

Caring for aging parents and saving for children's education ... For many Canadians, there's little left over for RRSPs

REPORT ON RRSPs: FAMILY NEEDS AND RETIREMENT PLANNING

Squeezed in a generational sandwich

MARJO JOHNE - [Special to The Globe and Mail](#) - January 30, 2008

Each month, after covering her share of the household bills and mortgage payment, Lucy Ye takes the bulk of the money left in her bank account and uses it to cover two additional obligations: a registered education savings plan for her eight-year-old-son and a \$1,000-a-month commitment to help pay her parents' mortgage and other living expenses.

"I know I should also be putting some money away into an RRSP," says Ms. Ye, a 37-year-old dental supply sales representative who lives in Toronto with her husband and son. "But after paying the RESP and giving money to my parents, there's really nothing left for my own retirement savings."

Ms. Ye is part of the growing group of Canadians known as the "sandwich generation" - those who are caught between raising children and caring for aging parents.

Not surprisingly, a significant portion of baby boomers belong in the sandwich generation. A 2004 study by Statistics Canada found that close to 30 per cent of Canadians aged 45 to 64 were helping aging relatives while still supporting their own children.

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The Statscan study also found that 40 per cent of sandwiched Canadians incurred extra expenses such as renting medical equipment, 15 per cent had to reduce their working hours, and 10 per cent lost income.

"It's a tough position to be in," says Bev Moir, a Toronto-based senior investment executive with Scotia McLeod, the investment arm of the Bank of Nova Scotia and a division of Scotia Capital Inc.

"And it's something that often happens unexpectedly, so many people are just not prepared mentally, emotionally and financially."

While the added responsibility of looking after a parent may suddenly restrict the household budget, it doesn't necessarily mean RRSP contributions have to be put on hold, say the financial planning experts.

In many cases, they say, sandwiched Canadians can find the money to put toward an RRSP by reducing expenses or somehow increasing the money coming in, even by just a modest amount.

As a starting point, Ms. Moir suggests getting in touch with local community agencies to find out about any support programs for older people.

“For example, if your parent needs care during the day while you’re at work, there may be a community program that can help you with that,” she says.

Ms. Moir also recommends checking your employer’s benefits plan to see if it includes an employee assistance program - a service, provided by a third party, to help employees through personal difficulties such as divorce, drug or alcohol addictions, or a death in the family.

“Your [employee assistance program] provider may be able to direct you to resources that can help you care for your parents more cost-effectively,” says Ms. Moir. “Even if you only save \$50 a month, there’s your RRSP contribution right there.”

Once you’ve begun to make regular RRSP contributions, Ms. Moir suggests that you can then ask Canada Revenue Agency to decrease the tax taken off your paycheque (CRA will calculate the reduction based on your income bracket and how much you’ve committed to pay toward your RRSP each month). This would add more dollars to your paycheque, which you could add to your retirement savings.

Ken MacCoy, a financial planner and life insurance consultant in Chilliwack, B.C., points out that sandwiched Canadians whose parents or elderly relatives live with them also may be able to claim a caregiver credit on their income tax return.

For the 2007 tax year, the maximum caregiver credit is \$4,019 for each parent or dependant relative. To qualify as a dependent, the parent or relative must meet a set of criteria based on their age (they must be 65 years or older), relationship to the person filing the tax return, and income.

Another way to find money to invest into RRSP is to lower monthly mortgage payments, says Mr. MacCoy. “You can look at either a longer mortgage period to generate additional cash flow, or you can get yourself a line-of-credit mortgage.”

The latter is a better choice, he says, because it’s based on simple interest instead of compounding interest - saving you thousands in the long run - and also because it allows mortgage-holders to pay only the interest on the loan.

“So you can use the extra money to save in an RRSP while you’re also paying for your parents’ care,” he says. However, this means you’re not reducing the principal amount of your mortgage, so he says it’s a good idea sit down with your parents and talk to them

about getting a life insurance policy and designating you as a beneficiary. Then, when they die, you can use the insurance benefits to pay down your mortgage.

Dependent children may also be able to lend a hand, says Mr. MacCoy. Many university-age children prefer to live with their parents because it's cheaper than renting their own place. But if they have a part-time job, it may not be a bad idea to ask them to pay rent while at home, says Mr. MacCoy; the parent could then put that money toward an RRSP.

So what about people like Ms. Ye, who choose to leave their nest egg bare while they save money for their children's education? Wouldn't it make more sense for them to put their retirement savings before junior's college fund?

Ms. Moir doesn't think so. "Why not do both: maximize your RRSP and get a tax refund, and then put your refund into the RESP?"

Ted Rechtshaffen, president and chief executive officer of TriDelta Financial Partners Inc., in Toronto, says part of a good RRSP strategy is knowing when not to put money into an RRSP. Some sandwiched Canadians end up taking a pay cut while looking after their parents. Because tax refunds on RRSP contributions increase as income goes up, it may make more sense to defer contributing to a plan until your paycheque is bigger.

Ms. Ye, meanwhile, hopes she won't have to wait too long to start an RRSP.

"I'm getting a little worried," she says. "Even though I'm still young, I know that if I don't look after my RRSP now, I may be in trouble in the future."

Sandwich ingredients

30%

Number of Canadians age 45 to 64 who are helping aging relatives while supporting their own children

\$4,019

Maximum caregiver tax credit for each parent or dependant relative for the 2007 tax year