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FINANCIAL POST

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Peace of mind or just another headache? The pros and cons of putting your finances on auto pilot

By Danielle Kubes, Special to Financial Post

It makes sense for some to sign up for automatic payments, but there are factors about all this unconscious spending that can cause people to worry



Illustration by Chloe Cushman

Every month my credit cards automatically pays out \$7.99, \$4.99, \$11.99, \$17.25, \$39.98 and \$182. Without touching cash or even tapping my card, I immediately owe \$264.20 every month.

These deductions are all for services I need in my life - Netflix, an IP router so I can watch American Netflix, a newspaper subscription, Internet, the gym etc. It makes sense for me to sign up for automatic payments (not that these companies give me another choice, mind you) because it saves me from having to either mail in a cheque every month, or log in to an account, forget my password, reset my password and manually pay all these small bills.

But there are factors about all this unconscious spending that worry me: Having an algorithm pay bills is convenient but, like everything convenient, it must its have added and hidden costs.

Steve Bridge, a coach at Money Coaches Canada, says I'm right to be concerned.

"If it is something you use regularly and can afford to have, then there is no danger financially and you get to enjoy the service," he says. "However, if you signed up on a whim (like joining a gym for a New Year's resolution) and didn't pay attention to the cost or the fine print or termination wording, you may be stuck with a cost you can't afford and don't use."

For those who aren't particularly financially mindful and fail to review their credit card bill every month, it's easy to miss that the price for a service or subscription has gone up - especially if it's priced in U.S. dollars - or that you're still paying for something that you don't really need.

"In addition, if your subscription is on your credit card and you are falling behind on you credit card, payments and carrying a balance, you are now paying compound interest on the service and damaging your credit rating," Bridge says.

On the other hand, automation can also be used to your advantage.

A few years ago I spent two minutes setting up an automatic transfer program with my bank whereby 27 per cent of my paycheque is moved from my chequing account to my savings each payday. By the end of the year I was rich! (Well, rich enough to go on a nice vacation, but still.)

The drip-drop effect of consistent and unthinking savings astounded me.

"The greatest, and most obvious financial danger is also perhaps the most beneficial. That is, you set it and forget it," Bridge says. "If you have a good plan in place and know how much you can afford to put aside each month, then going on autopilot is fantastic!"

I never would have remembered, or been disciplined enough, to manually transfer the money every two weeks. Instead, I probably would have carelessly bought a few extra rounds of drinks. But without the money at hand, I simply adjusted to spending less without feeling deprived.

So why not go beyond savings? What about growing your money automatically?

You can set up a stock purchase plan, for example, to withdraw a pre-set amount from your account and use it to buy company stock at regular intervals with no commission charge. These amounts can be as little as \$100 per month and have the added benefit of dollar-cost-averaging.

Unfortunately, these plans can be a hassle to step up simply because you need to own a share certificate through the company first, which costs money and takes paperwork, and trust companies in Canada aren't quite caught up with the times and still sometimes make you snail-mail a form and cheque.

The notion of, in some cases, setting and forgetting a subscription fee can be harmful

A good alternative is ShareOwners, an online brokerage that lets you invest automatically and electronically in a wide variety of blue-chip stocks.

Another recent development in this field is through robo-advisories.

You can set up a portfolio that automatically invests in ETFs across various asset classes and you then have the option of setting up an automatic contribution plan. Since these companies are so new they are fantastically user- and technologically friendly.

"The notion of, in some cases, setting and forgetting a subscription fee can be harmful," says Randy Cass, founder and CEO of Nest Wealth, a Canadian robo-advisory firm. "But in places you're paying someone to act on your behalf, it's actually incredibly advantageous.... We really do provide that peace of mind for busy professionals who want to go to bed at night and know their wealth is handled in a good manner by someone who has a fiduciary responsibility to him."

All these investment options are ideal for conservative, long-term investors who don't have a lot of time or knowledge.

"These are a 'get rich slowly' strategy that take a little bit of effort to set up and track," Bridge says. "But are mostly mindless and can see great returns for those who are patient."

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