Your guide to getting started on saving, even if you have debt

By Aaron Broverman

When it comes to saving money, especially if you carry debt, the available advice can be confusing.

It's often not clear how much money should go toward savings and how much should go toward credit cards and other debt. Then, when you figure that out, it can be difficult to determine how much you should put toward short-term, mid-term and long-term savings.

If you're feeling confused, try this guide to get started.

1. Assess your situation.
Before you can start saving, you must figure out where the savings will come from. It's important to do a financial assessment and determine where your money is currently ending up.

"Your savings aren't going to fall from the sky," says Nancy Grouni, a certified financial planner at the Toronto-based Objective Financial Partners Inc. If you don't make any changes, you're not likely to get on track, she says.

She recommends having a full financial plan done, which will show you how much you owe, how much you make and how much you can save. To do this, visit a fee-only certified financial planner who isn't biased toward a particular investment product and present them with your financial information.

Ideally, Grouni says, you'll develop a savings strategy for each year so you know exactly how much to contribute to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA), or other savings.

"It's so helpful to see your finances mapped out like that because you can also see the consequences of your actions now and how they'll have a bearing on your future," she says.

You can also do this yourself by tracking your money for a month or two. Using a pen and paper or a smartphone app, track your incoming and outgoing money and categorize it so you know what's going toward necessities and what's going toward fun.

2. Pay down any debt.
Before you can think about saving for the future, it's important to pay down -- or pay off -- your debts.

Grouni suggests tackling debt on the card with the highest interest first, but stresses that this doesn't mean you ignore the rest. You still have to pay the minimums every month on your remaining cards. Once the highest-interest card is paid, move to the next highest, and continue until they're all paid.

But how much debt do you have to pay down before you can begin saving again?
According to Noel D'Souza, a registered money coach with Money Coaches Canada, it's not so much a question of "what percentage of debt do I need to pay," but a question of how soon do you want or need to be debt-free?

If you feel like you can afford to carry debt over a longer period, D'Souza says you can devote less money to your debt and more money to your savings. This may be the case if your interest rates on your debts are low, for example. However, if you'd like to get out of debt faster, or if your minimum payments or interest rates are high, then increase the amount you put toward your debt -- but don't overdo it.

"What I see is clients sometimes who have the best of intentions with paying down debt and they just put a ton of money against their debt," D'Souza says. "But because they have not set aside money for other things -- like if an emergency comes up or they want to travel -- the money isn't there and they have to go back to their debt again, which can create this cycle of paying down debt just to rack up more debt."

Instead, he recommends balancing your debt against those needs and wants that nearly everyone has.

"What you want to do is steadily pay down your debt, so you consistently see it going down, but make sure you have money on the side for all the other things you either need or want to do," he says.

3. Make it physically harder to spend.
It's never been easier to spend money. New technologies such as tap-and-go credit cards and mobile payments make it so easy to pay, you may not even realize how much money is left your account. You may lose the fact that you're spending real money.

Regardless of whether you keep a balance on your credit cards, cutting back on frequent, superfluous spending can add up to hundreds of extra dollars that can go toward savings.

While you're making the transition to savings mode, Grouni recommends withdrawing cash weekly or monthly and using it to keep you within budget. Give yourself a hard rule that once the cash is gone, you have to wait until the next week or month to get more, which may help you refrain from unnecessary purchases. You can also try using debit for a while, to get in the practice of using a card as though the money will immediately leave your account.

Once you feel like carrying a credit card is something you can handle again, set a monthly credit card budget and check your statement online to make sure you stick to it. "Just something as simple as that; it's amazing how just that extra step will help keep your expenses under control," Grouni says.

4. Make saving as easy as possible.
There are also automated banking tools available that make saving easier. Grouni suggests looking into an Employer-Sponsored Savings Plan for retirement because the savings come right off your paycheque, so you don't even need to think about it.

"Many employers will offer savings plans where they match your savings to different degrees," she says. "That's free money -- take it."

In addition, Grouni confirms most financial institutions have savings plans in which a predetermined amount is automatically transferred into a savings account. There are also accounts specifically designed to encourage savings. For example, BMO's Savings Builder account gives you extra interest at 1 per cent in addition to its base 0.25 per cent rate if you save $200 or more in the account, totalling 1.25 per cent.

You can use windfalls such as an annual bonus and, once tax is paid, save or invest half, then use the other half for whatever you want, says D'Souza. "That way you are gradually increasing your savings rate, and also enjoying the benefits of more income."

D'Souza recommends setting up different savings accounts for specific goals, so you can see your progress against a goal at a glance, rather than mentally divvying up a single account between various goals and trying to keep track of what you've already covered.

"For most people, it's also more exciting and motivating to see a 'vacation' account grow and look forward to a great trip, rather than see a generic ‘savings' account grow," says D'Souza.

5. Determine where your savings should go.

If you are in a position to save, where should your money go first? D'Souza has the answer.

"An emergency fund is probably the No. 1 thing," he says. "You have to take care of your short-term needs before your long-term savings goals because you have to make sure you're able to sustain the basics -- shelter, food, clothing, rent -- before you plan for your retirement, which may be 30 years out."

After that, he recommends creating a financial plan and sitting down with a financial advisor who can walk you through all the different registered and non-registered savings funds that are available to you, how they work and whether they are appropriate for your individual situation.

In general, Grouni says, your investment priorities should be:

1. Your tax-sheltered investments, such as Tax-Free Savings Accounts (TFSAs).
2. Your registered portfolio, such as a Registered Retirement Savings Plan (RRSP).
3. Your non-registered portfolio, including stocks and mutual funds.

"If you're investing for a short-term goal, you want to make sure you're not locking up the funds or investing in non-registered savings vehicles that carry fees," Grouni says. "Mid-term goals can be registered investments with some flexibility and if you're saving for a long-term goal, those funds can better withstand market down-turns, so look into unregistered investments."

"As you're paying off debts, you'll probably save more, but also want to improve your quality of life somewhat, so it's always a balancing act there," D'Souza says. "When planning for things like retirement always ask, ‘What kind of retirement do I want to live?' and once that specific amount is reached, enjoy the rest of the money. Don't forget to also reserve some money for fun stuff as part of your financial plan."