TRG BLOG

#1 Most Powerful Financial Technique Known to Man is Surprisingly Simple

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Have I got your attention now? Excellent. It's a bold statement I know so let me explain…

I think we can all agree that it's human nature for our wants and desires to outstrip our means and resources. Plainly put, we want more than we can have. It's an almost universal impulse, regardless of income. It may be surprising, but so called rich people often have severe financial issues. The fabulously wealthy rock star or athlete who winds up broke is a well-known trope. As a wise man once told me, "Don't tell me how much money someone makes, tell me how much they spend."

Spending, ah yes. An activity in which most of us are quite skilled. We often spend money before we've received it. At least that's the case with credit cards and lines of credit. Even so, most of our money is already earmarked for the common expenses that underpin our lives like the mortgage or rent, childcare costs, and car or other transportation bills. Then there's food, and heat, and insurance. There're also the ever-increasing cell phone and internet bills, along with the kids' sports fees, their orthodontic fees, school fundraising obligations, and so on. And that does it for the paycheque…gone.

Clearly, we don't have a problem being mindful and living in the present when it comes to spending. The problem is that at the end of a long list of demands on our money there is often little to nothing left to put away for retirement…you know, that event that always seems far into the future, until it's right on our doorstep? It's a situation that needs to turn on its head.

With that in mind, did you notice what was missing from that long list of bills? It's your taxes, and I don't mean property tax. I mean income tax, and Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums and, in some provinces, medical plan premiums. We don't think of these as expenses in the same way as the previously mentioned bills except in fact, they are.

For most employees, this is because your income taxes and CPP and EI contributions get paid first, right off the top of your gross income by payroll deduction. Next in line is usually the mortgage or rent, then perhaps your car loan or childcare provider, right on down the line to your retirement savings plan at the bottom. We seem to think contributing to a retirement plan is optional or discretionary because, well, strictly speaking, it is. But it's also a fool's paradise.

Ensuring there will be a roof over our heads and food on the table when we retire should not be a lower priority than paying taxes. What we don't see or have direct access to we cannot spend. So set up a payroll deduction or a direct debit from your bank account and pay yourself first, or at least second, right behind the government.