

Cash Flow Tips for Younger Clients

One question we often get is, *'How can I effectively manage my cash flow?'* While there is no single best way to do this, here are tips to consider.

Prioritize Your Cash Flow

- **Pay your taxes.** If you're salaried, this isn't an issue. If you are self-employed, be sure to set aside money to pay your taxes. A visit to an accountant can help you determine what to budget. Owing money to the Canada Revenue Agency (CRA) is never good!
- **Pay your debt.** Keep up with your debt payments to ensure you keep your credit rating in good standing. As a result, you will get better interest rates on current loans as they come up for renewal or on future borrowing. Prioritize paying off the debt with the highest interest rate first, especially debt that isn't tax-deductible, such as credit cards, personal loans, and student loans. Try not to take on debt for things you don't need.
- **Pay yourself.** Set aside something for yourself. Paying yourself should be just as important as paying your taxes and debt obligations, so take a bit off the top of your cash flow and put it into personal savings, such as an RRSP or TFSA. Read the "Wealthy Barber," which talks about the importance of "paying yourself first" - simply the

notion of giving your savings the same kind of priority you give your other obligations. Setting up an automatic savings program is the easiest way to achieve this and a great habit to learn early.

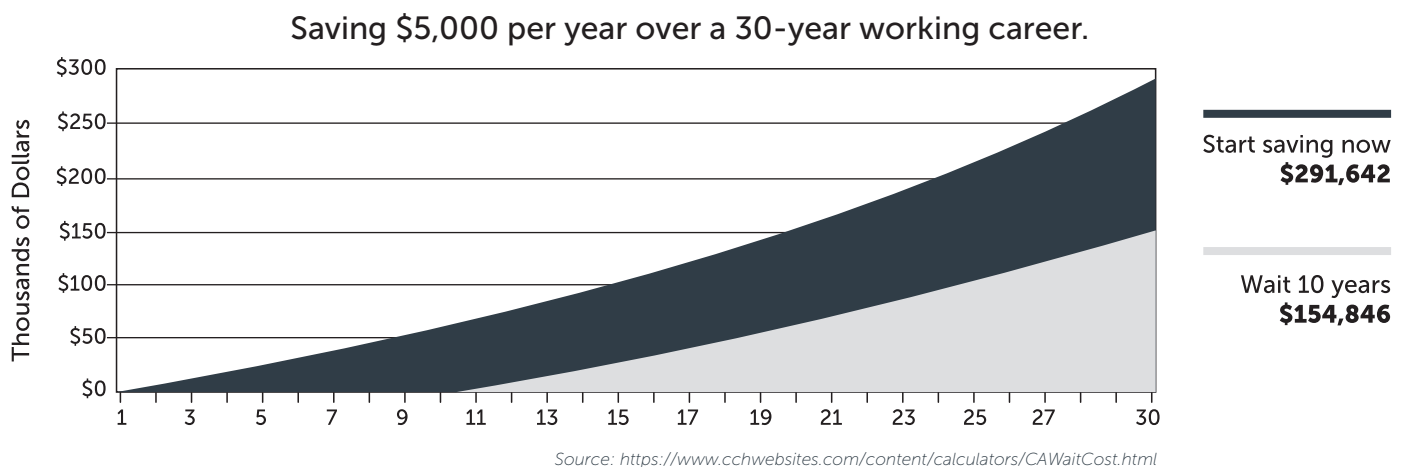
- **Pay your necessities.** This is everything else that is necessary to fund your living needs, such as home costs, food, clothing, vehicle, and entertainment. Many of these are generally inflexible costs associated with covering your basic living costs, while a few expenses may be discretionary.

When The Above Isn't Enough

- **Set up a detailed budget.** A budget is always helpful. If you are struggling to make ends meet and are falling further into debt, carefully track your spending and see where you can reduce costs and reprioritize your cash outflows.
- **Get a professional to help.** Seeking some professional advice from an accountant or financial planner can help you see the bigger picture and get you on track in using your cash flow more effectively. This advice might include establishing a realistic spending plan, improved debt management, uncovering potential tax-saving strategies, and helping to set some spending and potential savings goals and measure your progress.

Develop Good Habits

- **Spend within your means.** Buy what you can reasonably afford and maintain. Sometimes it's easy to overlook the cost of maintaining an item you think you can afford. Buying too large or expensive a home is an example of this – just because your bank may say you can afford a more expensive home doesn't mean you should. People often overlook the extra hidden costs, such as higher property taxes, insurance costs, heating costs and utilities. It's better to buy a bit less than the maximum you can afford to give yourself some breathing room.
- **Find a balance between paying down debt and saving.** You know your debt will be paid off at some point over time due to the repayment schedule, but will your retirement capital need to be "paid off" as well to cover your needs in the future? Delaying your savings can be costly over the long term. The chart below illustrates the "cost" of delaying savings by ten years over a 30-year working career, where the annual savings are \$5,000 per year:



Whether you ultimately decide on a simple or more complex method to monitor your cash flow, the most important part of cash flow management is doing it consistently!

Questions?

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