Spring Clean Your Finances

That's what all SME owners and their employees should personally be doing now so they're not left hanging out to dry, says independent financial advisor Greg Pogonowski.

So that's it, the holidays are long gone, the presents unwrapped and all of that lovely food polished off. If you've spent a little too much money over the holiday period, now is a great time to get your finances back in check. Here are 11 top tips to help you banish your debt for good:

1 Get better at budgeting. First things first, if you've got yourself into a bit of a financial pickle, you need to sit down and draw up a budget so you know exactly where all of your money is going. All you need to do is work out how much income you have and how much your outgoings are. You can then categorise your transactions so you know exactly what you're spending where. If your outgoings are pretty extensive, you'll need to make some cutbacks to reduce them and free up a bit of cash. A good idea is to set yourself a budget for various different categories (such as petrol and food, savings, and so on). Once you've done that, you can start throwing your spare cash towards your debt.

2 Keep records. If you've lost track of how much you owe and have no idea how you ended up in debt, you're probably overspending. Losing track of what you're spending where is not a good idea, especially if you're spending large amounts. It indicates you've really got no control over your finances.

3 Don't be tempted by "consolidation loans". If you're borrowing more to pay off your debts, then don't. Borrowing more and getting further into debt to meet your other debt payments is a dangerous path to follow. Equally, if you're taking money out on your credit cards just to cover monthly payments on other debts, you could find yourself in serious trouble in the future. Avoid this at all costs. If you have no idea what your budget is and you're spending more than you earn each month, or you're not sure whether your income is covering your expenses, you could be in serious trouble.

4 Pay more than the minimum. If you've got a lot of debt sitting on a credit card, try and pay off more than the minimum monthly repayment each month. You can use all of the spare cash from tip 1 to do this! This is because the minimum payment on credit cards is usually set very low – often as low as 2% of your total card debt – and typically it will take more than 15 years on $1,000 of debt to pay off your balance! What's more, if your credit card is charging you a hefty rate of interest at the same time, the amount of interest you'll be forking out overall will be far greater too, as you will be paying interest on interest. Even just making an extra payment of $10 a month can significantly reduce the time it takes to pay off the debt in full as well as the amount of interest you'll be paying overall. To ensure you avoid this trap, set up a standing order and pay a fixed amount on top of the minimum monthly repayment each month.

5 Learn how to snowball. We may have already seen a lot of snow this winter in other countries but, actually, this next tip has nothing to do with building snowmen. Snowballing is a great technique to use if you're struggling to get all of your credit card debts onto the best interest rate deals. All you need to do is work out which of your credit card debts is charging the most interest. This is the debt that will grow at the fastest rate so it's also the one you need to focus on first. Keep paying the minimum monthly repayments on all of your other borrowings and put any spare cash towards the most expensive debt. Once you've successfully paid off this debt, move onto the next most expensive debt and so on. Leave your lowest interest rate debt until last. This is a really effective way of tackling your debts and clearing them more quickly (as well as reducing the amount of interest you'll have to pay).

6 Use cash. If you regularly use your credit cards to pay for necessities such as food or petrol and can't afford to clear the balance each month, your debts will continue to build up and put more strain on your finances. Try to stop using your cards and simply take cash out of your bank account; if you only spend what you have, you cannot go into debt. This may be hard to do at first, as you may "run out of money" before you get your next pay cheque, but the longer you can manage into each month the better. I have found if I only have so much left in my wallet, I tend not to spend it because I will have "nothing" left – see how you do.

7 Be punctual. If you regularly fail to make your bill payments on time, your cheques get returned, or you overspend on your credit cards or overdraft, you'll incur extra fees and charges from your bank. This will drive you further into debt and could also damage your credit rating. Take control – only you can do it.

8 Save! If you're unable to put even a little money aside into a savings account each month because your debts are too high, that's not a good sign. Having said that, it is usually wise to pay off your debts before starting to save – so it's the right strategy, but don't be half hearted about it; it's a sign that you are struggling. All too often people say "I'll pay this off first and then save" – they never do. Start saving at the same time as you manage your debt. You should always "pay yourself first."

9 Don't neglect your retirement. Starting a pension early is a wise move because your investments have many more years in which to grow than they would do if you were making contributions close to your retirement. So if you've been putting off starting a pension, or you've not been paying into it quite s much as you should be, don't neglect it any longer.

Greg Pogonowski, Independent financial advisor

If you have an insurance policy, don't simply renew it without checking to see what else is out there. Insurers have a tendency to increase premiums for existing policyholders, so even if you think you're still getting a good deal, you're probably not

10 Don't underinsure yourself. It can be very easy to underestimate how much insurance you need. But if you do underestimate the full cost, your insurer will not pay the full amount. For example, if you insure your contents for, say, $20,000 and they cost $40,000 to replace, in the event of a claim your insurer will say you only insured for 50% of the value so we will only pay $10,000 (50% of the insured amount). Imagine how this could affect your business if you lost your stock? Similarly, make sure you don't underestimate how much life cover you need, as you and your family, and your business should survive if you die or are disabled.

11 Don't automatically renew your insurance policies. If you have an insurance policy that's about to run out, don't simply renew it without checking to see what else is out there first. Insurers have a tendency to increase premiums for existing policyholders, so even if you think you're still getting a good deal, you're probably not.

In conclusion, if you want to save yourself a bit of cash this year, make sure you shop around for options before signing on the dotted line. Or seek the advice of a qualified adviser. ■

ABOUT:

Greg Pogonowski – DipPFS, MAQ, CertCII(MP), MDRT, is an independent financial advisor with over 26 years experience in the financial services profession and works with Pinnacle Asset & Wealth Management.

He can be contacted by email at: *greg@youmoney-matters.com* or telephone: +971 (0) 50 876 9035.