Pay Yourself First for Financial Success

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A fire breaks out in a movie theatre. You're there with your spouse and children, as are several local merchants. Who do you save first? The butcher? The banker? The hardware store owner? Their families? Or your family and yourself?

A ridiculous question. Of course you would save your family and yourself first. Then why don't we use the same principles with our money? All too often the butcher, the banker and the hardware store owner get paid first and little or nothing is left for us.

The answer is amazingly simple and is contained in a short book, The Richest Man in Babylon [1]. It tells of simple steps to take to become comfortably affluent. The first and most important step? ***'Part of all you earn is yours to keep.'*** But how do you pay yourself first? Here's how others are doing it:

Bob and Carol have several bills they pay on an annual basis, like property taxes, auto and home insurance, and a summer vacation. They were tired of scrambling at the last minute to find enough money to pay these bills. Bob and Carol added up the amounts, divided by 25 (the number of bi-weekly pay periods with two weeks off), and deposit that amount each pay cheque into a high interest bank account. Now they can make their annual bill payments without the mad scramble for funds.

Steve and Marie have RRSP accounts that they contribute to on a monthly basis. By using what's known as a ***Pre-authorized Cheque (PAC)*** plan, they have their contributions automatically taken out of their bank account. Steve and Marie were even able to arrange for withdrawals to be made every two weeks to coincide with their paydays.

It was nice for Steve and Marie to get a nice tax refund every spring, but they were wondering if the tax break couldn't come sooner. By completing a form ***T1213 - Request to Reduce Tax Deductions at Source*** and filing it with the Canada Revenue Agency (CRA), they can arrange to have their monthly RRSP deposits deducted from their income before taxes are calculated. This will give them an immediate tax break. Because a new form is needed for each tax year and can take up to 8 weeks for approval, Steve and Marie will complete and submit new forms to CRA every November for the following year.

Ken was in the habit of financing a new car every six years. To reduce the loan interest expense with his next new car purchase, he decided to use a TFSA to save towards his next vehicle purchase. Ken figured he would need about $25,000 in three years, and decided he could afford to save $400 a month with the plan of withdrawing his savings 'tax-free' when it came time to purchase his new vehicle.

By using money from his TFSA towards the purchase of his new car, Ken will be able to significantly lower the amount of money he needs to borrow for his new vehicle, thereby reducing the interest expense on the loan. With this type of strategy, as with any financial plan, it is best to discuss your goals with a qualified financial advisor before proceeding.

[1] The Richest Man in Babylon: George S. Clason

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