Saving starts when you become a “conscious” spender: Janet Gray

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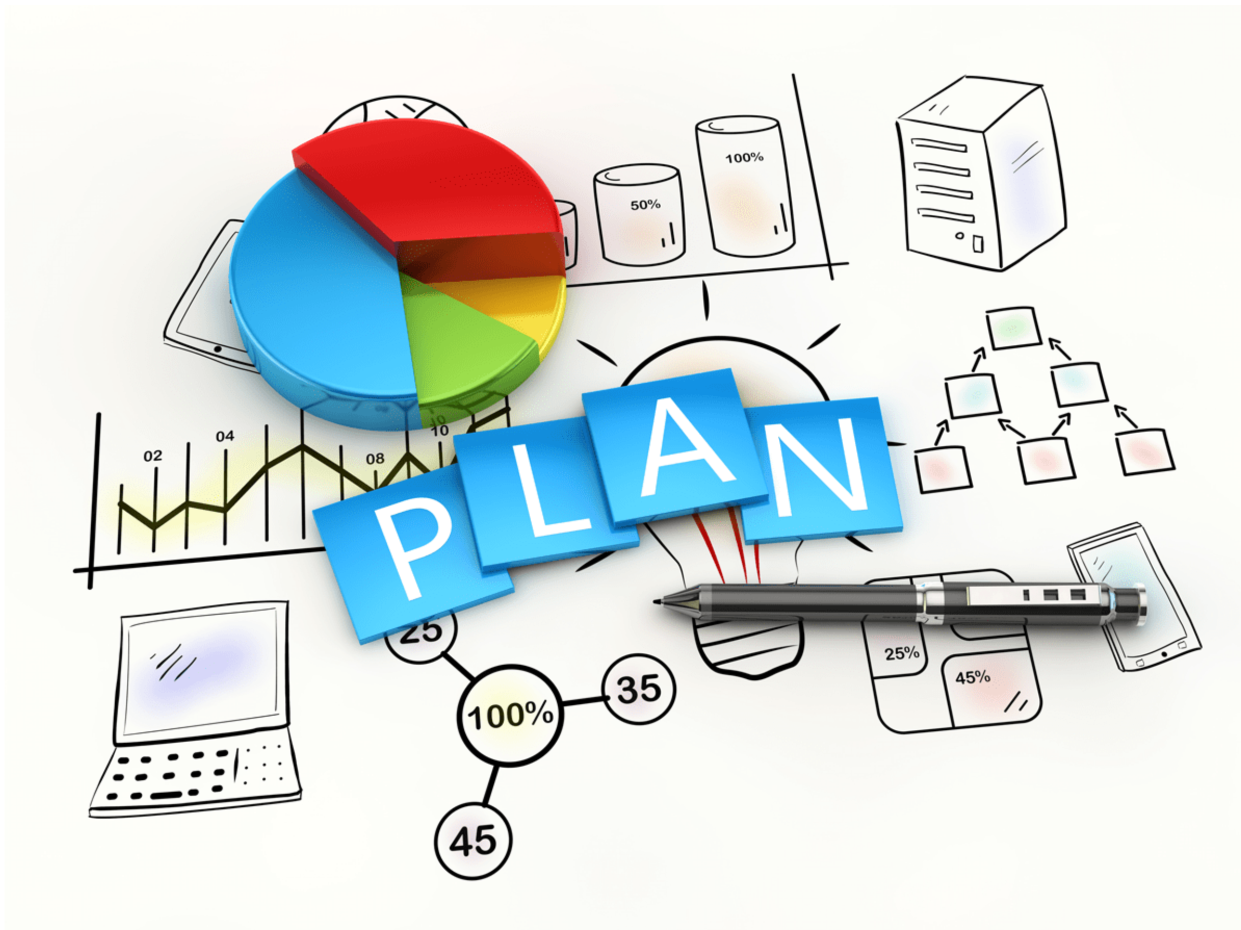

In this second of a four-part series, Save with SPP talks to Janet Gray, CFP, of Money Coaches Canada about the difference between saving, and investing for your future

Any discussion about saving should begin by setting out the difference between saving and investing, says Janet Gray, CFP, of Money Coaches Canada.

“Saving money is something that is imminent or short term (less than 12 months),” she explains. You are protecting its value, and the use of that money is soon – so your savings need to be “secure and liquid,” she says. An example might be putting money in a savings account or a GIC.

“Investing is where you want the money to work for you. You are delaying the use of that money” while allowing it to increase in value (hopefully) and will use it in the future for something more mid to long-term, such as retirement or a large goal. Examples would be investments in mutual funds, exchange-traded funds, bonds and other securities.

“You have to save to invest,” she explains, “but don’t need to invest to save. Investing is a longer-term thing, saving is a shorter-term thing.”

OK, we now see the distinction. But why, we asked, don’t more people save?

Gray says there are a lot of factors at play.

“There is the issue of why – why do I need to set money aside,” she explains.

Many people get hung up on their everyday living costs and can’t imagine a future where there’s no mortgage, no kids to feed, and no car payments. But for most of us, the future will be just like that – less expenses, but less income. So saving and planning is important.

“That awareness… can possibly help you to save better,” she explains.

Some people think they don’t have to save because they have a good pension plan at work. But things can change – you may change jobs, and in some fairly rare cases, pension plans serving the private sector, like Nortel or Sears, run into financial trouble.

There are those who *could* save, but who simply are “in denial,” or are naïve, and have developed a “keep spending” lifestyle, she says. When you “avoid looking at your finances… and you are spending without awareness,” it’s easy to simply disregard saving, she explains.

“Some with low incomes simply can’t save. They can’t find any excess to save, they are spending every bit of their income. They lack the means to save,” she says.

But for others, “knowing where your money is going” is how to turn things around and get on the path to saving. Start keeping track of where your money is going.

“Maybe you have dinner out three times a week, or travel a lot, or give expensive birthday presents to the kids,” she says.

“These are all examples of discretionary spending that can be reduced,” she says. We can all fall into the trap of spending all our money on “what’s comfortable and pleasant,” but a careful review of “all your categories of spending” can help identify areas where you could cut back and begin saving.

“I tell people that once the bills are all paid, they should include saving as a ‘bill’,” she explains. You can start small with the saving habit, maybe $10 a week, and gradually grow that amount over time, she explains.

Once you really think about spending, you will find there is a lot of room for change, she says. “Start questioning every payment amount – are there discounts, or coupons? Can you use a savings app? Are there special shopping days, like Cyber Monday, to take advantage of?”

She agrees that it is time-consuming to find dollars to save by looking at all flyers and comparison shopping, but it pays off. “If you shop for convenience, without a list, you will find that convenience costs money,” she explains. Focusing on getting as much as you can for your spending dollar will lead to savings and more satisfaction, she says.

If you are craving a pizza, “make your own, and put $25 in a savings account,” she says.

She says that a recent read of the book *The Millionaire Next Door* shows the importance of frugality. Really rich people, like investor Warren Buffett, got there because they didn’t spend their money on flashy items and big houses. Instead, they live in modest homes and drive older, sensible cars, she says.

“The unassuming ones are the millionaires… they are superconscious about their money. They try to avoid large fees, and refuse to pay full price for items they want,” she explains.

Even if you have a big house in a nice area, the higher costs of taxes and maintenance can impact your ability to spend when you’re older, she says. “When you see big fancy cars pulling up to the food bank, those are people who are often deep in debt,” she says.

We concluded our chat with a look at the two main savings vehicles in Canada – the registered retirement savings plan (RRSP) and the Tax-Free Savings Account (TFSA). What are the differences between the two?

“In choosing between these two, it all depends on the eventual use of the money,” she explains.

With an RRSP, you get a tax deduction on the money you contribute. That money grows tax-free until you start withdrawing money from the RRSP or from a registered retirement income fund (where RRSP funds can go after you reach age 71).

An RRSP, she notes, “is best for retirement savings, especially for those who are now working and making a good wage – say $70,000 a year or more.” Generally speaking, she explains, if you put the money into an RRSP while you are earning a higher income, the income you receive from it in the future will be taxed when you are earning a lower income/lower tax rate in retirement.

That’s why for those with a lower income – say $40,000 or so – there isn’t as much of a benefit from an RRSP, she says.

“If you are making less than $40,000 or $50,000, you don’t get the same tax benefit from an RRSP, so you might be better off with a TFSA,” she explains.

With a TFSA, there's no tax deduction for putting money into an account, but your savings grow tax free, and there's no income tax implications when you withdraw money from your TFSA.

TFSA income, unlike money from an RRSP or RRIF, does not impact your ability to receive Old Age Security, she adds.

TFSAs are a nice place to save, and enjoy a shelter from taxation. "Almost everyone can take advantage of the features of a TFSA," she says. If you fill yours up, help your spouse fill theirs, she advises.

So, summing it up, if you think you can't possibly save, it may be because you don't know where your spending is currently going. Lock the spending part down, and try to take advantage of sales, flyers, and coupons, and by spending less you'll have more to put away in a savings vehicle. Think of savings as a bill you have to pay, set it as auto payment and increase it every month.

In the next part of our series, we'll take a look at debt.

If you are saving for retirement on your own, take a look at the Saskatchewan Pension Plan. You can start small, and ramp up your saving over time. SPP will do the hard part – investing your money in a pooled fund at a low cost – and at the end of the day, you'll have a new source of retirement income for life after work.

Great news! SPP's flexible Variable Benefit option is no longer limited to those members living within the borders of Saskatchewan. Now all retiring SPP members across the country can take advantage of this provision, which puts you in control of how much income you want to withdraw, and when you want to withdraw it. You can also transfer in additional savings from other unlocked registered sources. For full details see SaskPension.com.

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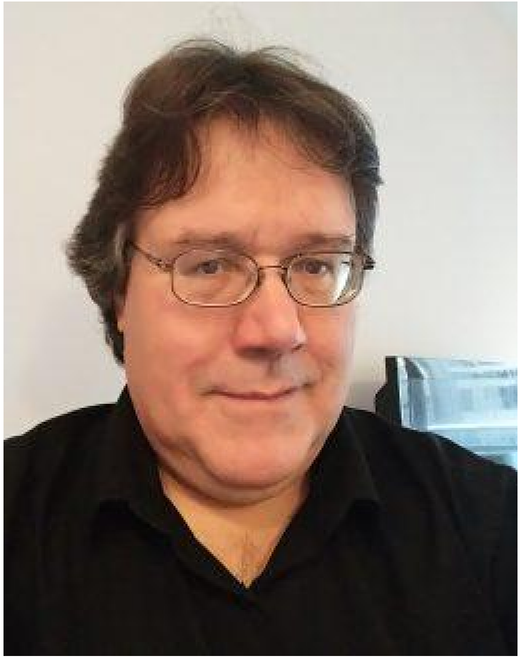

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