

Imagine having the money to live comfortably, take a dream vacation, pay for your child's education and maintain your lifestyle during retirement. For many, financial freedom may seem like a pipedream; however, by adhering to a spending plan (budget), it is possible to eliminate debt, save for a rainy day and alleviate the stress you feel every month when you pay your bills.

The average debt-to-personal disposable income ratio reached **148.1 per cent** in 2011, surpassing US levels for the first time in over a decade.

Source: Bloomberg, December 13, 2010

How to Achieve Financial Freedom



If you have to finance it, you can't afford it. The only exceptions to this rule are homes and cars. If you can't pay for it on-the-spot, then you should wait to buy it until you have saved the cash.

Budget: Spending Money on Purpose

To achieve financial freedom, you must create an intentional spending plan and stick with it. Though it may feel overwhelming, a spending plan is necessary in order to meet your short- and long-term financial goals.

Get a clear picture of your current financial situation:

1. **List all of your fixed expenses**, such as utilities, groceries and debt payments.
2. **List all of your irregular expenses**. These expenses are due throughout the year, including taxes, car maintenance and vacations.
3. **Every other expense is discretionary spending**. This includes shopping and your daily gourmet coffee run.
4. **A, B, C your expenses**. A's are needs. B's are needs you can be more efficient with, like utilities or groceries. C's are wants.
5. **Total your expenses and compare them to your net income**. If your expenses total more than your income, then it's time to reassess your spending habits and make cuts from your B's and C's.

Although **60 per cent** of Canadians say they save part of their paycheque each month, **32 per cent** of non-retired Canadians commit no resources to savings.

Source: MarketWatch, April 20, 2011; Certified General Accountants Association of Canada

Save: Paying Yourself First

- **Make it automatic**. Sign up for your bank's automatic transfer program and move a percentage of your paycheck to your savings account each payday.
- **Ask for discounts**. For example, ask your insurance company about discounts that you may qualify for, which can lead to savings on your premium.
- **Think before you buy**. To resist impulse buys, wait 24 hours to buy an item. It may turn out that you do not need it after all.





Eliminate Debt

36 per cent of Canadians carry a balance on their credit card. The average outstanding balance is \$6,938.

Source: Scotiabank, June 29, 2011

In 2009, the total Canadian household debt reached **\$1.41 trillion.**

Source: Certified General Accountants Association of Canada

Loans

Most loan payments are calculated using compounding interest, which is the interest that is added to the principal of the loan each month that the balance is outstanding, causing you to pay interest on interest. Although it's designed to work against you, it is possible to pay off the loan three to four times faster with minimal additional cost to you, just by knowing your **"magic number."**

Your **"magic number"** is the portion of your monthly payment that goes to pay the principal. To pay your loan off quickly, double, triple or quadruple your principal, or **"magic number"** each month.

Credit Cards

The average credit cardholder has 3.5 cards.* If you have outstanding balances on two or more credit cards, use the rollover formula to pay them off.

- Make a larger payment on the card with the highest interest rate and pay the minimum on the rest.



- Once this card is paid off, apply the amount of its payment to the minimum amount you were paying on the card with the second highest interest rate.



- When the second card is paid off, add that amount to the payment of the third card, etc. until you have paid off all of your credit cards.



Source: Certified General Accountants Association of Canada



Tips to Help You Stick to Your Budget

- **Set 90 day goals.**
- **Track daily and weekly expenses** to know where your money is going.
- **Ask for help.** Enlist a friend or loved one to help you remain accountable to your budget.
- **Focus on the win!** Imagine how you'll feel when you've paid off your debt and have achieved financial freedom.
- **Use a small portion of the surplus to reward yourself.**