common money mistakes to avoid

It's never too late to get ahead of the game, especially when it comes to money-related errors which could cost you and your family.

From not being adequately prepared to over-stressing about minute matters, finance can be a hassle to manage. This is especially so when you have your children's future and well-being in mind. It's best to start early and develop a thorough plan for every aspect of your family's projected expenditure and needs. Here are some common money-related faux pas made by families and tips on how you can better manage your finances.

Choosing card over cash

The convenience of being able to swipe your credit card instead of constantly visiting an ATM or be bogged down by dozens of coins and crumpled notes is pretty obvious. However, paying with cash actually helps to keep the pain of paying at the back of your mind, preventing you from only thinking about the immediate benefits of your purchase. On the other hand, when you use your card to pay for purchases, you're essentially spending money which you haven't even obtained yet. This leads to overspending and accumulating unnecessary interest on top of your expenses.

How should finances be managed?

Because couples may come into a marriage with varying incomes, it is crucial to discuss how the money should be managed, what it should be purposed for, and who will be taking care of which expenses. Although it may be convenient to merge the household's finances completely, it comes with both pros and cons. Co-founder and CEO of Financial Alliance, Mr Vincent Ee, says, "A possible suggestion is to keep a pooled account while each retains his and her bank account; the couple can agree on the contribution rate into the pooled account and the purposes to which the money in there can be used for".

Being open with your spouse is always a plus. Keeping money-related secrets from each other will do no good, especially if you find yourself accumulating debts. It'll only lead to tension and put a strain on your marriage, as well as the situation at home. Instead, being honest and candid especially about money matters will motivate the both of you to act in each other's interest and for the benefit of the family unit in order to better handle your personal as well as household finances.

The situation for families with a sole breadwinner is even more complicated. According to Mr Ee, these individuals must be able to exert full control over how his/her dependents are spending and be able to differentiate between necessities and luxuries. This must be done while adjusting the spending accordingly and having the discipline to save despite the pressure to spend to keep the dependents satisfied.

Not having a plan B

This one is a no-brainer. You should always set aside an emergency fund which would be sufficient for at least six months of expenditure. In case of dire situations, you'll have enough to tide you over the rough patch you're going through and it will help you adjust to a major expenditure alteration. If you're unsure of how to go about starting up an emergency fund, it's best to portion out a lump sum monthly from your salary, and work towards a desired goal.

"The most productive method of saving is setting up a compulsory saving programme to save a fixed amount of income every month. Such a programme reduces the maximum limit of one's spending power right from the start, so one's lifestyle is controlled early on," Mr Ee says.

Insurance coverage is also another important factor to consider. If something tragic were to happen to you, and you don't have an insurance plan in place, your family would be left to settle all of your debts and other personal expenses, which could leave them struggling with a mountain of bills. Life insurance is the ultimate safety net for your family and dedicating enough funds to purchase a coverage plan is all about proper budgeting and planning.

Neglecting long-term savings

According to Mr Ee, it's always good to think about the long-run, no matter how far down the road it seems. You only have about 18 years to save for your children's tertiary education so it's best to start planning and saving ahead of time. Exactly how much you need to set aside for both your children's tertiary education as well as you and your spouse's retirement plans would depend on the type of education that you desire for your children, as well as the lifestyle you want to lead after retirement.

Children should be looped in on money matters as early as possible and especially once they start having their own pocket money to spend. If the right habits are cultivated from young, and parents provide a good example to follow, you won't have to worry about your child making any of these mistakes in the future.