



# Life Lines

Improving your quality of life, one step at a time

## GETTING YOUR FINANCIAL HOUSE IN ORDER

COMMONSENSE TIPS FOR ENSURING YOU AREN'T HEADED FOR PERSONAL FINANCIAL DISASTER



Many people these days are feeling very unsettled about what the future holds. This is a good time to take stock of our personal financial situations and make sure that we are in the best possible position to weather any financial storms over the coming months.

Nevertheless, it would be a good time now to take stock of your financial situation and make sure that you are in the best position to hold out during the financial turmoil that promises to bring us in the coming months. Following are some commonsense tips for ensuring you aren't headed for personal financial disaster:

**Debt elimination.** It makes no sense to save money at four or five percent, when you are paying 18 percent or more on credit cards. Tackle your most expensive debts first, and put credit cards away that you don't absolutely need.

**Reduce spending.** Review your monthly expenses and look for opportunities to cut your costs. Create a monthly spending plan and track all purchases to help you stay within your budget and maximize your ability to pay down your debt. If you have any big purchases planned, such as a new car or home improvements, it may be a sensible idea to defer them for a year.

**Continue to save for retirement.** Don't be panicked by the fact the stock market is taking a beating. There is good sense in the saying, "buy low, sell high." If you are making regular contributions to a registered retirement saving plan, continue to do so as long as you can.

**Check your credit card rating.** If you don't know what your personal credit score is, now is the time to find out and do everything you can to improve it. To build a good credit rating:



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- pay bills promptly, especially credit cards
- borrow only what you need and can afford
- pay off loans as quickly as possible
- always close unused or unwanted credit card accounts, even if they show a zero balance

**Consolidate debts.** If you have several credit cards, look into transferring the balances to one or two that have the lowest interest rates or look into getting a consolidation loan from your bank.

**Build up your savings.** You never know what might happen so it is always good to have a contingency fund for emergencies. Financial experts suggest that you save enough money to cover three to six months of living expenses and financial obligations.

**Get professional help.** If you are feeling anxious about your financial situation or overwhelmed by debt, get help from a professional. Contacting your EFAP is a good place to start.

### Develop a monthly budget

If you want to have a greater sense of control over your money and your life, then it's time to start planning for how much you need to save and how much you can spend in order to meet your financial goals.

**The first step to a budget is to keep track of where your money is going.** Get yourself a small notebook for keeping track of purchases and receipts. At the end of the day you may want to put this information into a software program or spreadsheet. Remember – write down all purchases immediately after you make them. Do this every day for a month.

#### Use the following categories to track all expenses:

- Housing (includes mortgage/rent, taxes, repairs, insurance, and utilities)
- Transportation (includes gas, oil, repairs, insurance, parking, public transportation, and monthly car payments)
- Other expenses (includes food, insurance, prescriptions, medical, clothing, person items, etc.)
- Investments and savings (includes cash, stocks, bonds, and retirement savings)

**Next, calculate your monthly income.** Include your salary after deductions, commissions, child support or alimony, interest and investment income, rental income, student loan income, etc. Don't count overtime pay, tax refunds, or bonuses – instead consider these to be money you can put towards financial goals (e.g. saving for a holiday). Since this is a month-to-month budget, you may have to estimate the value of your income for a one month period. If you are going to estimate, be conservative – that way you'll have more money left over at the end of the month.

**At the beginning of the month,** fill in all of the upcoming fixed expenses (e.g. pre-authorized payments for rent, memberships, etc.). At the end of the month, add up your expenses for each category, and the grand total for all categories. Include any expenses that have shown up during the month that you had not recorded (e.g. bank statement transaction fees).

**If you find from the budget exercise that your cash flow is not very healthy, then perhaps it's time to take some drastic action. Here are some radical tips to help you avoid ending up in serious debt.**

**Once you have tracked your income and expenses for a month,** you can determine if you have a positive cash flow (your income is greater than your expenses) or a negative cash flow (your income is less than your expenses). Total monthly income less total monthly expense equals cash remaining.

**Financial planners recommend that you spend about 35% of income on housing, 20% on transportation, 15% on debt, 20% on other expenses, and 10% on investments and savings.** Compare the percentage of your income that you spend in the four categories to these budget guidelines.

**Decide if you need to make any adjustments to your spending choices.** If you find from the budget exercise that your cash flow is not very healthy, then perhaps it's time to take some drastic action. Here are some radical tips to help you avoid ending up in serious debt.

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**Become a homebody.** Instead of going out to eat prepare a home-cooked meal.

**Cut up all your credit cards but one.** Use that one to make planned purchases that you know you can pay off as soon as the bill arrives.

**Cut back on driving.** Yes, it may be time to star car-pooling, taking the bus, or even riding your bicycle to work! Perhaps it's time to give up your car altogether and join a cooperative where you have access to a car when you need it without all the expenses of owning one.

**Buy used.** There are lots of great consignment and thrift stores around (and of course garage sales, E-bay and Craigslist) where you only pay half or less than what you'd pay for a new item. Whether you're looking for clothing, sports equipment, a book to read, or a new-for-you car, you can find it used and in good shape.

### Make a change!

**Do you know what your FICO score is?** Your credit or FICO score (created by Fair Isaac and Company) is a mathematical formula based on the information in your credit report. It is used by lenders to help them decide whether or not you're a good credit risk. Scores range from 300 to 900, with a lower score indicating a bad credit risk.

When we first borrow money or apply for credit, consumer reporting agencies establish a file on us. On a regular basis, companies that lend money or issue credit cards, including banks, finance companies, credit unions, and retailers, send specific factual information related to the financial transactions they have with you to the consumer reporting agencies. These agencies organize and store this information for six to seven years and they are governed by provincial laws.

Your file might contain a listing of your credit cards or lines of credit and a history of whether you have paid on time, if you have declared bankruptcy, or if an unpaid bill was sent to a collection agency. It's important to know what is in your credit file as credit may be denied based on accurate or insufficient information. Once each year you can request a copy of your credit report to be sent to you by mail from either Equifax or Trans Union. This service is free and details are on their websites (look carefully, many of the reports that are promoted have a service fee).

Your credit rating is your financial reputation and you will want to protect it! Find out what it is and, if necessary, take steps to improve it.

 Send us your questions, comments, and suggestions — [lifelines@homewoodhealth.com](mailto:lifelines@homewoodhealth.com)

For more information, please contact our Client Services Representatives available 24 hours a day, seven days a week, in English or French. All calls are completely confidential.

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