# MANAGING

# YOUR

# MONEY

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# *Managing Your Money*

## Budgeting

No matter how much you earn, you will probably never earn as much as you would like to. It seems that there are always things that you want or need and there never seems to be enough money.

With a little discipline and a well-prepared budget, you can identify where all of your money goes each month. You can then identify which expenses are reasonable and those that may be just too high.

Good budgeting is not difficult but it does require some patience and discipline. There are four steps to follow in budgeting, which are described in detail hereafter. They are:

1. Identify all of your sources of income;

2. Determine where you presently spend your money;

3. Establish a budget;

4. Monitor your progress and adjust your budget accordingly.

**Step 1:**

## Identifying your Income

The first step in budgeting is to determine how much money you have coming in each month. This may include any of the following:

- Employment Income;
- Spouse's Earnings;
- Employment Insurance;
- Worker's Compensation;
- Social Assistance;
- Child Support/Alimony Payments Received;
- Child Tax Benefit;
- GST Rebates;
- Pension Income;
- Rental Income.

Total up all of the money you actually receive each month. If you are paid every two weeks, there are some months in which you will receive three pay cheques. Use a calendar to figure out in which months this applies. Now, write down the income you expect to receive each of the next six months on the attached budget form.

**Step 2:**

## Determining Where Your Money Goes

In order to know how well you are doing with the budget you set for yourself, you have to keep track of where you are spending your money. Most people have many of the same expense categories, which we have pre-printed on the sample budget form attached, but some categories vary according to each person. The common categories include groceries, utilities, rent, vehicle expenses and clothing. The individual categories can include such items as child support payments, medical and dental, life insurance, etc. Once you have determined which expenses you incur on a regular basis, write down the category in the blank list of expense categories on your budget form.

Some expenses are the same amount each month and are therefore easy to keep track of. These can include rent, insurance, daycare, etc. Unfortunately, most expenses will vary from month to month and you will therefore have to keep a record of your spending. There are three simple ways to do that, and you can choose whichever method you find to be the easiest:

i) **The Envelope Method**

Each time you make a purchase, obtain a receipt and place it in an envelope marked specifically for expenses in that category. You will require about a dozen envelopes, one for each of the expense types you have previously identified. At the end of each month, it will be easy to determine exactly how much you spent that month on each category by simply adding all of the receipts in each envelope. Try to limit your expenses to 10-15 categories in order to keep the process simple to work with.

If you are unable to obtain a receipt, you can write the amount on a piece of paper yourself and place it in the relevant envelope. At the end of the month, you will know exactly how much you have spent on groceries, clothing, gas, etc.

ii) **The Notebook Method**

If you prefer, you can keep a notebook to record details of the amount you spend and which expense category it falls into. At the end of each month, you will be able to add up each item in each of the expense categories.

iii) **The Spreadsheet Method**

You can also use a manual or electronic spreadsheet with expense categories across the top and the days of the month down the side. Each day, you simply add any purchases to the relevant column, which can be totalled at the end of the month.

Whichever method you choose is up to you. At the end of the month, once you have totalled your spending, write down the amount spent in the column marked “actual” for the month that applies.

**Step 3:**

## Establishing a Budget

Once you have a rough idea of where your money is being spent each month, you can establish a budget. If you expect that your groceries each month will cost between $400 and $500, choose the average of $450.

After you have estimated how much you expect to spend on each category, add up all of the expenses to see if the total is over or under the available income. If you are over, you will need to reduce one or more expenses to "balance" your budget.

You cannot spend more than you bring in unless you intend to supplement your income by either drawing from savings or by borrowing. If you borrow the money, remember you will have that much less to spend next month when you must repay the loan.

Some expenses occur only once or twice a year, such as car insurance and these expenses can often be substantial. The best way to budget for this type of expenses is to put a portion away each month into a savings account. If your car insurance is $1,200 per year, you would have to put $100 per month away to ensure that you have the money set aside when it is required. Don't forget to allow for Christmas and vacations too.

If you allocate $100 per month for such expenses, and the money is put into a savings account, you will show $100 each month on the appropriate expenses category, but you will not include the $1,200 expenditure in your budget when you pay the expense from the savings account. This would be double counting of the expense.

**Step 4:**

## Monitoring and Adjusting Your Budget

After you have worked with a budget for a few months, you can revise your figures if you find that you are constantly over or under the amount you have budgeted. You will be able to see exactly where your money goes.

If your objective is to save money, or if you are surprised at how much you find you are spending, you may wish to try reducing the amount you spend. We attach some hints on how you can reduce your expenses by shopping wisely and a list of some good books that you may want to consider reading, many of which are available at the library.

Your budget should change as your earnings change or as your family grows. You should be prepared to be flexible in budgeting. Your expenses change frequently, therefore, so must your budget. Don't forget to allow for those unexpected expenses. You can never anticipate when your car may need a repair or when your child may need dental work. It always pays to save a small amount each month just in case you have an emergency. Try it for a while and see how it goes.

Good luck!!

# BUDGET TEMPLATE

| | Month 1 | | Month 2 | | Month 3 | | Month 4 | | Month 5 | | Month 6 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| **Monthly Income** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **Monthly Expenses** | | | | | | | | | | | | |
| Rent/Mortgage | | | | | | | | | | | | |
| Utilities & Telephone | | | | | | | | | | | | |
| Groceries / Household Supplies | | | | | | | | | | | | |
| Clothing | | | | | | | | | | | | |
| Entertainment | | | | | | | | | | | | |
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| **Total Expenses** | | | | | | | | | | | | |
| **Balance Left Over** | | | | | | | | | | | | |

## **Sample Budget Categories**

| **Category** | Description |
|---|---|
| Allowances | Allowances paid to your children |
| Automobile | Auto expenses including gas, repairs, payments, etc. (but not insurance). |
| Bank Charges | Bank service charges & interest |
| Car Insurance | Car insurance expenses |
| Charity | Charitable contributions |
| Child Care | Day care expenses & babysitting |
| Children | Children's expenses including toys, clothing, etc. |
| Clothing | Clothing expenses |
| Eating Out | Dining out expenses |
| Education | School expenses |
| Entertainment | Entertainment expenses for movies, cable TV, video rentals, etc. |
| Gifts | Birthdays, Christmas, etc. |
| Groceries & Supplies | Food and household products |
| Home Repair | Home repair expenses |
| Insurance | Health insurance, home insurance & life insurance premiums |
| Loan Payments | Monthly payments on a vehicle or other loan |
| Medical | Medical and Dental expenses |
| Miscellaneous | Miscellaneous expenses that do not fit under any other category |
| Mortgage | Mortgage payments (may also include property taxes) |
| Personal | Personal expenses for cosmetics, haircuts, etc. |
| Pets | Pet expenses including food and vet bills |
| Property Taxes | Annual tax assessed on your home |
| Savings | Bank savings and emergency fund |
| Telephone | Telephone expenses |
| Transportation | Bus expenses etc. |
| Utilities | Utility expenses including gas, hydro & oil. |
| Vacation | Savings for a vacation |

## **Cost Cutting Ideas**

Groceries & Household Supplies

- Bulk buying reduces the cost per individual item;
- Flyer shopping;
- Buy a few of the items you purchase regularly when they are on sale. Some supermarket chains will match the price of an item that their competitors have on sale. Just show them their competitor's flyer with the sale price on it.
- Manufacturers discount coupons;
  These are distributed by mail, in newspapers and magazines, on store shelves beside the item and often on a rack at the front of the supermarket. These coupons can substantially reduce the cost of your groceries, particularly if you don't mind experimenting with new products.
- Store brands (no-name products);
  Many supermarket chains have their own no-name brands of everything from cereal to spaghetti sauce. These no-name brands are frequently made by the same manufacturers as the products you regularly buy, but are much cheaper than the name brands. No-name products have improved considerably in quality in recent years as their popularity has increased.
- Mail-in refunds;
  Manufacturers will often rebate a portion of the cost of an item to encourage you to try it.

Insurance

You can often save a considerable amount of money by increasing the cost of your deductible. If you have a good claims record, and you believe that the possibility of having to make a claim is low, consider increasing your deductible. Remember though, that if you have to file an insurance claim, you will have to come up with the cash to pay the deductible in order to have the item replaced or repaired. <u>Do no increase the deductible to an amount you cannot afford</u>.

## Purchasing Appliances & Furniture

If you plan to buy a new TV or a Washing Machine, try to allow as much time as possible to plan prior to purchasing the item. Try, at all cost, to avoid impulse buying. Many stores will "beat their competitor's price" so shop around. Buy a provincial newspaper and look at the prices advertised by stores in Vancouver for example. Your local retailer may match or beat the price. If not, you may be able to buy the item by mail or by telephone and have the store or a friend ship it to you cheaply. (Remember to insure for damage or loss in shipping!) Internet shopping is also becoming more popular.

Stores such as Sears and The Bay have things like paint, tires and furniture on sale on a regular basis. It may not be on sale when you want it, but if you can wait a month or two, it may be 25% of 50% off. The Bay often has "scratch and save" days where virtually everything in the store is at least 10% off. Many stores will also have "we pay the GST" sales.

Many retail stores are anxious to make a sale and will often "haggle" with you over the price of an item. If they are not prepared to bend on the price of an item, such as a TV, they may at least be willing to throw in a few free CDs of DVDs. Do not be afraid to ask, you will be surprised at the results. Free delivery of larger items can often be negotiated too.

## Babysitting Costs

If you want to go out to a movie or for dinner and need a babysitter, try making arrangements to have a neighbour, friend, or relative babysit for you and do the same for them when they want to go out.

## Entertainment

Many restaurants frequently offer "2 for 1" savings or low-priced specials. These are often only offered though on Monday through Thursday (their slow days).

Credit Cards

The interest charged by credit card companies varies considerably. Be wary of department store cards whose interest rate has been 28.8% for many years.

This means that for every $1,000 owed, you are charged $280.80 per year in interest. Bank card rates are generally better than those of department stores but still tend to be 16 – 18%. Trust company credit cards can be cheaper still but paying by cash or direct debit is always your best option.

## **The Danger of Delayed Payment Loans**

Many retailers now advertise the ability to delay loan payments and interest for a period of a year or more. Companies such as Sears, The Brick and various electronics stores offer such arrangements.

Many people take advantage of these kinds of plan, which allow you to obtain your purchases now, but delay payments to a future date which is often two years later.

Retailers are taking advantage of the fact that people often want the item now but cannot afford it, and believe their circumstances will be better once the first payment comes due. This often turns out not to be the case.

The financing of these arrangements is frequently carried out by lenders like Citifinancial or Wells Fargo (previously Trans Canada Credit). The interest rate on the loan is often as high as 34%, and there is also a financing charge or administration fee of $50 or more.

At 34% interest, much of the payment goes towards interest and barely touches on the principal amount of the loan. A loan of $5,000 repaid over three years at 34% would require monthly payments of $223. The total payments would equal $8,041 meaning that you paid $3,041 in interest for your $5,000 purchase.

Inquire about who carries the financing, and the interest rate, before you commit to these schemes. It would be better still to save up first and buy the item once you have enough savings to do so.

## Reference Books

There are a great many good reference books on the subject of managing money and on investments. Consult your library or bookstore to see what they have available. The internet also has many sites which contain useful information. The following is a general list of good materials we are aware of:

- The Wealthy Barber – by David Chilton
- Your Financial Security – by Sylvia Porter
- Wealth Without Risk for Canadians – by Charles J. Givens
- The Money Jar – by Grant Sylvester
- Living Well on Less – by Ellen Kunes
- Retiring Wealthy – by Gordon Pape
- How to Cope with the High Cost of Living – by Margolius & Brown
- Building Wealth – by Gordon Pape
- The Complete Idiots Guide to Personal Finances for Canadians – by McDougall & Reardon
- The Kitchen Table Money Plan – by McNeill & Collins
- How to Survive Without a Salary – by Charles Long
- Rapid Debt Reduction Strategies – by John Avanzini
- Making Money from your Mortgage – by Brian Costello
- Financial Self Confidence for the Suddenly Single (A Woman's Guide) – by Alan Unger
- Your Money and How to Keep it – by Brian Costello
- Get Money – Make Money – by Lyman McInnis
- The Money Book – by Sylvia Porter

## **The Credit Bureau**

There are a number of factors which a potential lender will consider if you apply for a loan and, in most cases, your Credit (Bureau) rating is the most important.

There are two main Credit Bureaus in Canada, however, the larger and most commonly used is operated by "Equifax", a credit reporting and collection agency utilized by many Canadian lenders  They can be reached at www.equifax.ca or 1-800-465-7166 in order to check your credit rating.

The Credit Bureaus maintain information about a bankruptcy for a six year period after discharge, at which time the information is deemed to be "dated" and should be dropped from the system.  With a Proposal, the information should be purged after three years from the completion date.  A Credit Rating is allocated to every borrower and ranges from a perfect rating of R1 to the worst rating of R9.  Filing an Assignment in Bankruptcy or filing a Proposal to Creditors under the *Bankruptcy and Insolvency Act* will automatically result in an R9 rating.  Generally, the repossession of assets, a foreclosure, or significant arrears on a loan or credit card will also do so.  In many cases, as a borrower slides toward insolvency, the credit rating follows suit and is often rated an R9 prior to any official declaration of insolvency. Due to the retention of information for a six year period (or three years for a Proposal), any improvement to a credit rating will only commence upon an Absolute Discharge from Bankruptcy or the conclusion of a Proposal to Creditors.

The Credit Bureau retains information for a longer period of time in the case of repeat Bankruptcy.

Upon your discharge from Bankruptcy or the conclusion of a Proposal, it will be necessary for you to take steps to improve your credit rating. Borrowing will generally be more difficult the worse your credit rating is, although lenders have varying degrees of tolerance to a less than perfect rating.  The mainstream banks are generally far more critical than "last resort" lenders, and this is reflected in the interest rates they charge.

Conventional lenders often charge their clients a single digit interest rate (i.e. below 10%) while lenders of last resort will often charge a rate approaching 30% and may still require collateral or a co-signer to guarantee a loan.
Lenders will generally consider your credit worthiness by the following criteria:

- Your Credit Bureau rating;
- Your income (total family income);
- Your expenses (total family expenses);
- Your past experience with that lender;
- Your general stability as measured by number of years with your employer, number of years at the same residence, etc.;
- The amount you wish to borrow and the reason for the loan;
- Their risk in lending (which may be tempered by a co-signer or the availability of collateral);
- Your presence and character.
- The cause of your financial difficulties.

Thus, while your credit rating is important, it is only one of many considerations.

In order to improve your ability to borrow and to recover from insolvency, it will be necessary to improve your credit rating. This can be achieved in many ways.

Some suggestions are as follows:

Credit Cards

While many people are fearful of credit cards, they can be a good source of information to the Credit Bureaus. Your prompt repayment of monthly credit cards bills will, over time, help to reinstate a good credit rating. Lenders are generally anxious to market their credit cards. Cards are available from banks, department stores, gas companies and a variety of other lenders.

While a variety of cards are available, one Visa card with a small limit is generally all that the average person requires.  A Visa or MasterCard can be obtained on a "secured" basis by giving the lender a sum of money to hold as collateral for the card.  A $500 deposit will provide 100% risk coverage for a card with a $500 limit, barring misuse of the card.  Such security will help to encourage a lender to issue you a credit card.

RRSPs

The purchase of RRSPs are a good way to save for retirement, and they are also one of the few tax breaks available to the average Canadian.

RRSPs are sold by many Canadian lenders and are frequently offered at very competitive interest rates.  Lenders will often be encouraged to lend you money to purchase RRSPs even if you have a poor credit rating.  If you can borrow the funds to purchase an RRSP, the prompt repayment of the loan will place a positive notation on the Credit Bureau and any resulting tax refund should allow early repayment of the loan.

If a lender is reluctant to lend you money to purchase an RRSP, try saving some money first and offering it to them as collateral for the loan.

We recommend that you meet with a lender at your choice of bank, credit union or trust company as soon as you have been discharged or have complied with your Proposal.  They will be able to advise you of their policies and what they will require from you in order to obtain their help in improving your credit rating.

Purchasing a Vehicle

Borrowing to purchase a vehicle, we believe, will often be easier than you might expect, as the car manufacturers are anxious to assist their dealers to make a sale.  Until your credit rating improves, you may require a larger down payment than normal, a co-signer or trade in, but obtaining the loan can otherwise be quite straight forward.  Leasing will often allow an even cheaper method of obtaining a vehicle.  Be cautious that you do not overbuy.  The cost of insuring and maintaining a vehicle are high and must be considered along with the loan payments.

## Purchasing a Home

In order to purchase a home, you will have to have been discharged from Bankruptcy for a period of at least two years to meet the Canada Mortgage & Housing Corporation's (CMHC) present requirements. CMHC approves and guarantees most lenders' mortgages unless you have a significant down payment. Some lenders are not required to obtain CMHC approval for a mortgage, but most prefer to have the security it offers them. It is therefore possible for you to purchase a home after you have been discharged for two years. Circumstances may be different where you filed a Proposal rather than Bankruptcy. A past foreclosure may affect your ability to obtain a further mortgage.

A mortgage broker can assist you to obtain a mortgage in many circumstances and even at lower interest rates than are offered by the banks. They are paid by the lender, in most cases, so their assistance is often free to you. It may be necessary for you to improve your credit rating by other means before a mortgage broker can assist you.

## Warning Signs

The following is a list of signs that could indicate a credit problem is pending. If you are experiencing any of these, you should immediately review your income, expenses and debts in detail to ascertain if any changes are necessary to avoid a larger problem.

- You are continually charging more to a credit card than you are paying off;
- You are consistently paying interest on a credit card;
- You have more than one credit card and are using one to make payments on the other;
- You are consistently behind on monthly payments;
- You continually go over your spending limit or you use your credit cards as a necessity rather than a convenience;
- You are making only minimum payments on your credit cards;
- You are using your overdraft most months;
- You are uncertain how much you owe in total;
- Your debts are creating anxiety or stress;
- You are considering consolidating your debts;
- You are using "Payday Loan" type advances on your pay cheques;
- You are frequently borrowing money to make it from one payday to the next;
- Your wages have been garnisheed to pay for outstanding debts;
- Creditors are calling you relative to late payments;
- Utility companies have cut off service because your bills have gone unpaid.