

Getting a grip on excessive debt

Debt used to be a four letter word. Now it's just a word. Is it good debt or bad debt? What can you do to get a better grip on your spending and redirect money to grow your investable assets? I guarantee most of those people and retailers with their hands in your pockets don't dare talk about spending with you...unless it's about spending more.

Hi, I'm Peter Wouters, here to share some thoughts on the debt challenge.

Most people seem to have some debt. They are comfortable with it even going into retirement. In fact, carrying excessive debt seems to be normal for middle and upper middle class people. A decade or more of low interest rates has accelerated and amplified the habit of supporting lifestyles with credit instead of cashflow. All looks good from the outside but underneath the veneer, most of that lifestyle is funded with multiple, high balance credit cards, lines of credit and leases where only the minimum payments are being made on some obligations while other debt payments go into arrears. Then there's the mortgage on their homes. All of this gets topped off with a series of bad financial decisions and poor money management habits.

Canadians on average owe about a \$1.70 for every dollar of disposable income. (1) The disturbing parallel is that this ratio is about the same as what the U.S. experienced during the peak of

their housing bubble. And we keep hearing about the bursting housing bubble in Canada along with rising interest rates, which would increase the cost of carrying debt.

The key is to take some concrete steps to keep debt under control.

Do you have a debt problem? Take this test.

Do you have a debt issue?

| | Question | Yes | No |
|----|--|-----|----|
| 1 | Are you using credit or borrowing money to pay for things because you can't pay for them with cash or debit? | | |
| 2 | Are you buying things on sale with credit for things you really don't end up using or can't really afford? | | |
| 3 | Are you spending more than you are earning? | | |
| 4 | Do you make only the minimum payments due on your credit cards and loans each month? | | |
| 5 | Have you maxed out your credit cards or are you close to doing so? | | |
| 6 | Are you using more and more of your income to pay your bills and debts? | | |
| 7 | Are you late in paying your bills? | | |
| 8 | Are you getting letters and calls from vendors, suppliers and collection agencies about overdue accounts? | | |
| 9 | Are you foregoing necessities because you can't afford to pay for them? | | |
| 10 | Are you servicing your debts with money intended for savings or other objectives? | | |
| 11 | Are you using your savings to pay your bills? | | |
| 12 | If someone in your family got sick or hurt, would you soon find yourself strapped for cash? | | |
| 13 | If you or your partner lost your job, would you quickly be in financial difficulty? | | |

What can you do to better manage your cash flow?

Try these 3 things:

- (1) Deal with any of the questions in this test where you answered “yes”. Start with the easier ones to build up good habits and confidence.
- (2) Document **all** of your expenditures. Do this daily for a month. You’ll be surprised by where it really goes. Stopping some of those expenditures won’t change your life for the worse.
- (3) Try using cash or your debit card for all expenses. People are uncomfortable seeing their bank accounts immediately drop in value when making purchases.

This is where working with an accredited financial advisor can really help. They educate clients on the best use of their debt dollars and help them get a grip on spending. Most clients will benefit from understanding where their money is going and a financial plan can provide the roadmap for where it can go in the future.

- (1) Source: Household debt climbs to record levels,...The Canadian Press, Sept. 15, 2016