How to Save Money for People Who Are Really, Really Bad at Saving Money

Description

Psychology has given us a number of great terms and biases for self-analysis, but for savers, one of the best is the *present bias*. According to this bias, humans are naturally inclined toward immediate rewards rather than delayed ones, even if delaying the reward means having more of it.

Sound familiar? Well, for many Canadians, that explains why saving money is so difficult. We'd rather spend our money on immediate rewards — like shopping for clothes, cars, or even eating out — rather than saving our money for future goals, like retirement or buying a house.

Now, of course, the older you get, the less powerful this bias becomes: at a certain point, those "future" goals, like retirement, become more pressing as you realize that time passes quicker than you thought.

But if you want to beat yourself at your own psychological game, if you want to save money rather than spend it, there is one super-effective trick: automate your savings.

Automate your savings

The trick to saving money is to get your money as far away from your spending compulsions as possible.

And, for many Canadians, that means automating your savings.

An automated savings plan looks like this. You arrange for an automatic deposit from your chequing into your savings, usually in coordination with your paycheque. In other words, the moment your paycheque hits the bank, a certain portion will automatically be deposited into your savings account.

The logistics behind this is usually simple. You just have to link your savings and chequing accounts. These accounts don't have to be with the same bank. In fact, for some people, it might be better to separate the two, especially if your bank allows easy same-day transfers between savings and chequing.

Depending on your employer, you might be able to automate without needing any coordination with your bank. Some employers are willing to split your paycheque, sending a certain portion to a separate savings account and the rest to your chequing. And if you already have an employer-sponsored group-RRSP, then this process is even easier: just allocate a certain portion to your RRSP, and your employer will do the rest.

Where should you put your savings?

At the very least, keep your savings separate from your chequing account, using the latter to store money you intend to spend.

But if you want to really put that money out of reach, you have options. For one, you could open an RRSP or TFSA and deposit your savings there. You'll get certain tax benefits in each account, like no taxes on investment gains and interest earned. And the RRSP's additional withdraw restrictions might prevent you from withdrawing money on a whim.

You can also open a brokerage account and use your savings to invest. In fact, this might be the smartest thing to do, especially if you're not saving enough for retirement. Use your savings to buy high-quality stocks or shares of an ETF or index fund.

Think you can save $1,000 before the end of summer?

Try it. Look at your budget and see if you can set aside $200 every month. Then automate your savings: ask your bank (or employer) to put $200 per month (or $100 per paycheque) into a savings account. Use the remaining money for your essentials, and don't dip into your savings for purchases you wouldn't otherwise be able to afford.

CATEGORY

1. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. kduncombe
2. sporrello

Category

1. Personal Finance

Date
2025/08/05
Date Created
2022/03/10
Author
sporrello