

Solutions

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NEWSLETTER

Issue 16

PERSONAL FINANCIAL MANAGEMENT

In these times of economic uncertainty, money management is a necessary life skill. Job security is tenuous at best. Layoffs and cut backs take their toll on two income families. How do we cope... where do we go for help?

People who use credit counselling are not necessarily low income people abusing credit, but rather families with good wage earners that have been affected by strikes, illness or other unexpected interruptions of income. They are forced to use credit to cover necessary expenses until the income is resumed.

The key is to plan for income interruption

In these situations, depending on the length of the interruption, it may take the family a considerable amount of time to begin living in the manner to which they have been accustomed... if ever. Being as prepared as possible for these income interruptions can make the difference between living on savings or living on someone else's money - CREDIT.

Ten basic rules of money management

- 1. Plan**
 - Plan for the future, major purchases and periodic expenses.
- 2. Set Financial Goals**
 - Determine short, mid and long range financial goals.
- 3. Know Your Financial Situation**
 - Determine monthly living expenses, periodic expenses and monthly debt payments.
- 4. Develop a Realistic Budget**
 - Follow your budget as closely as possible.
 - Evaluate your budget.
 - Compare actual expenses with planned expenses.
- 5. Don't Allow Expenses to Increase**
 - Avoid paying only the minimum on your charge card.
 - Don't charge more every month than you are repaying to your creditors.

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Ten basic rules of money management (continued)

6. Save

- Save for periodic expenses, such as car and home maintenance.
- Save 10% of your net income.
- Accumulate 3 to 6 months salary in an emergency fund.
- Put money away for retirement.
- Open a Registered Retirement Savings Plan (RRSP).
- Take advantage of current income tax rules which allow for tax-deductible savings for retirement plans.

7. Pay Your Bills On Time

- Maintain a good credit rating.
- If you are unable to pay your bills as agreed, contact your creditors and explain your situation.
- Contact Credit Counselling for professional advice.

8. Distinguish the Difference Between Needs and Wants

- Take care of your needs first.
- Money should be spent for wants only after needs have been met.

9. Use Credit Wisely

- Use credit for safety, convenience and planned purchases.
- Determine the total you can comfortably afford to purchase on credit.
- Don't allow your credit payments to exceed 20% of your net income.
- Avoid borrowing from one creditor to pay another.

10. Keep a Record of Daily Expenditures

- Be aware of where your money is going.
- Use a spending diary to assist you in identifying areas adjustments need to be made.

Kids & Money

Too often we hear that parents are frustrated with children not knowing the value of money. Here are some easy ways to teach them.

- Give your child an allowance that is based on their age and make the allowance conditional on completing basic chores like making their bed, keeping their room tidy, etc.
- Don't be afraid to explain to your children how much things cost and tell them in terms of their allowance, i.e. this item costs 10 weeks of allowance.
- Encourage your child to save their own money to buy items they want. They see how much work is involved and learn to make financial choices and priorities.
- The younger you start teaching your kids about money, the easier it will be as they grow.
- Open a bank account for your child and encourage them to actively participate in making deposits.
- Collect loose change and let your child count and wrap the coins for deposit into their account.
- For older children, you can encourage them to work at part-time jobs – baby sitting, snow shoveling, lawn chores or paper routes. They learn responsibility and earn money for the things they want.

It's important that we are able to teach our children to know the value of money and the pitfalls of credit/debt.

Written by Tim Utting, a Credit Counsellor for Brockville Credit Counselling.

Family Services offers confidential professional assistance on a wide variety of personal and work-related issues. For more information on your EAP, call:

1-800-668-9920