Guide to Planning Major Purchases and Managing Credit

Do You Control Your Spending Or Does Your Spending Control You?
Imbalances between what we want and what we can afford tend to happen gradually as we get into unsustainable spend-and-borrow cycles. At the same time it is easy to lose sight of life's bigger goals as we focus on the day-to-day task of making ends meet. It doesn't have to be this way. The first place to start to get your spending, earning and borrowing to where you want them to be, is to take an honest look at your current situation and your goals.

Is Your Spending Under Control?
The first step to the future is to know where you stand right now.

Take the 'Wise Spending' test.

- I have a home mortgage
- I have a car loan or personal lease
- I have a personal line of credit
- I have more than one personal credit card
- I currently have a combined outstanding balance of more than US3,000 on my credit card
- I save less than 10 percent of my income each year
- I am too young to have a retirement plan
- I want to have a boat, second home or extended trip in the near future
- I have one or more children who will be attending college or university
- I am still paying off a student loan
- I am planning a home renovation in the next two years.

If you ticked six or more of these, then your spending may be controlling you, rather than the other way around. You may also be at risk of not being able to afford some of the big demands in your future including your recreational pursuits, hobbies, your child's education and your retirement.

SAVE OR BORROW – WHAT'S YOUR PLAN?
With your goals and a timetable you can now put together a plan that optimizes a mix of borrowing and saving to finance major expenditures. While borrowing to finance major purchases can make sense, you can reduce the financial burden by starting a savings and investing plan now. To get an idea of what you will need to invest or borrow, work backwards from your target date and your goal. The following examples illustrate several common scenarios.

SCENARIO ONE:
I need $20,000 this year for a home renovation.
Because you need a significant amount of money soon, you will either have to borrow or invest to achieve a fairly quick capital gain. This second option is relatively risky and could fail to get you to your goal. Talk to your Sagicor Advisor about your short-term options.

SCENARIO TWO:
We need $200,000 for a second home in 12 years.
With some years to plan, you might be able to assemble a sizable deposit in 12 years. Just $400 per month for 12 years, even at a conservative six percent rate of return, will provide almost $91,000 for your deposit. Improve that rate of return by just 2 percent, and you'll be half way there. Add a mortgage of $97,000 and your dream home is yours!

SCENARIO THREE:
Our family needs $10,000 for a family trip next year.
Since the timeframe is short, consider diverting some funds away from another expenditure and stepping up your savings plan for the year. Try to put away a few hundred dollars each month and then use a line of credit or your credit card for the remainder. Avoid putting the whole trip on your credit card if it will take you more than a few months to pay off.

AN INFORMED BORROWER IS A GOOD BORROWER

Need help navigating the credit landscape? There are four general sources of credit that each can play a role in your financial plan – if they are used wisely.

Credit Cards

Credit cards are ideal for short-term spending needs, especially if you pay off your balance each month – which gives you, in effect, an interest free loan. For major purchases, however, the higher interest rates of credit cards make them unattractive relative to personal or home improvements loans.

Line of Credit

A line of credit offers access to a pre-determined amount of cash when you need it. You pay interest only if you use it and only on the portion that you use. Interest rates on a line of credit are lower than most other forms of credit, making it a good choice if you're going to carry a balance for more than a few months.

Personal Loans

A personal loan allows you to borrow a specific amount and repay it over a specific period. Interest rates tend to be higher than those charged on a line of credit, but lower than those charged on credit cards.

Increasing Your Mortgage

If you have equity in your home – i.e. the current market value of your home is more than what you owe on it – you may be able to add to your mortgage to pay for renovations.
Your Sagicor Advisor can provide you with full details.

WHAT YOUR SAGICOR ADVISOR CAN DO

Your Sagicor Advisor can work with you to ensure that your priority saving and investing needs are being met and that you have a sensible plan in place for other major purchases. They will then work with you to help secure the right borrowing and investing solutions to meet your needs.