Top 5 things you need to worry about financially

By Gail Johnson | Pay Day – Fri, 19 Dec, 2014 1:23 PM EST

Yahoo Finance Canada/Royal LePage - The $4.99-million waterfront Toronto home is shown in a handout photo courtesy of Royal LePage.

The financial situation of 2008-09 was the kind of disaster that instilled in a lot of people serious jitters, whether they were lifelong investors or simply beginners. Many still have deep fears of the market crashing. But there are far more concrete things to worry about financially.

Inflation

"There are a number of people I meet who are 50 and 60 that think that what they need to be most terrified of is the stock market crashing, but no, the biggest risk you face to retirement is your debit card," says portfolio manager Darren Coleman, senior vice president of private client services at Raymond James in Toronto. "Your greatest challenge to retirement is the fact that everything will cost more next year. Milk will cost twice as much 15 years from now, so what are you doing about that? Everything will be more expensive, and that's relentless.

To prepare for increases in the cost of living, Coleman suggests structuring a portfolio that can hedge against inflationary pressure, while setting up and sticking to a budget and avoiding impulse purchases.

Not saving

"People obsess over market returns, but we should obsess more about how much we save," says Peter Drake, vice president of retirement and economic research at Fidelity Canada Investments. "If you saved a bit more, it would allow you to take a little less risk in the market. People need to think about the big picture."

Complacency about saving for retirement in particular can have negative consequences.

"Thinking that retirement is decades away makes it easy to procrastinate about saving for retirement," says certified financial planner Noel D'Souza, a fee-for-advice Money Coach with Money Coaches Canada. "This is especially true for those recently out of school or starting their first job. Before they get married, buy a home, and have children, they may have a fair bit of disposable income and want to spend it all enjoying life. But this is the best time to build the habit of saving. What they often don't realize is that once a mortgage and kids come into the picture, financial resources get pretty stretched for as much as 20 to 30 years…. It becomes a retirement savings crisis if they don't start saving until they're 55."

If "saving" seems too abstract a concept or you think you don't make enough money to save, financial experts have several suggestions: use automatic withdrawal to have a set amount come out of your bank account every pay cheque or once a month, even if it's small. You can gradually build the amount up over time. And especially this time of year, remember the financially savvy shopper's mantra: needs vs. wants. This takes us to the next point.

Living beyond your means
"With low interest rates, credit so easily available and everyone using it, it's tempting to use 'just a little bit' of credit to pay for a home renovation, a vacation, or a big screen TV," says D'Souza. "However, it's easy to become accustomed to or even addicted to credit, and that line of credit or credit-card balance can subtly creep up over time and become a real issue. Not having a good spending plan to keep you within the lines and on track can lead to major problems and stress."

Buying too much home
"This is a major issue in the urban centres, especially for young families," D'Souza says. "They want to get into the housing market because it seems like a sure-fire way to wealth due to the price appreciation of the last 20 years. They end up taking huge mortgages, which makes them house-rich and cash-poor for decades, and crowds out savings for retirement, emergencies, and near-term goals."

Not preparing for disaster
Life doesn't always go according to plan.

"Some families don't have proper life and/or disability insurance coverage to protect themselves and their families if something bad happens," D'Souza says. "This appears to be especially true for the self-employed, who don't have employer sponsored coverage of any kind, and also are so busy and focussed on running their businesses that they don't properly assess personal risks. Because they're young, healthy, and able to work now, they assume it will always be so.

"It can be a car accident, an illness, a fall off a ladder or onto an icy pavement that causes one to become temporarily or permanently disabled, or worse. Are they prepared?"