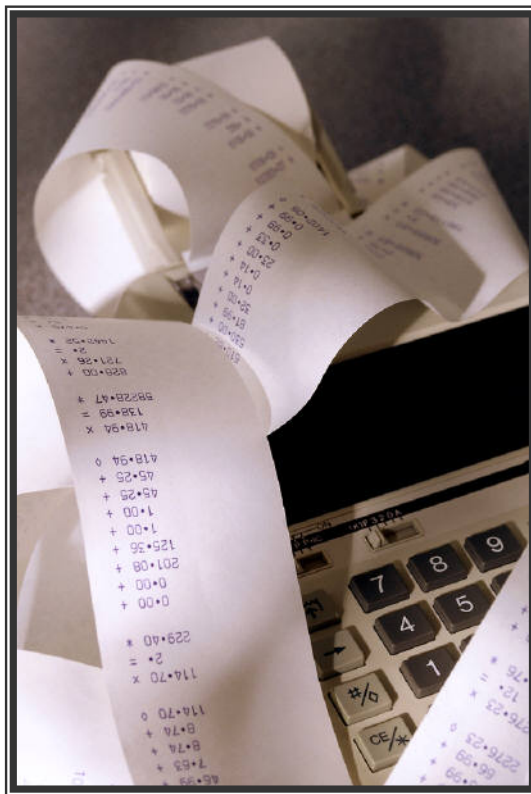


MANAGING YOUR INCOME



McCuaig & Company Inc.

WHY BUDGET?

Budgeting helps us to get the most from our hard earned money. Whether you make a little or a lot a budget is essential to financial control. Budgeting will give you an overall picture of where your money is coming from, when it's coming in and how it's being spent.

Surveys have shown that money matters are the major cause of family strife. That's why a budget is so important, especially early in married life. It helps you live sensibly. A family can earn \$40,000 a year and be in constant debt because members have lived far beyond their means. On the other hand, another family can live comfortably on \$30,000 a year. How do they do it? Simple, they are sensible about money matters.

BENEFITS OF BUDGETING....

- **Knowing what is going on.** George Eliot said "Knowledge is Power". Personal budgeting allows you to know exactly how much money you have. A budget allows you to monitor how much you're spending and how much you are saving towards your goals.
- **Control.** Want to take charge of your finances? Budgeting is the first step in doing so. With a budget you can decide what will happen to your hard earned money instead of the money controlling you!!!
- **Organization.** Budgeting provides you with records of all your spending. Without this record you can't make informed choices about where your money could be best spent. It can be the foundation for a simple filing system to organize bills and receipts etc.
- **Communication.** If you are sharing financial resources with someone then developing a budget together can help you limit personal differences about handing money. The budget allows you to communicate priorities for where you money should be spent.
- **Take Advantage of Opportunities.** Have you ever wondered if you could afford something? A budget will allow you to know the exact state of your monetary affairs and being in control of your finances allows you to take advantage of opportunities you may have missed before.
- **Extra time.** Yes, extra time. Believe it or not, once you set up a budgeting plan and way of keeping track of expenses you'll have extra time on your hands that you used to use trying to figure out how and who you were going to pay come payday. Organized finances also allow you to have answers quickly for things like loans inquiries or tax information.
- **Extra money.** A favorite benefit is that a budget will likely provide you with extra money you didn't know you had to do with what you wish. Hidden fees, interest paid, unnecessary expenditures can be eliminated or minimized. Savings, even small amounts can be made to work for you.

WHAT IS A BUDGET?

A budget is a money plan. You can organize and control your finances with it. Many people find themselves making money, spending money, and investing money without a plan to guide them. Think of yourself as a business. Would a carpenter build a house without a plan? Budgeting is about planning.

WHO SHOULD BUDGET?

Everyone! Budgeting is the key to financial control. It helps you make informed decisions about where to spend and where to cut back. No one person should be in charge of budgeting for the household everyone should be involved. Get your kids involved in your budgeting. If you can afford it, pay your children an allowance. Have them use the allowance for things they want to buy like candy, movies, toys, games, etc instead of just giving them money when they want it. Having your children pay for their own stuff with their own money will teach them at an early age how to spend wisely and helps them to realize the value of saving and achieving their own personal goals.

PLANNING YOUR BUDGET

Every family is different. The proportion of spending will fluctuate with personal preferences, localities and incomes. Items like food and housing may take less of the total income in higher income groups, while clothing and transportation may take more. If you find that you spend more than the average in any particular category, take a careful look at this expenditure. Can you cut down?

Before you start planning your budget take a moment to think about your situation. Do you expect to earn more or less in the next year? If two in the family are working now, how will you manage on one salary later? Also, consider how spending habits change as you move through life. For instance, with the first baby there is a big outlay for clothing, furniture and special food or formula. At pre-school level you might find that expenses drop, but then they rise again quickly as children move through school. As children grow so too does spending. By the time a child is 16, the cost of food, clothing and recreation is probably close to double what it was when the child was 4. Later there are even greater expenses... university and weddings.

Managing money is not that hard if you plan ahead. In the following pages you will find a workable way to budget your spending, as well as some helpful tips on how to get more out of your dollar.

HOW MUCH DO YOU EARN?

How much money do you have to manage? Consider all sources including Child Tax Benefit, Universal Child Care Benefit, Tips, and Commissions. If you earn income irregularly (i.e. seasonal or hourly wage earner) then consider what your average income is per month. Don't count things like overtime pay or that bonus you *might* get. Instead use these incomes to help contribute to your goals.

If there are two wage earners in the family stop and ask yourself if you need both salaries to meet daily expenses. Generally, it's desirable to use only 20% of the second income for this purpose. This makes good sense because if the time comes for one salary to become the sole income, you will have to learn to live on it. If you put the major portion of the second income into savings now, it will be there for you in the future.

WHERE DO YOU SPEND YOUR MONEY?

If you don't know how much you're spending, it's impossible to stick to a budget or financial plan. You need to figure out your spending habits and start keeping track of where your money goes. It is impossible to keep track of every penny but you need to know where most of it is going. Keep track of little things that can add up to a lot. For example eating lunches out, coffee purchases, and junk food. Here are some ways to keep track of spending:

- Keep receipts for all purchases;
- Use your bank statements to track where the money has been spent;
- Use a spread sheet or paper to record expenses as you go along;

Only when you know exactly where your money is going can you decide if you're spending it wisely.

CREATING YOUR BUDGET

Now that you know how much you earn and how much you spend you can put together a budget plan. Making a budget, and sticking to it can be a satisfying experience.

Attached is a form for your completion. In the first section record your expected income for the month. Column 1 describes most of the typical living expenses. Feel free to add or delete in the list as necessary. In column 2, at the beginning of the month, insert your budgeted expense for each item. When you total your expenses they should be equal to or, preferably, less than your income. Consider your expenses carefully and remember that the more you spend now the less you'll have for your personal goals (i.e. savings or vacation money). Try to include an emergency fund in your expenses.

At the end of the month, in column 3, record your actual expenses. Compare the results to your plan to see how you fared. In cases where you exceeded or fell short of your budget, determine why and use this information to set your goal for the following month.

Now that you have balanced your income with your cost of living, it is time for you to consider the reality of your personal cash flow. To accomplish this you may consider using a pay cheque planner each month. By planning your expenses by pay cheque, you will create a successful workable money management plan.

USING A PAY CHEQUE PLANNER

Record and total your income by pay period. If your spouse has income, include his or her income in the same period. Decide which monthly expenses you are going to pay each pay period, keeping in mind the date that payment is due. Subtract your expenses from the total pay period income. If you show some surplus funds in any pay period, they should be set aside to cover irregular expenses which may occur at another time. Other than adjustments due to changing circumstances, once you have developed a pay cheque planner that works well budgeting will be a snap. Simply pull out the planner each payday.

RESERVE FUND FOR IRREGULAR EXPENSES

Now that you have examined your “regular monthly” expenses, it’s time to consider other expenses which appear over the course of a year. For example:

- Christmas
- Birthdays
- Holidays, children’s summer camp and other activities
- House and vehicle repairs
- Insurance premiums, if not paid on a monthly basis
- New furniture and appliances
- Membership fees
- Major medical/dental treatment not covered by insurance of provincial health plan
- Seasonal clothing

Some of the foregoing items require more cash than is available on a monthly basis; hence the need to plan ahead by saving some disposable income each month toward these. Sometimes it’s helpful to arrange these expenses over the year as best you can, so that more than one don’t “come due” at the same time.

EVALUATING YOUR PLAN

From time to time you’ll need to review your plan. Is it still helping you meet your needs and achieve your goals? Are you satisfied with how you spend your money?

Setting Goals

Tips on Setting Goals:

- Be Specific – Don’t think “I want a vacation” instead think “I want to vacation in PEI for a week camping and it will cost \$600”;
- Write your goals down;
- Share your goals with your family and friends and ask for their support;
- Plan a step by step procedure;
- Stop procrastinating – instead of saying “I’ll do it when I can afford it” say “What can I do to afford it”.

Short Term Goals – up to 12 months

- Develop a balanced budget – be honest and factual. Don’t guess what you’ll spend on any one item. Find out. Itemize everything. It’s easy to keep track of mortgage, power, phone etc and to merely guess on things like groceries and clothing. Don’t guess.

Intermediate Goals – 1-3 years

- Establish an emergency fund (at least 3 months of income)
- New vehicle – if you know your vehicle is getting “long in the tooth” start researching now on what to buy and what it will likely cost. Be sure you can actually afford the vehicle you want;
- Vacation – Sometimes vacations leave you with a financial hole that defeats the purpose of the vacation (to relax). Start setting aside money now for vacation plans and make sure not to plan a vacation that is beyond your means.

Long Term Goals – over 3 years

- Children’s Education – Look at the value of RESP’s – talk to your banker and do some research before deciding which savings plan is the right one for your needs.
- Buying a home – Be sure your dream home can be supported by your income. When budgeting and planning for what you could afford be sure to include all the costs of a home including upkeep, repairs, power etc.

GETTING MORE FROM YOUR SHOPPING DOLLAR

- **Make a list.** When food shopping a list cuts down on “impulse” buying. A list saves time and helps prevent repeated trips to the store to pick up what you forgot last time.
- **Check the ads.** Weekly food advertisements list specials - many are “loss leaders” selling at cost.
- **Shop only once a week** and save money. The more often you visit a store, the more money you spend on impulse buys.
- **Check lower priced brands.** Less well known brands are often cheaper than nationally advertised brands and can be equally as good.
- **Check the lower shelves.** In most stores less expensive brands are stocked on lower shelves - more expensive items on the easy to reach shelves.
- **Buy seconds.** They’re usually a lot lower in price and prove a good buy as long as the flaw doesn’t affect the wearing quality.
- **Compare.** Particularly on major purchases compare quality and price in various stores. Just be sure that the item carries the manufacturer’s guarantee.
- **Buy the basic model.** Basic models in appliances are your best buy; deluxe are only fancier in automated features and cost more to repair.
- **Examine your needs.** Don’t waste your money on something that is not large enough, strong enough or suitable to your family.

FIVE MORE WAYS TO STRETCH YOUR DOLLAR:

- **Save money on lunches**

A simple and easy way to save money every day is to **pack and bring your own lunch** to school or work with you a few days a week. If you bring leftovers from last night's dinner, your savings are doubled, as you are using food that probably would have been thrown out anyway. Even if you manage to bring your lunch only one day a week, you can save anywhere from \$250 to \$1,000 per year.

- **Buy staple items on sale**

Most of us stick to the same brands when we go shopping for groceries or toiletries. Instead of just buying one or two items at a time, **stock up** on your favorite brands the next time they are on sale. The added bonus is that you won't have to run out to the store every week because you've run out of soap or shampoo.

- **Snack smart**

Do you find yourself running to the vending machine at work everyday for a drink or a small bag of chips? By **cutting out daily excursions to the vending machine**, you'll save yourself a few of pounds as well as a quite a few dollars. Try snacking on saltine crackers, fruit, vegetables, plain popcorn, and water instead. **Buy your snacks in bulk** at the grocery store and bring them to school or work with you. If you must snack on something sweet, shop for low-fat, low-calorie snacks that are made for the health-conscious.

- **Save on entertainment**

The next time you make plans to meet your friends or to go out with your family, why not suggest something that costs a little bit less? For example, instead of meeting up at an expensive restaurant, choose a restaurant that suits

your needs but is a bit cheaper. Better yet, **have a potluck dinner** at your place. It will probably be more fun for all involved, everyone will save in the process, and you could end up with some yummy leftovers.

- **Save on utilities**

A little thought and planning can save you a tidy sum of money every month when it comes to utilities. First, **be frugal about your electricity use**. Turn off the lights when you leave the room, and don't leave the T.V. running if you're not watching it. Second, be sure you're **getting the most out of your phone company**. There is simply too much competition in the telecommunications industry these days for you to be paying anything more than discount rates for your long distance phone calls. Either switch carriers, or call up your current long distance carrier and get the best deal they are offering. Finally, make sure you're **getting the best rate from your cable company**. If you don't need premium channels, don't pay for them. However, if you happen to be a movie junkie, you can save yourself a lot of money (and energy) that you would have spent going to the movie theater or renting movies by simply signing up for a movie channel. Check the TV listings for the upcoming weekend to see what your movie channel is showing -- they generally run blockbusters on weekend nights. Instead of running out every weekend to the movie theater or renting movies, you can stay home and enjoy first-rate movies for about \$10 a month.

HOW TO AVOID IMPULSE BUYING:

- Define your needs and wants.
- Before making a purchase, check to see whether the item is on your list of needs or wants.
- If the item is not among your priorities, are you ready to change your list to include it?
- Have you included this expense in your budget? If not, what other expenses are you going to cut or reduce to balance your budget?
- Never incur an expense on the basis of a potential increase in earnings.
- Take the time to shop around and compare with similar products on the market.
- See if you have enough money in the bank to pay for the purchase.
- Do not mix up impulse buying and credit buying.
- Learn to spot pressure sales tactics and learn how to resist.

PAY CHEQUE PLANNER

Income	Pay #1	Pay #2	Pay #3	Pay #4
Salary #1				
Salary #2				
Other Income				
Family Allowance				
Total Income				
Monthly Expenses:				
Rent or Mortgage				
Groceries				
Car Payment				
Gas				
Car Insurance				
Life Insurance				
Tenant or House Ins.				
Public Transit				
Lights				
Telephone				
Water				
Cable				
Clothing				
Child Support				
Trustee Payment				
Entertainment				
Tobacco				
Medications				
Other Expenses				
Total Expenses				

MONTHLY BUDGET FOR THE MONTH OF _____, 200_____

MONTHLY INCOME

WAGE EARNER	PARTNER #1	PARTNER #2	TOTAL
Net employment income	_____	_____	_____
Net pension income (CPP, OAS, other pension)	_____	_____	_____
Employment insurance	_____	_____	_____
Social Assistance	_____	_____	_____
Child Tax benefit	_____	_____	_____
Other income	_____	_____	_____
Total "Take Home" Income			=====

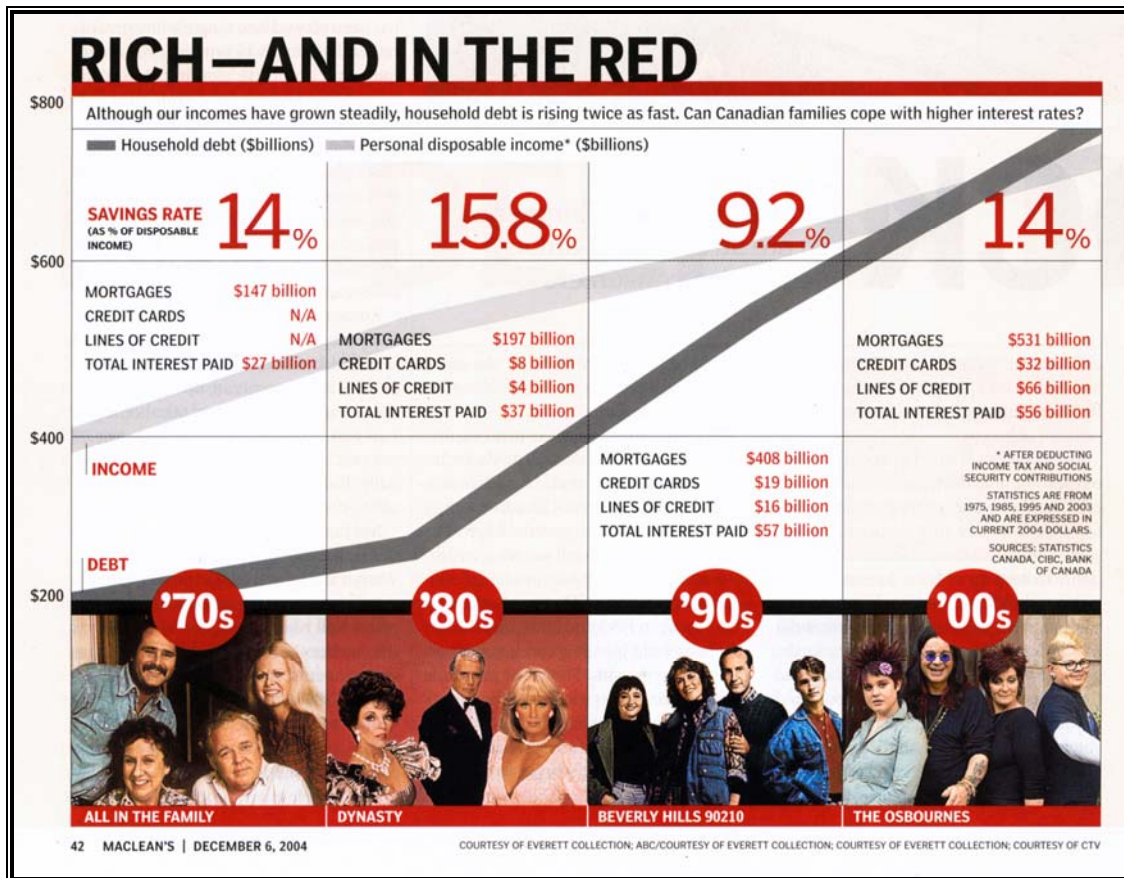
EXPENSES

	ESTIMATED	ACTUAL
FOOD include groceries & meals away from home		
HOUSING		
rent or mortgage payment + property tax		
telephone		
electricity		
fuel (oil, propane, wood)		
cable TV		
insurance		
CLOTHING		
TRANSPORTATION		
public transit		
taxis		
car operations (gas, oil, repairs)		
insurance		
motor vehicle registration		
other		
ALIMONY OR CHILD SUPPORT		
LIFE INSURANCE		
INCIDENTAL EXPENSES		
tobacco		
laundry & dry cleaning		
newspaper		
school supplies		
church offerings		
children's allowance		
student expenses		
entertainment		
miscellaneous		
PERSONAL CARE		
medical, drug, dental		
hair care		
baby-sitting		
TOTAL EXPENSES		
DISPOSABLE INCOME		

HOW TO USE CREDIT SENSIBLY

Did you know that Canadians have more credit and debit cards per capita than does any other country?

If you find that you need more money than you have, borrowing money or buying on credit may be the answer to your problem. The big decision is whether you can repay the debt and still meet living expenses. If you need credit each month to cover the shortfall in your income, then **BEWARE!!** This is probably a good sign that you're heading for financial problems. Avoid committing all of your surplus income over extended periods to debt repayment. Chances are that before the debt is repaid unexpected expenses will arise which strain the budget and hinder or delay payments to creditors. Plan before you borrow. Did you know if you have a credit card with a \$2,000 balance and a 19.8 per cent annual interest rate, and you make a payment of \$40 each month without fail, it will take you almost nine years to pay the card off in full!



Take a few minutes to study the above diagram. What is the message? It is apparent from the information displayed that over the past thirty years Canadians have traded savings for debt. While our savings have decreased by 90% in thirty years, our level of debt has risen from \$147 billion to \$629 billion which is about a 427% increase. This is staggering when you consider that the population of our country is approximately 30 million men women and children. On average, each of us (regardless of age or physical ability) is carrying about \$21,000 of debt. Can we afford this? It is interesting to note that in the 90's the total interest paid was \$57 billion and in the 2000's is has so far dropped to \$56 billion despite the increase in total debt. This is for the most part on account of declining interest rates. As long as the rate is low Canadians believe that they can service a rising debt load; however, the day may come, and it may not be too far in the future, when economic forces outside of our control force an increase in interest rates which could cripple Canadian consumers. As you move away from the time of your bankruptcy or proposal be mindful of the cost of borrowing and the benefit of having your own "nest egg" in the form of savings to fund your purchases.

Some reasons for using credit:

Worst – to purchase perishables i.e. groceries, gas, dining out

Better – to purchase items that depreciate i.e. cars, furniture

Best – to purchase items that appreciate i.e. RRSP, a home.

Advantages and Disadvantages of Credit:

Advantage – take advantage of sales or bargains

Advantage – establish a good credit rating

Disadvantage – Encourages impulse buying

Disadvantage – You tend to buy higher priced items

Disadvantage – Ties up future ability to purchase

Disadvantage – Interest and other credit charges increase the cost of the goods you are buying

Disadvantage – Ease of applying and being approved for credit can lead to financial difficulty

The following are some points to consider when making credit decisions:

- Do not mix credit buying and impulse buying.
- Never buy on credit before checking to see that you can afford to take on the new debt.
- Check to see whether your total monthly payment will exceed 10% of your net income. If your debts represent more than 15% of your net earnings, stop making credit purchases and try to reduce your level of debt.
- Check that your total debt has not exceeded 20% of your annual earnings. For example, if you earn \$25,000 you should not have more than \$5,000 debt.
- Make sure you will benefit from the item purchased for at least the period of time you will be making payments.
- Check to see whether the purchase matches one of the priorities on your list of needs or wants.
- Read and be sure you clearly understand the credit contract before you sign it.
- Shop around for credit. Interest rates may vary significantly from one financial institution to another. Remember, the interest you pay is an out of pocket expense so you should “shop around” for the best possible rate.
- Know the terms of your credit contract.
- Determine whether the debt will adversely affect your lifestyle.
- Never sign a contract with the spaces left blank.
- Try to make a fairly high down payment. This will reduce your interest costs and monthly payments.
- Keep in mind that the shorter the repayment term, the higher the monthly payment. On the other hand, if the term is longer, your monthly payment should be lower, but the total amount of interest paid will be greater. You may have to choose a longer repayment period to manage the monthly commitment; however, it comes with additional cost.
- If you make a major purchase on credit, like a car for instance, do not forget to insure this property.
- Ask yourself whether you could delay the date of your purchase so that you can pay cash or make a larger down payment.
- If you use your credit card to make a purchase, make sure you have enough money put aside to cover the expense. By paying your credit card balance when you receive your monthly statement, you avoid paying interest, which is very high on credit cards.

The preceding material is presented to you as a general guide to managing your financial affairs. If it does not address your special needs we recommend that you consult with a financial counsellor for more advice.

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