue Kent of Ottawa Tax Services a bundle of money but resulted in a close-knit family, because mom and dad spent more time with their kids instead of watching them from the sidelines. Ms. Kent's other tips: ask kids who want "brand name" clothes to make up the difference between generic and brand-name prices; puree leftovers to make baby food; and make crafts for each other at Christmas instead of buying gifts.

Boomer and Echo blogger Robb Engen's strategy was to approach the financial challenges from a position of strength. "My wife and I were big believers in paying off our consumer debt and having our finances in order before we made the decision to have children," he says. "We also waited until I was 30 and in a stable career before having our first child."

York University professor Moshe Milevsky takes issue with careless money management practices. In his book *Your Money Milestones* he cites an American Economic Review study that found many people allowed interest to accrue on credit cards even though extra cash sat idle in a bank account. Others carried balances on different credit cards at different rates (despite the lower-rate cards still being below their limits), and still others paid overdraft fees on bank accounts when they had credit cards charging lower rates.

Another data table in Mr. Milevsky's book highlights the extent to which many households simultaneously hold various kinds of debt at different lending rates (mortgages, lines of credit, student loan, vehicle, credit card, etc.). The optimal solution would be to consolidate the debts into the one with the lowest rate. This is usually a line of credit secured against home equity.

Lines of credit are great for disciplined borrowers, but for the undisciplined, the low rates and absence of a deadline for repayment makes it easy to live beyond one's means, says David Chilton, author of *The Wealthy Barber Returns*. David Trahair, author of *Crushing Debt*, shares the same sentiment: a line of credit "allows you, even encourages you, to increase your overall debt level," he notes.

Marc Lamontagne, a financial adviser with Ryan Lamontagne Inc. in Ottawa, provides confirmation: "In my practice it is not unusual to meet couples who use a line of credit like a bank account and never actually pay off the balance," he observes. Unless you have the discipline, it may be better to convert revolving lines of credit into fixed-term debt, he suggests.

What also may help is adhering to a more modest lifestyle. For example, the onset of children or expansion in the number of family members sends many couples in search of a larger house or home renovators. But experts argue that overspending on one's house may be the single biggest inhibitor to meeting financial goals.

A mother determined to live debt-free writes on her blog (www.moms-living-debt-free.com): "My boys are perfectly happy in our ... 1,200-square-foot home, where they (gasp) share a bedroom.... Just ask yourself: Will my children be happier with a debt-free family or will they be happier in a huge house with constant stress over money?"

Tips for balancing spending on kids while paying down debt:

1. Ask teenage children to take part-time jobs

2. Cut expenses in other areas to free up funds

3. Postpone having children until parents are financially stable

4. Avoid sloppy money management practices

5. Consolidate debt, but be careful with lines of credit

6. Adopt a lifestyle that is easier to sustain
