"Just-In-Time" Living

Jan 16 2017

Multiple media reports note that almost 50% of Canadians have no emergency savings and are unable to cover the cost of an unexpected expense of $500 - $1000, let alone deal with an unexpected job loss. Other reports from credit agencies such as Equifax state that even a 0.25% increase in mortgage rates will cause cash flow stress for some Canadians. The good news is that changing this "just-in-time" living IS possible!

The first step is the establishment of a financial cushion or emergency savings reserve. But you say, how do I build such a reserve when I can barely keep my head above water month to month as it is?

That is a great question. What needs to be done is to step back and rethink your approach to cash management. You will need to first find ways to actually save some money every month and place these funds in an account that will only be used for emergencies.

There are two types of emergencies you need to plan for. The first is those occasional events like a job loss. The second type of emergency, and the more common type, is unexpected monthly expenses such as car repairs, dental work, washing machine repair, new clothes for your cousin’s wedding and so on. These more regular monthly surprises need to be planned for and budgeted for. Expect the unexpected regularly! And if nothing big happens for a month or two then expect something in month three.

We all intuitively know what our unexpected expenses are and that they occur on a semi-regular basis as part of our lifestyle. These expenses can range from $200 to $500 or possibly more.

To break this cycle, you need to start saving money for emergency spending today, by setting aside a specific amount each month into a reserve savings account. The amount deposited can be $100 or $200 or more. Make sure the amount is something that won't cramp your lifestyle too much. It is still your money and can be accessed **IF** you absolutely need to!

Additionally, you can also free up cash flow by reducing all credit card and personal line of credit repayments to the minimum amount required. Use that cash flow savings to add to your monthly emergency savings account.

Once the emergency savings builds up to one month’s lifestyle expenses, say $2,000, then take half that amount and pay down your consumer debts. **But you must continue to add the same amount to your emergency savings account each month no matter what!**

The above point is especially crucial in breaking the "just-in-time" or paycheque-to-paycheque stressful lifestyle because those pesky monthly surprises will just keep occuring...even while you are paying them off from the previous month.

In summary, you need to plan for future monthly expense surprises while also building a cash reserve and then paying off existing debt as your cash reserves build up. Once you have paid off all high-interest consumer debt and are able to comfortably handle the expected monthly surprise expenses, you can then begin allocating money to your long-term financial investments such as RRSPs, RESPs and TFSAs amongst others.

Call us today to discuss your cash flow situation and how we can assist you to reduce your stress around meeting your monthly financial and lifestyle commitments.

Do you have questions about your cash flow?

Contact our office today ! [1]

Tags: saving strategies [2]
debt management [3]

Source URL: https://distinction-burgundy.advisornet.ca/e-newsletter/2017/2017-01/article-2.htm

Links
[1] https://distinction-burgundy.advisornet.ca/contact-us [2] https://distinction-burgundy.advisornet.ca/taxonomy/term/6 [3] https://distinction-burgundy.advisornet.ca/taxonomy/term/39