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A simple way to save

Consolidating your bills and debts will help you regain control of your money and save you a bundle at the same time

By MoneySense staff | Online only, 22/08/12

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Let's face it—life is busy. Between work, kids, friends and paying bills, things get pretty hectic. Yet we have a tendency to add to that pressure by complicating things that should be kept simple. Finances are a perfect example. In a strange way we feel the more we spread our money across several accounts, the more control we have over it. But nothing could be further from the truth.

The best way to gain control of your money is to streamline your bank accounts and bill payments. By consolidating your accounts you accomplish two key things: you simplify the day-to-day routine of your family's finances, and you clear the way to reach your financial goals faster. "Having too many accounts at various banks is distracting," says Scott Plaskett, senior financial planner and CEO of Ironshield Financial Planning in Toronto. "It's like a mosquito that buzzes around your head and then starts gnawing at you until you do something about it."

In fact, the more your finances are spread between financial institutions, the more likely you are to be inundated by needless paperwork. And while you deal with that distraction you become susceptible to costly mistakes, like paying a bill late or writing a cheque on the wrong account and getting slapped with overdraft fees. "With so many different accounts, no one has a clear picture of what it costs to run the household," says Diane Dekanic, a certified financial planner and owner of Financial Health Management in Calgary. "You only see one puzzle piece, never the whole puzzle. So you miss out on the benefits that consolidation brings, like saving on fees, better rates for your outstanding debt and a clearer picture of whether you're really meeting your financial goals."

The easiest place to start consolidating is with your bank accounts—especially if you use several different financial institutions. Consider moving your money to just one of them, one that's closest to where you live or work. For most couples, three bank accounts is enough—a joint account for household expenses like the mortgage, property taxes or rent, a joint savings account that is set up to automatically transfer money into your TFSAs or RRSPs and one account for day-to-day expenses that can be accessed through

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an ATM. That’s it. Keeping it simple is critical; it will help you track where your money is going and it will keep a lid on fees, service charges and other costs.

Before choosing your account, ask yourself some key questions. Does the account have monthly maintenance fees? Does it have a required minimum balance before fees are charged? Is free online bill payment an option? Is there an ATM that’s conveniently located for your needs? If you’re satisfied with the answers, you’ll have found the right account.

Use this same approach with your investment accounts. For instance, if you’re the type of person who dashes into the bank every February to make a last-minute RRSP contribution, chances are you have several RRSPs at different banks stuffed with mutual funds that were the flavour of the month when you bought them. “If you have $200,000 or less, then you will benefit from having your RRSPs, TFSAs and other investments all at the same financial institution,” says Dekanic. “That allows you to see the big picture and to avoid duplication. If you have bits and pieces all over, you can’t see what your asset allocation really is. Your investment returns will suffer and you’ll feel frustrated.”

Using only one financial institution for all your investments also allows you to build a solid relationship with an adviser who can oversee your total financial picture. This makes it easier to track your annual returns and make better decisions. “Then it’s quick and easy to discuss any changes you want to make with your adviser,” says Dekanic. “Then all you have to do is sit down one day a year and calculate your returns and fees.”

Consolidating your savings accounts will also help you take control of your debt. If you’re struggling to make payments and you have no idea how much you owe, it probably means two things: you’re

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losing sleep at night, and it may be time to consider a consolidation loan. By simply grouping together what you owe, you can track your debt better, keep a lid on interest charges and pay it off faster with a single monthly payment. “If you can get all of your debt into one easy monthly payment with a decent interest rate, that’s a good thing,” says Debbie Gillis, credit counseling manager of K3C Credit Counselling in Kingston, Ont. “It will also help restore your credit score if you make that payment diligently for a year or more and don’t seek out any more credit.”

But remember, to make this strategy work, you have to be determined not to get into debt again. When all is said and done, debt consolidation is only a means to an end. “Don’t kid yourself,” says Gillis. “You haven’t eliminated the debt. You’ve just restructured it. But it’s a great opportunity if you’re determined to get out of debt faster.”
To do that, consider cutting back on discretionary expenses such as restaurant meals and travel, as well as consolidating some of your bill payments to save on fees. For instance, bundling services like phone, TV and internet can help lower your monthly bill. Also consider combining your house and auto insurance with one company. That alone can save you up to 15% on your total insurance bill. As well, couples should have both names on the insurance policy. “There’s less risk associated with couples because if one of you loses your job, there’s usually still an income stream coming into the home from the other partner,” says Heather Franklin, a CFP in Toronto. “I counselled a married friend of mine to do this and it saved them $1,000 on their insurance premiums.”

To learn more about how consolidation can help you save money, talk to your financial adviser.

Consolidation Checklist

By consolidating the following items into fewer accounts, loans or service providers, you can save money on fees and simplify your life. “Be patient,” says Debbie Gillis, a credit counselling manager in Kingston, Ont. “It takes time, but you will be successful.” As part of your financial plan, check them off as you consolidate them.

◇ Bank accounts (chequing, savings)
◇ Investment accounts
◇ Car loans
◇ Credit card debt
◇ Student loans
◇ Phone/TV/internet services
◇ Home/car insurance

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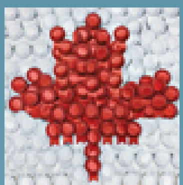

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