Trick or treat your savings account

BY LISA EVANS, OTTAWA CITIZEN OCTOBER 24, 2013

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Photograph by: Julie Oliver, Ottawa Citizen

OTTAWA — We all know saving is a necessary part of financial management, yet for many of us, saving money means depriving ourselves of treats — a $5 pumpkin spice latte, for example. Certified financial planner Marc Lamontagne and money coach Judith Cane say there are many ways we can trick ourselves into saving without feeling the daily treat pinch.

Hide your income. “Most people’s expenses tend to rise up to meet their available cash,” says Lamontagne. Reducing your income through payroll deductions such as group RRSPs is a great way to trick yourself into saving for retirement. If you’re lucky enough to work for an employer who offers an RRSP-matching program, you can easily grow your retirement savings without ever seeing the money leave your bank account.

Treat your savings account like a fixed expense. Cane advises clients to set up a monthly or bi-weekly auto-withdraw from their chequing account into a savings account. Start with a small amount, such as $25 bi-weekly, and gradually increase it until you reach your savings target.

Write yourself a CPP cheque. If you earn more than $51,000, it’s likely you’ve noticed that CPP contributions max out at some point in the year. “If you’re making $102,000 a year, your employer is taking off the CPP amount only during the first six months,” says Lamontagne, meaning you’ll see a higher paycheque during the second half of the year. Since you’re used to living off the reduced income, depositing the same amount that was being taken off for CPP into a savings account is an easy way to save without affecting your lifestyle.

Overpay your taxes. Lamontagne admits this is a terrible way to save, but says it may be the only way for some since it removes available cash from their possession. “If you overpay your taxes, the government holds your money and then gives it back to you at the end of the year with no interest,” he says. As long as you invest your refund into a savings account or RRSP, you’re saving.

Save the change. Cane says control spending by dividing discretionary income into envelopes for groceries, entertainment, gas and clothing, and save by placing any extra money at the end of the month into a savings jar. “It could be 50 cents that you have left in one of the envelopes at the end of the month, but you’d be amazed at how fast the extra money adds up,” she says.

Lamontagne talks about a friend who emptied all of his loose change at the end of each day into a cookie jar and discovered he had $800 in coins after only one year.

Always have a car payment. Lamontagne sees many clients who after four or five years of monthly car payments, rejoice in the extra cash they now have in their bank account. By starting a savings account and depositing the same amount as your car loan, you’ll have a reserve of cash to use for car repairs or to purchase a new car a few years down the road.

Save two extra paycheques per year. If you’re paid on a bi-weekly basis, you may have noticed there are two months out of the year where you receive three paycheques. Since most of us budget on a monthly basis, those two extra paycheques can feel like found money. Rather than blowing it on a shopping spree, stick to your monthly budget and deposit those extra cheques into a savings account.