Fit Finances: How to Build Your Financial Muscle

1. Set Goals!

What do you want for yourself and your family?

A new house? A family vacation? To pay for your child's education? A new pair of shoes or a new television?

The things you want are in your reach but you need to pick a timeline for these things to happen and figure out how to save for those items!

2. Determine Cash Flow

This is an integral part of financial fitness! You need to know *how much money you are bringing in versus how much money is going out*. **Track your spending!** You may have to do this over a period of a few months before you get a clear picture of your expenses. You can use a pen & notebook, Excel spreadsheet, website, app or professional bookkeeping software but you MUST track everything you spend! If you make more than you spend, you are in good shape. If you are short, then you need to figure out where you can cut expenses to get yourself on track.

3. Pay Down Debt

Did you know that the debt load of the average Canadian household is **150%**? That means that *for every $1 that is earned, there is $1.50 in debt*! For the first time, many people are now retiring while still carrying a mortgage. Debt is a heavy burden to carry and it is so important to know the difference between "good" debt and "bad" debt and to have a plan in place to pay down your debt by a specific date. Are you using your credit properly? It IS possible to be debt-free and we will give you tips on how to make this happen!

4. Build Your Savings

There are many reasons to save: your retirement, your children's education, for fun things, like vacations. It's also incredibly important to build an **emergency fund** to prepare for unforeseen events. In this economic climate, no one is safe from job loss and it is important to make sure you have the *equivalent of 4-6 months of living expenses* saved for the unexpected. This should give you enough time to find a new job in the event of a layoff without having to incur extra debt for your living expenses during your job hunt. Start small and increase your deposits when you are able – your savings will build over time!

5. Offset Risks

Life rarely goes as planned. Being a financially responsible adult means preparing for the unexpected. Things like job loss, illness, car accidents and even surprise visits from the stork can throw your financial world upside down if you aren't prepared! One of the best safety nets is to make sure you are properly insured and to the appropriate levels. **Car insurance, house insurance, life insurance, disability insurance & critical illness insurance are all things to be discussed with an insurance professional.** Don't forget about wills and powers of attorney! We may not like to think about death but it is important to be prepared for your family's sake.

Great Resources for Financial Fitness:

Websites:

www.mint.com
www.wisebread.com
www.getrichslowly.org/blog
www.gailvazoxlade.com

Apps:

Receipts
Mint
Manilla
Check

Books:

"Rich Dad, Poor Dad" by Robert Kiyosaki
"Your Money or Your Life" by Vicki Robin
"Total Money Makeover" by Dave Ramsey
"The Money Book for the Young, Fabulous & Broke" by Suze Orman
"Secrets of the Millionaire Mind" by T. Harv Eker
"Never Too Late" or **"Debt-Free Forever"** by Gail Vaz-Oxlade

Debt – The Good, The Bad & How to Be Debt-Free!

Not all debt is bad and it's important to know the difference and use your credit properly!

GOOD DEBT = debt incurred to expand your asset base. The best example would be a mortgage. Yes, you are initially incurring a large amount of debt but you know that as long as you make your payments, the debt will go down and the value of your home will increase over time and become a large asset to add to your financial portfolio.

BAD DEBT = debt incurred to keep up with the Jones family or to scratch that consumer itch. Sadly, most of the debt carried by most people these days falls under the category of "consumer debt" and is generally charged to high-interest credit cards or "buy now, pay later" accounts.

A financially responsible adult plans for big ticket purchases, such as vacations or new furniture and accumulates the money in advance rather than using credit to pay for it upfront and paying later.

Choose wisely – that new television that you HAD to have right away can cost you almost twice as much on credit than if you paid cash, especially if you are only paying the minimum payment on a high-interest account.

The key to becoming debt-free is to pick your timeline for becoming debt-free and this simple formula:

Let's say you want to pay off your credit card within two years (24 months). You are currently carrying a balance of $5000 at an annual interest rate of 18%. First, you need to determine the monthly interest accrued on this balance:

$5000 X 18 ÷ 100 ÷ 12 = $75 (monthly interest)

Divide your debt by the number of months you want to take to pay it off:

$5000 ÷ 24 = $208.33 (monthly principal)

Now add the monthly interest to your principal payment to get the amount you need to pay every month to reach your goal:

$208.33 + $75 = <u>$283.33 (monthly payment)</u>

Now you have a clear plan in place to start paying down your debt! Keep in mind that your best move would be to pay down your highest interest-rate debt first while continuing to make minimum payments on your other debts. Once you have the first card paid off, you can snowball that payment into your next highest interest rate debt and continue until you are completely debt-free! Imagine the freedom and know that with some hard work and commitment (and likely some sacrifice), it is completely within your reach!

(Sometimes, even with the best intentions, you may find yourself unable to get out of debt on your own. If you are struggling, reach out to a credit counseling agency in your community and find out what your other options may be to get debt-free.)

…and don't forget, if this all seems overwhelming or you want more specific information on saving for your future, insurance or debt repayment options, there are several great financial advisors, insurance advisors and credit counsellors in your area to assist you. Don't hesitate to involve a professional!