How to reach your money goals

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Financial goals can be very exciting and motivating. Aiming to be debt free, dreaming about a new car or your first home makes you feel empowered and motivated. The key is to have a plan that will get you there…

How to be debt free

(Also read "Free yourself from debt")

Destroy: Start by destroying all your plastic money — such as clothing cards — and then plan to settle your existing debt.

Build: Draw up a budget; this is an excellent way to see how much you need to spend and on what. By itemizing expenses you come to terms with what you are actually spending your money on and are able to determine whether you should really be spending your money in this way – are these necessities or luxuries? Be strict; include all those chocolate bars and coffees that you believe are essential to get you through the day.

Streamline: Try to cut back on what you are spending — eliminate the waste and instead put that extra money into settling your debt.

Focus: Target one debt at a time and start with your smallest debt. This way you will feel the rewards of your labour quicker. Imagine opening your clothing account bill and it shows a zero balance! The money you are no longer paying on your store card you now use to target your next debt and so on — like a dominoes effect they will all fall down.

How to afford your new car

(Also read "Smart money buys used")

Save don't borrow: First of all make sure that you have eliminated or at least cut down on other debt. Start to save so that you have a healthy deposit which will reduce the amount you have to borrow and finance.

The plan: Calculate how much you can afford to repay each month and save that amount each month for a year. By then you would have saved a 20 percent deposit on your new car. On a R100 000 car a 20 percent deposit will save you R400 a month in instalments and R5000 in interest. If you can't find the money to save, you can't afford the car.

Running costs: When assessing how much you can afford each month remember to include insurance, petrol and maintenance costs.

How to become a home owner

Saving your deposit: You are going to need a deposit — so start saving. Consider inflation beating investment options such as unit trust funds. If you are not a disciplined saver, or if you feel more comfortable having a minimum guaranteed return, then consider an endowment as an option. Not all endowments offer guarantees and they do come at a cost — so make sure that you understand what you are getting and that it is value for money.

Get credit healthy: Remember that in terms of the National Credit Act it is necessary for the financial institution to do a full credit assessment on the applicant. This means you have to have a clean credit record and do not already have too much other debt. The ability to pay the loan is important — the more debt you have the less disposable income you will have to be able to repay the loan. So keep debt to a minimum, this will place you in a better position to obtain finance for those purchases few of us can afford to pay for in cash — a home and a car.

(Click here to read "Improve your credit score")

Shop around: Make sure that you shop around when it comes to the bond provider — the lower the interest rate the less that you pay over the loan period. If you are able to pay in more (even if it is just a little more) than the required instalment you can reduce the loan term and save money in the long run. If you pay in 10 percent extra a month you reduce your 20 year home loan to 15 years.

Protection: Once you have your home remember to protect it — your dependants need a roof over their heads irrespective of what may happen. Ensure that you have life cover in place should you die prematurely, before the bond has been settled.

Buy a lotto ticket, play the horses… or if you truly wish to become a millionaire… plan, save and make your savings work for you. If you think it is impossible consider this: according to the banks, customers on average spend R5000 per month on car repayments. If you invested R5000 per month in an investment generating a 12 percent return a year you would be a millionaire in just 10 years!

Have a plan: People generally do not become millionaires by accident — it requires planning, foresight and insight — so find yourself a creditable financial adviser to partner you on the journey and to assist you with making the dream a reality. There are a number of savings vehicles on the market, with a range of benefits (including tax benefits) and costs associated with them so you need an expert to advise you to ensure that you make the right decisions which will enable you to meet your goal sooner rather than later.

Beat inflation: Money in the bank is not going to do it over the long term. Also, the sooner you start the more likely your dream will be achieved — the power of compound interest is truly remarkable.

(Also read "Why RAs rule (despite costs)")

Save through tax: Consider tax efficient savings vehicles — do not underestimate the benefit of retirement funds, in terms of which you may get a tax deduction on the contributions you make, and in addition no tax at all is levied on the growth — which makes it a real win.

Preserve: If you should change jobs make sure that you preserve your benefits instead of cashing them in — you save the tax that you would have paid had you cashed them in, your growth remains tax free and due to the nature of retirement funds because the benefits are not freely accessible you are prevented from squandering the funds.