

## Pay yourself first for financial success

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 baker? The candlestick maker? 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 baker and the candlestick maker get paid first and little or nothing is left for us.

The answer is amazingly simple and is contained in a short book, *The Rules of Gold*. 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.

Don 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. Don and Marie were even able to arrange for withdrawals to be made every two weeks to coincide with their paydays.

It was nice for Don 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, Don 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 five or six years. He wants a better way of paying for his next vehicle. Let's say Ken wants to replace his current car in three years and he will need about \$25,000 then. If he borrows the \$25,000 today and puts it in a 3-year GIC at 3.75%, it will grow to \$27,919.29. If he gets the loan at 7.00%, his monthly payment will be \$770.79, with interest totaling \$2,748.44 over the term.

Ken will actually come out \$170.85 ahead, even though the GIC interest rate is lower than the loan rate. On top of this, Ken can deduct the loan interest as the money was used to invest. This should put him in a better bargaining position on his next new vehicle. Because tax laws often change, confirm this strategy with your tax advisor before proceeding.

**Want help paying yourself first? Call today!**

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