MoneySense Magazine, December/January 2012

Family profile: Too close for comfort

Lily and John were enjoying a comfortable life until Lily's spendthrift parents moved in and took over. Now the couple is living in the basement while mom and dad order them around. How long can it last?

By Julie Cazzin | From MoneySense Magazine, December/January 2012

Four years ago, Lily and John Tang got a phone call that turned their lives upside down. It was Lily's 68-year-old mother, calling to say that she and Lily's father couldn't afford to live on their own anymore. They just couldn't make their mortgage payments.

Lily, 39, wanted to help, so she ran the numbers on the two households' expenses to see if she could come up with a plan. After crunching figures for hours, she realized that the only way she and her husband John, a 39-year-old teller at a local credit union, could help her parents was for the two families to live together. (We've changed their names to protect their privacy.)

Lily was making $79,000 a year as an account manager for an insurance company, John was making $40,000, and Lily's parents netted $27,600 from their federal pensions. Lily figured that by pooling all of their earnings they could fix the financial mess. "I thought that by living together in our townhouse we could cut the expenses of running two households in half, but it hasn't worked out that way," she says.

The offer to help went sour almost immediately. For starters, Lily's parents refused to move into John and Lily's townhouse. They said it had too many stairs, and they wanted to live in a bungalow instead. To appease them—and to stop them from wiping out their meagre savings—John and Lily agreed to sell their townhouse and buy a new bungalow together. "Both my parents have always been big spenders and didn't save very much," says Lily. "So I figured that if we bought a house together, we could use my parent's last $80,000 in savings as a down payment and lock it in to the equity to prevent them from spending every last penny."

But after a full year of searching, Lily and her parents still couldn't find a bungalow they agreed on. "Her mother is very picky," says John. "It was a painful experience. What we liked, she hated. Push came to shove, and in the end we just let them choose the house."

What Lily's parents picked was a $310,000 1950s red-brick home in an older section of Mississauga, Ont. "We hated it, but we went along with it," says Lily. She and John moved into the basement of the bungalow while Lily's parents took the main floor. "The agreement was that they were to live on their pension income of $2,300 a month while we paid all the expenses on the home," says Lily. "But they kept overspending on their credit cards. I repeatedly advised them to cut their spending, with no success. In fact, they are still hiring a part-time maid because they say my cooking and cleaning is not good enough for them."

The relationship and the couple's finances are reaching a breaking point. Lily has even started asking her parents to reimburse her $200 a month for car maintenance and insurance (her parents decided to keep both their cars). After three years of living together, it's obvious to the Tangs that they have to get back on the right financial track and start living their own lives again. "Living together doesn't help us financially or emotionally," says Lily. "With little in savings, and a deficit of $5,000 or so every year in our budget, I am starting to really worry about my own retirement. It's also affecting my health and my marriage. The constant tension and arguing is unbearable."

Lily and John want their parents to agree to sell the bungalow and start fresh. "For the sake of our marriage, we need to find a way to buy our own home and save for retirement as well. I don't want to end up like my parents in old age."

Lily grew up as an only child in Hong Kong. Her grandparents raised her because her parents were busy running an importing business. "My parents only visited me once a week," she says. At 16, Lily moved with her parents to Toronto. Even back then she was questioning their spending behaviour, which they refused to discuss. "My parents knew less about money than I did," says Lily. "I was a kid but at least I saved diligently. I know they never did." After earning a business degree from York University, Lily went on to study part-time for her Certified General Accountant's designation.

John, too, grew up in Hong Kong. He came to Toronto in 1988 with his mother and older brother. His parents divorced when he was just 17, and he supported himself with part-time jobs while living with friends and family. “My mother is a very hard-working person and was always a saver, but she’s generous to her family.” Shortly after graduating with a college diploma in 1993, John got a job as a teller that paid him $20,000.

John and Lily married in 2001, and four years later they bought a $210,000 townhouse with $20,000 down. They were making ends meet and saving $500 a month until Lily’s parents called to ask for financial help.

The Tangs now find themselves in debt to the tune of $25,500, and the amount is growing fast. Right now, the couple is paying $33,143 annually for the mortgage and all other housing expenses. They are also spending a hefty $7,200 annually at restaurants, but they think they can reduce that amount when they’re living alone again. “We used to entertain our friends at our townhouse all the time before,” says Lily. “But my parents have their own routine and don’t really want other people in the house.”

The Tangs want to build an emergency fund and save for their retirement. John has a small pension at work and Lily contributes $200 a month to her RRSP, but it isn’t nearly enough. “I used to add another $2,000 to $5,000 to my RRSP at the end of the year, but that hasn’t been possible since my parents moved in.”

When it comes to insurance, the Tangs like to play it safe, so they have plenty of life, disability and critical illness coverage. In addition to the plans they have at work, they pay $2,400 a year for extra life and disability coverage. “We’re risk-averse, and the expense is well worth the peace of mind,” John says.

The Tangs believe their bungalow is now worth $470,000. If they sell it, they want to pay Lily’s parents $100,000 (the $80,000 they contributed to the purchase, plus $20,000 for future spending). After paying off the mortgage, plus real estate fees and other closing costs, they hope to walk away with $40,000—money that they will use to start building a new life for themselves. “We’re not sure what to do first,” says John. “But we have to do something because the status quo is no longer acceptable.”

The one thing holding the couple back is the emotional issues. They need Lily’s parents to take responsibility for their own financial lives. Maybe her parents would consider low-income housing? Or maybe they could live with Lily’s aunt in Hong Kong for part of the year? “I want my mother to see the options she has and to leave our house without completely ruining our relationship,” says Lily. “It’s Chinese tradition to take care of parents, but I’m tired of putting my health and my marriage on the line because my parents can’t change. We’ll never have children because I’ve come to realize that my parents are my children. I’ve already given up on that dream. I don’t want to give up my marriage for them as well.”

Right now, the Tangs have one love—ballroom dancing. Every Wednesday night they twirl around the dance floor in a hot tango or elegant waltz and try to forget their problems. “We need to make our financial life as effortless as the way we dance together, and as rewarding,” says John. “If we can do that, then I know we will be together for a very long time.”

What the experts say

Like Lily and John Tang, more and more families are being asked to provide financial help to their aging parents. “I have three new clients who are supporting their parents in one way or another,” says Rona Birenbaum, a Certified Financial Planner with Caring for Clients in Toronto. “Their finances are all suffering, but I’ve never seen a case as bad as the Tangs’.”

Birenbaum wants the Tangs to cut the cord and get on with their lives. “Relationships have to get to this do-or-die scenario before people find the resolve to deal with the parents.” She explains that the plan to merge households could have worked, but Lily made a key mistake. Even though the numbers worked well on paper, she assumed that her parents were ready and willing to live within their means. “They obviously weren’t.”

Ruth Hayden, a financial educator and author, agrees. “Lily’s parents feel entitled,” says Hayden. “They’re not going to change. She’s not going to fix them.” She suggests that the Tangs have a frank discussion with them and look at things with eyes wide open. “The message now has to be, ‘We can’t live together. That’s off the table. Let’s find another solution.’” Here’s what the Tangs should do to resolve their situation.

Start looking at apartments. Hayden stresses that grown children owe their parents only two things—the safety of a roof over their heads and food on the table. The parents need to work out everything else on their own. The Tangs should start taking their parents to view apartments, preferably in the $1,200-a-month price range. Showing Lily’s parents what they can afford will make the situation real for them. “It’s crucial, too, that Lily be prepared for the fact that her mother will fight her all the way,” says Hayden. “Success will depend on Lily not allowing her parents to control her.”

Sell the bungalow. By selling the house immediately, the Tangs will have $100,000 to give back to her parents so they can start their life anew. Lily and John should take that money and invest it conservatively for them—perhaps in laddered GICs that Lily can oversee. “That money is to be used solely to pay for the parents’ rent,” says Hayden. “The parents can then live on their $2,300-a-month pension income, which should be plenty if they stick to necessities.”

The Tangs should also prepare for the day when the money runs out by putting Lily’s parents on waiting lists for low-income housing right now, to ensure they get a unit six or seven years down the road.

Pay off their debt. Once the house is sold, the Tangs should rent a condo in the $1,500-a-month range for themselves. They should also use $25,500 of the $40,000 that they will pocket from the sale to pay off all their debt. That will leave them with $14,500 to save towards the down payment on their own home.

Put money aside for a condo. With no debt payments, reduced shelter costs and lower restaurant bills, the couple should be able to save $25,000 or so annually. Of that amount, $15,000 a year should be saved for a down payment on a condo or townhouse. “If they do this for four years, they will have $75,000 by 2016,” says Birenbaum. “That money can be used for a down payment on a $400,000 home at that time.”

Save for retirement. The remaining $10,000 in savings should go towards retirement. About $3,500 should go to John’s company pension plan, which matches his contributions dollar for dollar, while the remaining $6,500 should go to Lily’s RRSP. She should invest in a mix of 60% equity and 40% fixed-income index funds for steady growth. This strategy will likely earn them at least a 4% annual return over the next 25 years.

By 2016, the Tangs will be ready to buy a place of their own. They should spend no more than $400,000. After their $75,000 down payment, they will be left with a $325,000 mortgage. Assuming a 4% interest rate and an amortization period of 22 years, the payments will be just $1,800 a month. If they follow this plan, their home will be paid off by the time they’re ready to retire at 65.

If they can stick to the plan, their retirement savings will be on track to guarantee them an annual after-tax income (including government pensions) of about $45,000 a year until age 90. But for now, Birenbaum says the Tangs have another priority. “The transition will be stressful and they’ll need to decompress. A nice vacation will be the gold ring at the end of the process and will make it all feel worthwhile.”

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