

## **Getting Your Financial House In Order**

We are all aware that we need to plan for our future financially by saving and investing but most of us are daunted by the task and even where to start. In order to plan for the future we first need to be cognizant of our current financial state and ensure that our financial house is in order before we can start investing. Unfortunately most of us never seem to have the time for financial planning, or choose not to deal with it until a later date. The fact of the matter is that the sooner we start the better. I have listed below a few simple steps that can guide you through this process and hopefully set you on the path to securing your financial future.

### **Get organized**

First you need to get organized. Purchase some file folders and a simple file organizer and stick labels on each of the file tabs to indicate the information contained therein. Next, gather all of your financial information and place into your newly created filing system where it will be readily available. This includes, but is not limited to, statements from bank accounts, accounts at credit unions, mutual funds, certificates of deposits, foreign accounts, pension plans, credit card statements, bills, receipts and pay stubs.

Is this starting to feel like a chore? Don't worry, think of the benefits to come once you get through this. Remember, don't lose sight of the big picture – we are working towards building a healthy financial future. For easy reference, the following information should also be recorded on a spreadsheet - the names and addresses of the financial institutions that these investments are held at, account type (chequing or saving) or investment instrument type (mutual fund, bond, pension plan), account numbers or portfolio identification numbers and the names of joint account holders (if any). At the end of this step, the goal is to have all of your financial information in one central place so that you, or your family members, don't have to go looking for it when it is actually needed.

### **Assess current expenditure**

Once you have your documents gathered, you need to take a look at your current expenditure. This can be credit card debt, monthly bills, loan payments, insurance premiums, rent, mortgage payments, membership fees and contributions to annuity or pension fund plans, to name a few. Of course, you also need to take into account your entertainment costs, miscellaneous expenses, and a splurge every now and again.

Examine your expenses and see if there are any that can be reduced or eliminated without having to drastically alter your current lifestyle. For example, conserve electricity and water to reduce monthly utility bills; car pool with colleagues to save on gas; pay off higher interest credit card balances; shop around for the best premium from insurance companies. By analyzing your disbursements you become more vigilant of your spending. Your aim is to manage your expenditure and take control of your finances.

### **Setting up a budget**

Now that you have all of your sources of income and major expenses identified, you are able to establish a budget. A budget will give you a snapshot of your monthly outlays and show what disposable income you have remaining after taking into account these expenses. This sounds all well in theory but in actuality creating a budget and sticking to it is a continuous challenge for most. Budgeting is a process that involves forecasting, monitoring and adjusting for both the expected and the unexpected. You won't get it right the first time but with experience and practice you will develop the skill and master the art of managing your cash flows.

To create a budget, look closely at your outflows and categorize which expenses are monthly, quarterly and yearly. There will be some expenses, such as entertainment, vacation or personal care that will inevitably vary from month to month. Taking into account your fixed costs alone, you can formulate a model for your standard expenses on a monthly basis. The variable costs will

require more of a disciplined approach. By that I mean that if funds are not available once your fixed costs have been covered, these expenses can be eliminated altogether or at least reduced. In the end, you will be forced to look at your spending habits and resist those impulsive purchases. It's that easy, you have completed the basics for setting up your budget and monthly spending plan.

With your budget in hand, you are now aware of when expenses come due, giving you the opportunity to prepare for them in advance and to allocate funds accordingly. This will bring peace of mind and more importantly will help you to live within your means. Now that you have an idea of your financial commitments, you are also in a better position to determine what expendable funds are available for investing.

### **Establish an emergency fund**

Next, you need to set up an emergency fund. It pays to "save for a rainy day" as life is full of uncertainty and it only makes good sense to have an accessible reserve to dip into to meet these unexpected circumstances. Ensure that you have at least three to six months of your gross monthly salary in an emergency fund. It would be wise to designate a separate savings or investment account to hold this money so that you eliminate the temptation to spend your hard earned cash.

To help you reach your emergency fund goal, try and save a minimum of ten per cent of your income. Of course this is not always possible, but even small contributions will help towards this eventual target. Additionally, to accelerate your savings, any extra income that you receive can be placed into this savings pool such as tax refunds, overtime or bonuses. The objective here is to have proceeds readily available in the event of any financial dilemma.

### **Protect your assets**

In setting up your financial plan you should also be wary of putting steps in place to safeguard your personal assets. Regrettably, it is only after the fact, or when life throws you a hard-ball that you realize the importance of having these simple measures in place. Maybe it is human nature that one needs to be burned to learn and so with these words of advice, I hope that you will be better equipped to handle life's challenges.

Nowadays, medical costs have become astronomical, making health insurance a necessity. The high costs of healthcare can be a financial burden to those without coverage. Doctor's visits, drugs and laboratory tests can result in significant bills causing much financial distress. You should shop around and ensure that you have a medical plan that will afford you the benefits should you or any of your loved ones fall ill.

While on the topic of healthcare, another policy that should also be considered is long term disability insurance. This insurance allows you to receive a supplemental income, in the event that you are no longer able to work due to a disability arising from an accident or illness. The old adage goes that "nothing will happen to me" and so sadly provisions are not in place to handle such a situation when it arises.

Another useful policy is that of liability insurance, which should be taken on your home, car, and business. In the event of any disaster or unforeseen circumstance, you want to ensure that you are covered to meet the unexpected expenses.

Last but not least, you should give some thought to estate planning. Consider drafting a will, which will ensure that your assets are allocated to your named beneficiaries when you pass on. Simply put, a beneficiary is a person to whom a property owner would like to leave his or her possessions to when he or she dies. In the absence of a will, the probate courts will determine how your personal belongings will be distributed. The probate process is a time consuming one and in the end the deceased's possessions may not be dispersed according to his or her wishes.

To guarantee that your loved ones are taken care of after you pass, you should take into account the benefits of having a will drawn.

These simple measures are merely stated as a guide to assist with being prepared for when the uneventful happens. In essence, you want to be financially sound in financially stressful situations.

### **Set financial goals**

Set financial goals and categorize them based on duration. Generally speaking, short term goals are between one to three years; intermediate goals are between three to ten years; and long term goals are those over ten years. After identifying your goals, you need to prioritize them according to what is most important for you to achieve. Do not be misguided into believing that short term goals are more attainable than long term goals because they are in the near future. In reality, long term goals, such as retirement or saving for a new home, involve more financial resources and thus need to be addressed sooner rather than later if they are to be accomplished.

Once you have decided on which goal or goals you are going to first pursue you then need to determine what contribution you will set aside for each of these goals. Commit yourself to the goals that you have set for yourself. Before you know it, you will be patting yourself on the back for the financial accomplishments achieved.

Of course this is not an exhaustive list nor is this process one that can be implemented overnight. Rather, this exercise should be a learning experience and one that provides introspection into your money management. By implementing these simple financial management steps, you have put provisions in place to start investing and have also set up a financial safety net. Take the initiative today so that you will be better prepared for the future and your long term financial health.