

# Top Ten Rules of Money Management



You may think that you should know how to manage money even if you were never taught or taught very little. This kind of thinking is the equivalent of hopping into a car and expecting yourself to know how to drive without a single lesson. Money management is a skill like any other: driving, cooking, etc. and anyone can learn with research and practice. Because our society is monetarily based, it makes sense to be skilled in money management. By following these financial rules of the road, you'll be in the driver's seat, controlling how your money is spent instead of reacting to every twist and turn in your financial obligations.

- 1. Plan for the future,** major purchases and irregular expenses.
- 2. Set goals:** determine short, medium and long range financial goals. Once you have planned your goals, it becomes much easier to prioritize your spending and saving. At the same time, it is an excellent motivator to avoid impulse-buying.
- 3. Know yourself:** determine monthly expenses by tracking all spending for 30 days. It is very important to do this tracking exercise because once you know where your money is going, it is much easier to get control of spending. Essentially: knowledge is power. Determine irregular expenses which may include gifts, vehicle and home maintenance, dentist, clothing, and insurance. Estimate annual amounts for irregular expenses and divide by 12 to determine the monthly amount to be set aside for these items. One of the most common budget oversights is not planning for car repairs or a car purchase.

**4. Develop a realistic budget.** Once you've tracked your spending for 30 days, you'll be able to create a fairly accurate picture of your monthly expenses. You may wish to change certain spending patterns based on your new knowledge to ensure your goals and values are reflected in your spending. Your budget should be something that works for you and your specific situation.

**5. Don't spend more than you make.** Avoid paying only the minimum on your credit cards. Do not charge more each month than you are repaying your creditors.

**6. Save regularly.** If you're working, save at least 10% of your net monthly income ; if you're not employed, save 2-3%. Be sure to take these amounts right off the top of your cheque and put them into a separate savings account. Also save and set aside the monthly amounts you have estimated for irregular expenses. One of your first financial goals, next to repaying debt, should be to accumulate 3 to 6 months living expenses as an emergency fund. Life is full of emergencies--illness, accidents, layoffs, marital breakdown--even with disability insurance, there is often a 90-day qualifying period. You want to create a financial cushion that gives you at least 3 to 6 months financial breathing room in the event of an emergency. This fund will give you financial peace of mind and your money management confidence will grow along with your savings. If you're interested in creating a retirement plan, aim for an additional 5% or more of your net income to go into an RRSP and take advantage of current income tax rules.

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**7. Pay bills on time** to maintain a good credit rating. If you're not able to pay your bills as agreed, contact your creditors and explain your situation. Imagine if you loaned a friend \$500 and never heard from them again—what would you think? Don't avoid debts or creditors—be up front about your situation and how much you can afford to repay in your current situation. Contact Credit Counselling at (519) 743-6333 for professional advice on money management and debt repayment.

**8. Know the difference between needs and wants.** Always take care of basic needs first: mortgage, property taxes, rent, utilities, food, clothing and transportation.

Spend on 'wants' only after basic food and shelter needs have been met. If you are struggling with debt repayment, be sure to keep all shelter and utility payments up-to-date. If you have to make smaller payments to credit card companies, call and let them know your repayment plan. Remember, utilities are current services; if they are not paid you risk losing the service and incurring expensive reconnect fees and security deposits.

**9. Use credit wisely.** Use credit for safety, convenience, and planned purchases. Remember, another word for 'credit' is 'debt'. Determine what you can comfortably afford to purchase on credit. Do not exceed 15-20% of your net income on consumer credit. Avoid borrowing from one creditor to pay another.

Shop around for interest rates when planning large purchases like a home or car. Know what the interest rates are on your credit cards. Some advertised sales and bargains lose their luster when you're paying 30% interest on the balance owing. You work hard for your money, so you want to pay as little interest as you can on any purchase you make.

**10.** Keep a record of daily spending. You can use a cheque register from the bank, computer software programs, or just a small blank notebook to record your spending and maintain a current balance of your account. Debit card use and telephone banking should be recorded. Whether you put your receipts in a shoebox, or stick them to the fridge with a magnet, it's important that you know exactly what's going in and out of your account. Financial institutions can make mistakes, so you need to have your own back-up for reference.

## A final word...

There are people who **have** and those who **do not have**, and it has very little to do with how much they earn. Some of us find it difficult to get by with a good salary, while others who earn less seem to have it 'together'. This is the significant difference between people who have learned and developed the skill of money management and those who have not had the opportunity to learn. It's not how much you make, but what you do with it.