Common money myths and six steps to better finances

Don't let common money myths stand in the way of pursuing your financial goals. Just because a belief is widespread doesn't mean it's true. Some of these money myths may be sidetracking your financial success.

Myth 1

Money management strategies are only for the rich.
They are not just for the rich – anyone can benefit from basic financial strategies, such as budgeting, regular investment plans and debt management.

Myth 2

I'm too young to plan my finances.
It's never too early. Even children can benefit from simple money management strategies.

Myth 3

Planning for the future is all about planning for retirement.
While planning for retirement is an important goal, planning for other goals, such as buying a house, starting your own business, sending a child to college or university, or making sure your family is provided for should you die or become disabled, are also important to you and your family's financial future.

Myth 4

Life insurance coverage should equal five times your salary.
Not necessarily. Your life insurance coverage should be based on your personal situation and your family's financial needs.

Myth 5

Everyone should save 10% of their salary for retirement.
That's a good rule of thumb, but it depends on your situation and goals. When you are young and getting an early start on your retirement savings, 10% may be sufficient. If you are older and are just starting to save for retirement, you may need to put away significantly more. But remember, any amount you save for retirement will help.

Myth 6

I'll only need 75% of my pre-retirement income during retirement.
While it's a common rule of thumb to figure that you'll need at least 75% of your pre-retirement income during retirement, many people need more to be able to enjoy the retirement lifestyle they want.

Follow these six steps to get on your way to a better financial life:

Set Goals.
Think about what you are saving for. A new home, post-secondary education for the kids, your retirement – having clear goals in mind and a time frame for reaching them can help you stay focused.

Design a Spending Plan.
Before you come up with a plan, figure out your actual income and expenses. Your chequebook or bank statement can help. Once you know where your money is going, sit down with a financial professional and work out a spending plan. Be sure to earmark money for savings.

Determine Your Net Worth.
Your net worth – your assets minus your debts – is a snapshot of your finances at any given time. Net worth is constantly changing, so you and your financial professional should do the calculations annually, or whenever there has been a major change in your financial picture.

Establish an Emergency Fund.
An unexpected expense can wreak havoc on your finances if you are not prepared. Keep at least three to six months' worth of living expenses in an account that allows you to access the money quickly and without penalty.

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Pay Down Debt.
Paying off high-interest credit cards brings automatic savings, since eliminating your balance means you won't be paying out all that money in interest. As you pay down your cards, start putting the extra money into a savings or investment account.

Follow an Investment Strategy.
Your financial professional can help you choose investments for your portfolio based on your goals, risk tolerance, and time frame. Make sure you review performance at least once a year and make any necessary changes to your asset mix.

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For more information, speak with your BMO financial professional.

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