Money mistakes to avoid in your 30s and 40s

By Josephine Lim

During your 20s, you're slowly moving toward financial independence by handling student loans or starting to support yourself upon graduation. In your 30s and 40s, you'll likely get a better job with a higher income, but that doesn't mean your financial worries are over. Here are three common mistakes made by people in this age group.

1. Lack of a financial plan

Karen Richardson, a money coach with Money Coaches Canada, says the cost of children took her by surprise. She was 33 when she had her first child, and the extra costs forced her and her husband to dip into a line of credit that ballooned to $45,000 after having two more children.

Richardson says she and her husband were spending more than they could afford without realizing it, and it was only after three years that they understood they needed to handle their debt.

"I figured the bank gave us the credit, they must think we can afford it, so we bought the best of everything," says Richardson. "Once realizing being in debt was not part of our goals, we set a date, fixed a monthly amount to pay on it and stuck to it."

It took her seven years to pay off her debt, but once it became a priority, the final payment date was motivation enough to maintain their change in spending habits, she says.

In hindsight, Richardson says she wishes she would have planned better for the loss of a second income and considered the cost of child care expenses, either by saving or by spending less frivolously.

To create a financial plan, the first step is to decide what's important to you and your partner. This conversation should lead to a set of goals and the amount each goal will cost, such as deciding how much to save for travelling or buying a house.

Next, look at your how much of your income is left after you've paid your expenses. Your goals will help you decide where to make spending adjustments to your lifestyle.

"Just because you're making more money, doesn't mean you have to spend more money," says Brian Betz, a credit counsellor with Money Mentors. "Make sure that any extra funds you do have are being reinvested and they're generating income for you in another manner."

And while homeownership may be a great investment that contributes to your retirement nest egg, consider all the costs involved in a home purchase, such as closing costs, condo fees and an emergency fund to handle unexpected maintenance costs. If your household is barely able to make a 5 per cent down payment on a property, you may want to wait longer before purchasing, adds Kelley Keehn, a personal finance expert and author of *The Prosperity Factor for Canadian Kids*.

2. Lack of financial literacy
Understanding your finances is an important part to figuring what to do with your money. A big mistake for those in their early 30s is not realizing the importance of credit and your credit profile, says Keehn.

For instance, Keehn recalls a couple he worked with that had a good income, bought cars and saved for a down payment on their home. But when it came time to get a mortgage, the couple wasn't approved because they didn't use any credit. Keehn also recalls many clients who didn't read the fine print on their credit card contract and didn't realize the grave impact a late payment had on their credit profile.

If you want to beef up your financial knowledge, a good place to learn more is a nonprofit credit counselling service, which offers free advice. Keehn also suggests consulting with a fee-only financial planner when you're facing any life-changing events, such as getting married or having a child. These planners can help you crunch the numbers and decide where to allocate your funds.

3. Unbalanced priorities
By the end of your 40s, Betz says your household should have all consumer debt paid off, including student loans or credit card debt.

But while you want to tackle your debt, you don't want pay it off so aggressively that you fail to save for the future. During this age, households face a complex balancing act.

"They need to set payments that they can manage through this stage of their life so they can also save for education, retirement and go on vacation," says Richardson.

It's also vital to not get consumed with keeping up with peers. Spending on an expensive trip or the latest gadget just to keep up appearances should not be a priority unless you've saved specifically for such occasions.

Finally, if you've made a money mistake, it's important not to become fixated on regretting your past errors. Instead, focus on correcting them and staying on your new, balanced path.

"Everyone makes mistakes with money," Richardson says. "No one is taught the ABCs of money and it's tricky for people."