



3 Easy, Foolproof Ways to Increase Your Savings Rate

Description

You've done it again. It's nearing the end of the month, and after paying your rent, car loan, insurance, groceries, credit card bills, you've spent the rest on eating out and clubbing.

Now, you haven't got a single cent to put towards your investment savings. At this rate, being financially free seems like a pipe dream as opposed to a tangible reality.

Not all hope is lost, though. It turns out that there are a few easy habits to adopt that can drastically improve the state of your finances. Let's take a look at what we can do.

Pay off or refinance debt aggressively

Making principal and interest payments on debt is the single biggest killer of savings accumulation. Every dollar that goes towards servicing debt is one less dollar that can be invested. Because of how the time value of money works, you're actually losing out on more than just the face value of that dollar — the future compounding is gone, too.

Your choices here are varied. For high-interest debt like credit cards or unsecured lines of credit, paying it off quickly should be your first priority. Making more than the minimum payment will go a long way towards eliminating that debt quicker. For lower-interest debt, like a car loan or mortgage, consider the return you could get on your money if you invested it instead.

For example, if you have a five-year car loan at 2% APR, you may elect to make just the regular monthly payment while directing excess cash to a stock portfolio that earns an average 8% return. This is only advisable if you have sufficient cash on hand to meet short-term obligations as they arise and can stomach some risk.

Set up automatic contributions at brokerages

Some people just have the urge to spend every last spare dollar in their chequing account. This

mindset can leave you far behind when it comes to your savings goals, such as maxing out your TFSA with the annual limit. A better way is to set aside a regular sum of money to invest every month.

To help with this, some brokerages in Canada allow you to enable auto-deposits. Once configured, a set amount will automatically be debited from your account every month and invested in your portfolio. Enabling this feature to kick in just after payday ensures that you invest first before spending.

Although it might seem jarring initially to see a smaller paycheck every month, the use of auto deposits can have a powerful effect for your investments. These regular, systematic contributions help your money compound faster, allowing you to hit your retirement goals sooner and with less risk.

Leave the credit card at home

Who doesn't love credit cards? Gone are the days of carrying wads of bills and pockets of coins around. With one swipe, you can buy virtually any service or product across Canada, with ample consumer protection and sometimes even great incentives and rewards.

Unfortunately, these perks have made it all too easy for people to spend money they don't have. Swiping the credit card disconnects us from thinking about how much money we actually have to spend. We tend to forget about having to pay the balance back until bills are due at the end of the month.

If you find yourself spending more than you want to, consider leaving the card at home, unless you have a preplanned big purchase. Little incidentals that you swipe for over time can seriously add up. In the interim, try using your debit card with spend alerts configured, or carry some good, old-fashioned cash around.

The Foolish takeaway

When it comes to savings, you should treat your finances like that of a startup — cash flow and cash reserves are king. You can keep these healthy by either increasing the top-line revenue (your gross income), or by controlling expenses (your spending). Focusing more on the latter can make a significant impact on your savings rate.

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