

Reality Choices



You and Your Money

This publication is intended to provide general information only and is not a substitute for legal advice.

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Good money managers spend within their income, plan for the future and solve financial problems. Poor money managers pay more, do without and fall behind.

If you find yourself in the second category, you can do something about it. You can learn to take charge of your finances.

A CONVERSATION ABOUT MONEY

Q. What is a spending plan?

A. A spending plan is made up of your answers to three questions:

1. Where am I now?
2. Where do I want to be?
3. How will I get there?

The most important question is “Where am I now?”

Consider:

- How much it costs you to live each month,
- Your take home income,
- Whether you are spending more than you are making, and
- If there is money left over, what you are doing with it.

When you ask yourself, “Where do I want to be?” you are working toward goal setting. Perhaps you are aiming for a nice trip in six months, buying a car right now, going back to school in a year or buying a house in five years.

Answering “How will I get there?” will define your plan — balancing spending and income and making sure you have money set aside for your goals.

Q. What if I don't want to plan my spending? I'm young and I have lots of time to think about this later.

A. If you don't want to plan your spending, your only control is your pay cheque. If you spend it all during the month, don't commit yourself to any credit payments. This isn't the best method but it should keep you out of debt.

Q. I'm making it each month so I should be okay. Is a plan really necessary?

A. Consider the following questions: Do you have a balance on your credit card(s), and are you prepared for gift-giving occasions and car insurance premiums?

Making it each month includes preparing for yearly expenses you will have, such as car insurance. The **Money Planner** (located at the end of this module) identifies some of these expenses and shows you how to fit them in your plan.

Q. Why did you ask about credit card balances?

A. If you aren't paying your credit card balances in full when they are due, you could be subsidizing your income using credit. For example, if you're carrying a balance of \$250 on your credit card every month, you could be spending \$250 a month more than you earn. If so, it could be a recipe for financial difficulties.

Q. Figuring out where I am sounds like way too much work. Why bother?

A. It can be as much work as you want it to be. Decide which spending areas you need to keep track of and then do it for a month or two. In general, the "problem" expenses are food, personal spending and the irregular annual expenses. They are a good place to start recording.

If you are just starting out, you may want to track all your spending for a couple of months.

Q. Some articles suggest I spend X percent of my income on food and Y percent on housing. Why can't I just do that?

A. Percentages don't take into account your goals, preferences and, in some cases, where you live. How you spend is about you and what you want to do. You can choose to spend less in one category and more in another (e.g. take a bus instead of buying a car, so you can do the holiday travelling you want). Percentages just don't work.

Q. What is the best advice you can give someone about planning?

A.

- Know how much it costs to live each month including your irregular annual expenses.
- Spend less than you earn; avoid using credit to subsidize your income.
- Put money away for emergencies.
- Plan what you want your money to do for you by setting goals.

SO HOW DO YOU SPEND YOUR MONEY?

- Money management starts with thinking about how and why you spend.
- Are you getting what you need and want?
- What would you like to do differently?

Complete the questionnaire below to learn more about your spending habits. If you answer NO to any of the questions, it may be time to start taking steps to managing your money more wisely.

Your Financial Check-up		Yes	No
1	Do you plan ahead and save for large expenditures?		
2	Are you planning so that you are not broke before you get your next pay cheque?		
3	Do you think that you spend a reasonable amount of money on personal items (e.g. eating out, clothes, etc.)?		
4	Are most of your purchases needed?		
5	Are you self-supporting? Do you find yourself needing to borrow money from family or friends, getting a cash advance on a credit card or using a line of credit?		
6	Do you know how much money you spend monthly on food eaten away from home?		
7	Do you make it a habit to go to more than one store to compare prices and quality before deciding on a big purchase?		
8	Can you resist buying items you don't need even though they're on sale?		
9	Are you debt free?		
10	Do you know what your usual monthly expenses are?		

(Source: Adapted from Making Your Money Count, Level 2, Manitoba Agriculture. Used with permission.)

WHERE AM I NOW?

Before you can plan, you need to know how much money you have to spend and how you are spending it now. The following sections will help you to be as accurate as possible when filling in your **Money Planner** (see page 9).

A. How much money do you have to spend?

Take home income means what is left after deductions such as income tax and employment insurance. List only regular income, not money you receive for occasional overtime or bonuses.

If you are paid on commission, or receive your income on an irregular basis, enter an average monthly amount.

B. Where does it all go?

Complete the rest of the **Money Planner** chart (see page 9). Keep these points in mind:

- Write down the amount that you actually spend, not what you think you should spend. Your cheque books, credit card records and old receipts will help you determine some of the expenses.

- Do not worry about making your income and expenses balance on the first try; that comes later. For the time being, just list your expenses as accurately as possible.

If you don't know how much you spend in a category, now is the time to keep records for that category until you have accurate figures.

Income and expenses will change throughout your life, and so will your spending plan.

WHERE DO I WANT TO BE?

Setting financial goals is a key first step to becoming a better money manager. They will help you prioritize where you want to spend your money. What do you need and want in the next few months, in the next year and in the more distant future?

For goals to really work they have to be measurable. How will you know you have reached them? Ask yourself:

- What do you want?
- How much will it cost?
- When do you want it to happen?

What do you want to do in the next 3–12 months that will cost money? Perhaps you want to pay off the \$1,000 you owe on a credit card account, buy a new sound system for \$2,000, put \$1,000 in a Registered Retirement Savings Plan (RRSP), or spend \$20,000 on a car. These qualify as your short-term goals.

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It's more difficult to be specific with long-term goals such as taking an extended vacation, going back to school or buying a home. However, it's important to be as precise as possible.

List your short-term goals:

Short-term Goal	When?	How much?
1.		
2.		
3.		

Here are some ideas that will help you think about your future:

- How is your income likely to change in the next 5, 10 and 15 years?
- Do you plan to stop working to return to school?
- Will you finish schooling and start earning more money?
- Will your family status change?
- Will you need to buy or replace furniture, major appliances or vehicles? When? How much will this cost?
- What type of housing will you need in the years to come? Will you buy or rent? How much will this cost?
- What are other probable expenses in your future?
- Are you preparing for retirement? If not, when will you begin doing so?
- How much money do you owe? In view of your income and expenses for the next few years, is your debt load too large or is it reasonable?

Long-term Goal	When?	How much?
1.		
2.		
3.		

HOW WILL I GET THERE?

Take a couple of days to think about your current situation and how you might make it better. Start by studying your completed **Money Planner**. If you continue spending your money as you are doing, will you be able to live within your income and achieve the goals you set? If you can't, what is preventing you? What can you change? Are your debts getting you down? (If this is the case, take a look at Reality Choices — **Dealing with Credit.**)

Look at every expense item on the **Money Planner** chart (see page 9). Do you want to spend more or less than you are currently spending on each item? Would you rather spend the money on something else? Amazingly, without even thinking, people often spend lots of money on things they do not value. This often means they cannot buy the things they really want. Put your money where your desire is.

Make changes

Think back to the goals you set. Often when people look closely at their financial situation, their goals change. If you want to change your goals, now is the time.

You have now finalized your goals and thought about how to make your current situation better. Change the **Money Planner** chart (see page 9) accordingly. This time, make sure that your income and expenses balance.

What if I find out I'm in debt and I can't make ends meet?

Money Mentors can help. It is a not-for-profit consumer debt counselling service that offers a number of debt repayment options. They are the only organization in Alberta legislated to provide the Orderly Payment of Debts program to Albertans.

Money Mentor's staff have specialized knowledge in family financial management and consumer debt handling strategies. They will work with you to develop the best solution for your personal situation. (See page 6.)

Making it Work – Following Your Plan

It is not necessary to do a new plan every month. Your completed **Money Planner** chart (see page 9) is a spending plan that you can follow until your income or expenses change or until you decide to change your goals. Keep the chart in a handy place so you can refer to it often.

Your first plan may not work perfectly. There are bound to be some expenses you over or underestimated. There may even be expenses you have totally overlooked. If this happens, revise your plan and try again.

A WORD ABOUT SAVINGS

Without savings, long-term goals may never happen. Is that area blank on your chart? If so, consider the changes you could make in other areas to start a regular savings plan.

If your current financial situation will not permit savings, keep them in mind for the future. This might be the case, for example, if you have decided to use as much of your income as possible to pay off debts.

EMERGENCIES

Life is never as smooth as you might like. A sudden death, a serious accident, a strike, an unexpected downturn in the economy — any of these could put a serious strain on your income. Even a small but unavoidable over-expenditure in one budget category could begin a destructive cycle of borrowing from a second category to pay the first, from a third category to pay the second, and so on.

Having an emergency fund is one way of meeting these financial challenges. Here is how to set up such a fund. First, decide the total amount of money you would like to have in your fund. A general guideline is to set aside an amount of money equal to what you would need to live on for three months.

You might need more or less than three months' living expenses; it depends on the types of emergencies you are likely to face and how much money you can count on in each case. Completing the **Emergency Fund Questions** (located at the end of this module) will help you decide. Once you have decided how much is appropriate for you, start saving monthly.

Emergency Fund Tips

- Keep your emergency fund separate from the rest of your money — no borrowing.
- Your emergency fund needs to be readily available.
- Your emergency fund must be reviewed yearly to ensure the amount is adequate.
- If you withdraw money, replace it as soon as possible.
- Use the emergency fund for emergencies only — not for car expenses, holidays or Christmas.

ANOTHER TOOL - NET WORTH

A **net worth statement** (located at the end of this module) shows you the strong and weak points in your current financial situation. It is also a way of keeping score. By comparing statements over the years, you can easily see if you are making progress toward your financial goals.

Preparing a net worth statement

Your net worth is the amount of money you would have left if you cashed in everything you own and paid off all your debts. Be as accurate as possible as you complete the chart. Net worth statements should be prepared on a yearly basis.

- If you have near cash assets that can be cashed in before they mature, record their present value — that is, their face value plus accrued interest. For other near cash assets, list their face value.
- To find the market value of corporate bonds, common shares and mutual funds, consult the financial pages of the newspaper. Call your broker if an item is not listed.
- Use the tables in life insurance policies to calculate their current cash values, or call your agent. Note that not all insurance policies have cash surrender values.
- Contact the appropriate company or financial institution to ask how much money you would receive if you cashed in your RRSP.
- If you have a pension plan at your work place, talk to someone in your personnel office. He or she should be able to tell you how much cash you would receive if you quit the plan.
- It is difficult to put an accurate market value on a home, property and collectibles. Of course, you can hire an accredited appraiser to do an evaluation, but this can be expensive.

To value your home and property, you can usually find out the asking price for similar properties in your area. Remember, though, that the asking price is rarely the final selling price. Some real estate agents offer a free market evaluation service. When you call for an appointment, tell the agent the reason you want an evaluation done.

- Check the classified ads in the newspaper to find out the asking price for cars similar to yours. Remember that the asking price is usually higher than the final selling price. You can also look in one of the guides to used car prices. The **Canadian Red Book** and the **Gold Book of Used Car Prices**, usually available in libraries, show average prices for specific models based on recent sales.
- It is also difficult to determine the value of home furnishings and recreational equipment. Although you may have paid a lot of money for these items, there is often no market for them. Do not write down what you paid for them. Estimate how much money you would receive if you sold these items. **Be conservative.**
- Do not overlook any assets. Think carefully. Do you supply your own tools or equipment at work? Do you have an annuity? Make a list of these items and attach it to your net worth statement for future reference.

The amount of money you owe is usually easy to calculate. Check your latest statements to find out how much you owe. If they are not available, contact the lenders and ask how much it would cost to pay off the debt in full. Unpaid bills, such as rent or utilities that are due or past due, should be included in your net worth statement.

Do not include bills that you know you will have to pay in the future but have not yet come due (e.g. next month's rent or your car insurance that is due four months from now).

ASSETS		
Cash		+
Investments		+
Life insurance		+
Pension plan		+
Home property		+
Collectibles		+
Vehicles		+
Furnishings		+
Tools		+
Annuity		+
DEBTS		
Credit cards		-
Rent		-
Utilities		-
Insurance		-
<hr/>		
Net Worth		=

Using your net worth statement

What does your net worth statement tell you about your current financial situation? Are you comfortable with the amount of money you owe compared to what you own? If you are not, what changes will you make? Is too much of your money tied up in depreciating assets such as cars and household furnishings? If so, what can you do to change the situation?

Taking charge of your finances seems like a lot of time and trouble, but money management never goes away. Acquiring the skills now will pay off well into the future.

Are you pleased with the amount of money you have in savings such as your RRSP, term deposits, Canada Savings Bonds? The whole idea behind preparing the statement is to identify the strengths and weaknesses in your current situation, then make plans to maintain the strengths and reduce the weaknesses.

Now, think ahead. What do you want your net worth statement to look like next year, in 5 or 10 years, or in 25 years? When you retire? These are just other ways of defining your financial goals for the future. Comparing net worth statements over the years will help you confirm that you are making the progress you planned.

FOR MORE INFORMATION

Service Alberta, Consumer Contact Centre

Edmonton: (780) 427-4088

Toll-free in Alberta: 1-877-427-4088

www.servicealberta.ca



Alberta Youth Consumer Champions -

www.facebook.com/youthconsumerchampions

Money Mentors

of Alberta (CCSA). Office are located in Edmonton,

Red Deer, Calgary, Lethbridge, and Grande Prairie

Toll-free in Alberta: 1-888-294-0076

www.moneymentors.ca

Canada's Office of Consumer Affairs

Industry Canada -

www.ic.gc.ca/eic/site/oca-bc.nsf/eng/home

Canadian Bankers Association

www.cba.ca/lang.php

REFERENCES

Other links referenced in this module

Reality Choices - [Dealing with Credit](#)

www.servicealberta.ca/561.cfm

Money Planner

Monthly Take-home Income	Amount
Wage/salary	
Wage/salary	
Pension/Child tax benefit	
Other regular monthly income	
TOTAL Monthly Take-home Income	

Monthly Spending	Amount	
MONTHLY SAVINGS	Emergency fund	
	(goals)	
TOTAL Monthly Savings		+

MONTHLY LIVING EXPENSES	Food (plus other grocery store items)			
	Housing	1st mortgage or rent		
		2nd mortgage		
	Utilities		A	
	Household Incidentals (dry cleaning, newspapers, etc.)			(Box A on page 2)
	Transportation	Gasoline		
		Bus fare		
		Parking		
	Personal allowances and recreation		B	(Box B on page 2)
	Monthly requirement for irregular or annual expenses		C	
TOTAL Monthly Living Expenses		+		

MONTHLY CREDIT PAYMENTS		
	TOTAL Monthly Credit Payments	

TOTAL Monthly Budget		(add lines 1, 2, 3)
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Spending Details

A Monthly Utilities		Amount	R chart.
Power			
Water/Sewage/Waste			
Telephone	Local		
	Long distance		
Natural gas			
Cable TV / pay TV			
TOTAL Monthly Utilities			A

B Personal Allowances and Recreation		Amount	
Personal allowances			
(monthly amount for each family member for lunches, grooming, hobbies, tobacco, alcohol, etc.)			
Family recreation			
TOTAL Monthly Personal Allowances and Recreation			B

Notes for me

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C IRREGULAR AND ANNUAL EXPENSES		Amount
Clothing (annual amount for each member of the household)	_____	

Insurance (if you pay directly, do not include if deducted from your pay cheque)	Vehicles	
	Life	
	Property	
	Other	
Medication/medical fees		
Dental/optical		
Education	Tuition	
	Books & supplies	
Taxes (if you pay directly)	Property	
	Income	
Licences	Vehicles	
	Other	
Maintenance	Vehicles	
	Home & garden	
	Furnishings	
Gifts/festivities	Christmas	
	Other	
Travel/holidays	Annual holiday	
	Other travel	
Contributions/donations		
Memberships/season tickets		
Other (subscriptions, items you plan to purchase next year, etc.)	_____	

TOTAL Irregular and Annual Expenses		
Monthly Requirement for Irregular and Annual Expenses <i>(divide total by 12)</i>		

All figures on this chart should be **annual** not monthly amounts

C

Emergency Fund Questions

What financial emergencies might you have to deal with in the future? Calculate how much money you could count on in each case. Answering the questions below will get you started.

1) If you were to go on strike, how much strike pay would you receive and for how long?

2) If you lost your job, would you be able to collect employment insurance? How much and for how long?

3) If you have an accident or illness that kept you from working for a prolonged period, would you still receive an income? How much and for how long?

4) If you were to die suddenly, would your family have immediate access to sufficient cash for funeral arrangements and day-to-day expenses? How much money would they need immediately?

5) What is the deductible on your car insurance policy and on your household policy?

6) What emergencies other than those already mentioned may happen to you?

7) Is there another income earner in your family? What is that person's monthly new income?

Net Worth Statement

ASSETS (What you own)		Current Value
CASH AND NEAR CASH	Cash on hand	
	Chequing Accounts/Savings Accounts/Broker Accounts	
	Canada Savings Bonds	
	Term deposits	
	Investment certificates	
	Money owed to you on demand	
	Other	
MARKETABLE ASSETS	Government bonds/Corporate bonds	
	Common shares/Preferred shares	
	Mutual funds	
	Real Estate investments	
	Business interests	
	Other	
LONG-TERM ASSETS	Cash value of life insurance	
	Registered retirement savings plan	
	Pension plan/Profit sharing	
	Other	
PERSONAL ASSETS	Personal residence	
	Recreation property	
	Vehicles	
	Recreation equipment	
	Household furnishings/Equipment	
	Collectibles (art, stamps, coins, jewellery, etc.)	
TOTAL ASSETS		

LIABILITIES (What you owe)		Amount Owning
SHORT-TERM DEBT	Charge accounts/Credit cards	
	Loans	
	Taxes (income or property tax currently owing)	
	Charitable pledges	
	Unpaid bills	
	Other (family obligations, life insurance loans, etc.)	
LONG-TERM DEBT	Home mortgage	
	Other mortgage loans	
	Other (line of credit, margin account, etc.)	
TOTAL LIABILITIES		
NET WORTH equals Total Assets minus Total Liabilities		