

The Reality is.....

In the previous article we began to touch on some of life's realities. We need to be concerned with two of life's realities here. The first is Cash is King. This was discussed in the previous article at length so to summarize quickly, *pay cash* and get a picture of what your expenses really are. The second reality is, dealing with *your own behaviour* when it comes to money. People seem to think if they won or inherited \$100,000. their troubles would be over. How wrong this is. It has been studied and **most people**, who obtain a large sum of money, spend all the money within a year with little or nothing to show for it. To make this worse, within two years or earlier, their financial situation is as bad or even more problematic than before. Bottom line, if you and your spouse do not *change your behaviour* toward how you handle money and develop some realistic goals, you will continue the downward spiral.

ASSUMING you have accepted that cash is king and you have made an earnest decision to change your behaviour, what steps are required to eliminate debt and start building a solid financial foundation?

While all situations are somewhat unique, we will look at the general problem of credit card debt.

Credit card debt is extremely costly, with interest rates running at 18% or higher in comparison to what we might earn on a GIC, maybe 4%? If you have debt balances with several credit card companies, try to consolidate your debt under one carrier. A personal line of credit might work for you. Pay off all the credit card companies and the interest rate on the line of credit should be less, resulting in lower monthly payments. If you have not already done so, literally cut up all but one credit card. This eliminates the temptation to use all those cards again. The one credit card you keep is for emergencies only and use it only *if the money is already in the bank*.

Should a line of credit not work, try consolidating all the credit card balances with one card company. Before doing this, **SPEAK TO A SUPERVISOR** not a regular worker at the card company. The supervisor or manager has more authority to make decisions that can benefit you. Advise them you are thinking of consolidating your card debt with them and ask what special interest rate they will give you. Shop around till you find somewhere with a reasonable rate. This will cut down the number of payments per month and give you an opportunity to pay more than just the minimum balance. By doing this, you will save money in interest payments that you will not have to make!

If the timing of payments also present a problem, ask the credit card company to change the statement and payment due dates to coincide with your cash flow. This will help ensure money is available to make the payments when they are due.

Where does the money come from to pay off this debt? From the 10% savings you are putting aside each month. Here is how it works. From your gross monthly pay, you set

aside 10% of it. From this, 5% gets automatically funnelled into a savings account to start building up an emergency fund or savings. For now, this money can be automatically moved into a money market mutual fund, so it is out of your reach on a daily basis. The other 5% is used to pay off the monthly credit card debt which hopefully, is in excess of the monthly minimum payment required each month.

One concern people have, is with 10% of my gross monthly pay already allocated, how will we be able to survive financially for a month? First, you become accustomed to doing without the 10%. When it is automatically taken away, you do not have it available and you adjust your lifestyle around the lower amount. Secondly, as recommended in the previous article, you did a cash flow statement for a couple of months analyzing your income and expenses. The goal was to reduce and rationalize your expenses so at the end of the month, you still have income left over. Yes, this is a serious undertaking however necessary to take control of your debt and finances.

As you see the amount of debt owing go down on your statements and the savings amount increasing, there is a good feeling of satisfaction and achievement. The above is a good way to eliminate your debt and begin building a financial foundation. It is now up to you to start, as you are the only one that can do it for yourself. We will look at mortgage debt and savings methods in the next article.

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