Financial Wellness 101: 7 Basics Everyone Should Know

Financial wellness is an often overlooked but important aspect of overall well-being. A lack of financial wellness can significantly affect your physical and mental health, leading to stress, anxiety, high blood pressure, poor sleep, and strained relationships. In fact, money is the number one issue married couples fight about, and the second leading cause of divorce.

Financial wellness is about being in control of your finances and feeling secure about your current and future financial situation. It's not just about making good financial decisions, but about making decisions that align with your personal values. An often-overlooked aspect of financial wellness is recognizing that our emotions, behaviors, patterns, and beliefs influence our money decisions more than our financial knowledge does. Our Money Coaching program here at Resolve Counselling combines financial literacy education with your behaviours and emotions so you can achieve true financial wellness. Acknowledging financial struggles can feel overwhelming but small steps can make a big difference.

Let's start our financial wellness journey with seven basic principles that everyone should know.

1. **Budgeting: The Cornerstone of Financial Wellness**
   Why it Matters: A budget helps you understand where your money is going, ensuring you live within your means and prioritize savings.

   Living on less than you make is the true cornerstone of financial wellness and budgeting is the best tool to get you there. If you don't like the word budget, think of it as a money plan because that's what it is--a plan for where your money goes.

   There are almost as many budgeting methods as there are people so choose one that would work best for you. If you prefer pencil and paper, look for a printable budget template. If electronic is your thing, look for a budgeting spreadsheet template or an online budgeting platform. Start by tracking your spending for a month to identify patterns. People are often surprised to find that they're living beyond their means without even realizing it.

   Seek the help of a professional for this foundational step. When you complete our Budget Coaching program here at Resolve Counselling you'll gain a clear, step-by-step plan to help you budget effectively, pay off debt, and achieve your financial goals. You'll also have the support you need to make adjustments as needed, along with tools and strategies to make positive financial change.

2. **Building an Emergency Fund**
   Why it Matters: An emergency fund is a safety net for unexpected expenses, such as car repairs, a flooded basement or job loss, giving you some protection from high-interest debt.

   If you have high-interest debt, such as credit cards, start with an emergency fund of $1,000 or the amount of your highest insurance deductible, whichever is more. Ideally an emergency fund should cover 3-6 months' worth of essential living expenses but, if you have high-interest debt, you are better to reduce or pay it off before building a larger emergency fund.

Get creative! Consider side gigs, selling unused items, or freelancing to generate additional income that can go directly into your emergency fund without impacting your regular budget.

3. **Managing Debt Wisely**
   Why it Matters: Unmanaged debt can lead to stress and hinder financial progress.

   Do you have debt that feels unmanageable or keeps you awake at night? Is your debt hindering your ability to save for the future? You're not alone. The average Canadian household debt exceeds 173% of disposable income

   To reduce or eliminate debt, start by making a list of all debts including balances owed, interest rates, and minimum payments. Once you understand your debt, choose a repayment strategy that you think will work best for you. There are several debt repayment strategies but the two most popular are:

   - **Snowball Method:** Make minimum payments on all debts. Put any extra money toward the smallest debt. Once the smallest debt is paid off, put the extra money toward the next smallest debt. Repeat until all debts are paid off.
   - **Avalanche Method:** Make minimum payments on all debts. Put any extra money toward the debt with the highest interest rate. Once the debt with the highest interest rate if paid off, move to the next highest interest rate debt. Repeat until all debts are paid off.

   Consistently following your budget/money plan, having an emergency fund, and using credit cards responsibly is key to avoiding new debt.

4. **Saving for the Future**
   Why it Matters: Saving ensures you can meet both short-term goals like vacations or large purchases as well as long-term goals like buying a home or retiring comfortably.

   Start with clear goals. Define short-term (emergency fund, vacations), mid-term (buying a car, home), and long-term goals (retirement). Here are several things to consider when it comes to saving for your goals.

   Employer match: Even before paying off credit card debt you should take advantage of any employer match opportunity you have at your workplace. It's free money!

   Make it automatic: Setting up regular automatic contributions to your savings or investment accounts ensures that money is regularly put aside without requiring ongoing effort or willpower.

   Use the correct account:

- **High-interest savings accounts (HISA)** are best for funds needed for short-term goals.
- **First Home Savings Accounts (FHSA)** are tax advantaged accounts that help Canadians save for their first home.
- **Tax Free Savings Accounts (TFSA)** are tax advantaged accounts for Canadians to set money aside tax-free throughout their lifetime. Contributions are not tax deductible, but contributions and income earned are tax-free when withdrawn.
- **Registered Education Savings Plans (RESP)** are long-term savings plans that help Canadians save for a child's post-secondary education. The government contributes to the plan through grants, and the money grows tax deferred.
- **Registered Retirement Savings Plans (RRSP)** are tax advantaged accounts to help Canadians save for retirement. The contributions are tax deductible, which can lower your tax bill. Withdrawals are taxable but ideally at a lower tax rate during retirement.

It's never too late to start saving for the future but, those who start early have the benefit of compound interest to maximize growth over time.

5. **Understanding Credit and Building a Good Score**
   Why it Matters: Your credit score affects your ability to borrow money, rent property, and even secure certain jobs.

   Did you Know? A credit score above **760** is generally considered excellent and can help you qualify for the best interest rates on loans and mortgages. Keep track of your credit score through free credit monitoring services like Credit Karma.

   Factors that contribute to your credit score:

   - **Payment History (35%):** Late payments, bankruptcies, collections, and judgements. Always pay your bills on time.
   - **Credit utilization (30%):** Keep credit card balances below 30% of your credit limit.
   - **Length of Credit History (15%):** How long have accounts been opened and established. Maintain older accounts where possible.
   - **Credit Mix (10%):** Credit cards, bank loans, etc. Keep a mix of credit types.
   - **New Credit Applications (10%):** Avoid opening too many accounts in a short time.

6. **Investing: Growing your Wealth**
   Why it Matters: Investing protects you from inflation and builds wealth over time.

   Investing is a long-term strategy to grow and protect your wealth and achieve financial independence. It's easy to be intimidated by the world of investing but **start simple** by making sure to take advantage of your workplace retirement plan, including any employer matching.

Learn the basics by familiarizing yourself with these key investing concepts:

- **Risk vs. Reward:** Higher returns typically come with higher risks. Understanding your risk tolerance is key.
- **Time Horizon:** The longer you stay invested, the more you can benefit from compound growth. Even small contributions can grow significantly over time.
- **Diversification:** Spreading your investments across different asset classes, industries, and geographic regions reduces risk.
- **Asset Allocation:** Determine the right mix of asset classes (stocks, bonds, cash) based on your financial goals, risk tolerance, and time horizon. Conservative investors will likely hold more bonds and fewer stocks. Growth investors will likely hold more stocks and fewer bonds while balanced investors will hold an equal mix of both.

Did You Know? Warren Buffett recommends index funds for most investors because they provide broad market exposure with low fees.

7. **Protecting Your Financial Wellness**

Why it Matters: Unexpected events can serious impact your finances. Protection helps mitigate risks.

How to protect yourself:

- **Get Insurance:** Health, auto, home/renters, life, and disability insurance are important.
- **Create a will:** Ensure your assets are protected and distributed according to your wishes.
- **Monitor Accounts:** Learn about fraud prevention and monitor accounts for suspicious activity.

Achieving financial wellness is a journey that starts with understanding the basics. By mastering budgeting, saving, managing debt, and planning for the future, you'll build a solid foundation for financial success.

If you struggle with sticking to a planned budget, have unmanageable debt, or want to improve your relationship with money and feel in control of your financial future, Resolve Counselling has accredited & certified financial counsellors that can help you on your financial wellness journey. Don't wait, book your 20-minute FREE assessment today to see what program best fits your needs and your budget. Your future self will thank you!

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