You and Your Debts
Money Management
Workbook

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Licensed Insolvency Trustee

Be Money Wise

*Name*___________________

MONEY MANAGEMENT

There are five elements comprising your financial picture:

A. assets
B. income
C. expenses
D. debts
E. net worth = A+B-C-D

A) Assets consist of all the 'things' you own, whether tangible or on paper.
Tangible assets may include: your home, car, motorcycle, bicycles, recreational equipment, household furnishings, appliances, and any other items in your possession.

Paper assets may include: RSP funds, Working Opportunity Funds, Life Insurance, Mutual Funds, Canada Savings Bonds, stocks/shares in a Limited Company, and any other asset you have a paper trail for but cannot immediately put your hands on.

B) Your income may come from a variety of sources, and may be received monthly, quarterly, or annually. Common sources of income are:

Employment (full or part time)
Overtime and/or bonuses
Commissions
Tips
Employment Insurance
Pensions
Social Assistance programs
Spousal Support (alimony)
Child maintenance
Rental Income (as a landlord/sublets)
Interest/Dividends from investments

Gross Income: This is your income before deductions for taxes, CPP, and EI. These amounts will be taken off the gross income by your employer, or other institution paying out your income (pensions, etc). OR if you are self-employed, you must remit these deductions to Canada Revenue yourself.

Net Income: This is your income after deductions. It is the amount you receive on your paycheque, or other cheque (pensions, etc). This is the amount of money available to you for paying your monthly and irregular expenses.

Personal Diary: Sources from which I get my monthly income:

Description	Gross	Net
1.		
2.		
3.		
4.		
5.		

C1) Expenses may be a regular monthly payment for items or services, or an irregular expense that you pay quarterly or annually (like school expenses, insurance, property tax)

Monthly living expenses are subject to change based on your choices. How you spend your money is a very personal matter, and will depend on your values, goals, and how you prioritize your wants and needs.

Fixed monthly expenses generally include:

Rent / Mortgage, car loan payment, hydro (if on installment plan), cable/internet, basic telephone service, car insurance.

Fixed occasional (irregular) expenses may include:

Car and house insurance, property tax, school fees, and memberships, etc. They may only come due once or twice per year.

Flexible (variable) expenses:

Flexible expenses come in two main categories: needs and wants. Identifying the type of variable expense is important when allocating portions of your income. As variable expenses include everything you spend after the fixed expenses, there is a very good chance you may have no idea how much is being spent, or on what. A specific portion of your income should be set aside for flexible irregular expenses such as car repairs, gifts, entertainment, etc.

Personal Diary

My fixed monthly expenses:

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My fixed occasional expenses:

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My flexible expenses:

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C2) **Financial plan for managing your income and expenses (also known as your personal budget):**

Common excuses for not having a budget:

1. Income and expenses are too unpredictable.
2. Plans are too confining.
3. Planning takes all the fun out of shopping.

No matter what the reasons, if you are having difficulty managing your money, only you can choose to take control. Once that choice is made, others can then help with planning, advice and emotional support.

Personal Diary: Reasons why I should make a budget (financial) plan:

Budgeting is the key to money management. Sometimes the financial resources you expect to be available during the month do not cover your predicted spending and saving. You then have to take another look at your plan and make adjustments by either increasing your resources, reducing your expenses, or doing a little of both. Keep in mind, too, that it is impossible to plan spending to the last penny. Your budget should have some flexibility for small miscellaneous expenses.

When planning how to spend your money, use the definitions below to help evaluate where, on what, and how much you want to spend..

Needs: are essential to a person i.e. food and shelter.

Wants: are what a person believes will give additional pleasure and satisfaction. A want can easily be viewed as a need, therefore, priorities must be established and needs separated from wants.

Values: Values are the feelings or beliefs one holds in relation to various aspects of life and behavior. What a person wants usually depends on their values.

Goals: A goal is defined as an end toward which effort is directed. In order to reach the end point of your effort, you must do first things first. If the first step to achieving a goal is successfully completed, you will be encouraged to go on to the next step, then the next, etc.

Personal Diary

What I need:
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What I want:
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Before drafting your budget, identify your goals so you can incorporate them into your monthly routine.

Identifying Your Goals:

When identifying your goals, start by listing the things you hope to achieve this month, this year, in five years, ten years, etc. Categorize them into long, medium, and short-term goals. Some of your goals may not be financial in nature, such as improving your health, losing weight, being more environmentally friendly, yet these goals can be related to your budget. One example is: you want to improve your fitness level so you choose to walk to the grocery store. This action will affect your budget as you have just reduced your transportation costs.

A short-term financial goal may be to buy a new coat by the end of the month. Plan for this by determining the total cost and how much you will have to put aside each time you are paid.

In ten years you may wish to own a home - this would be a long-term goal and you will need to determine how much to save per year for the down payment.

However, if your income is small or your debt load large, your goal may be the ability to meet your immediate necessities. Until your current situation is resolved (the resolution may be your short to medium-term goal), it may be unrealistic to think of long-term goals.

Once your goals are identified, list them in order of importance; then estimate the cost of each goal and the date you want to achieve it. This will allow you to determine how much to put aside each pay period and for how long.

Setting Priorities:

Listing your goals in order of importance involves setting priorities for yourself and your family. Using the S.M.A.R.T. approach to goal setting will help you to develop an achievable plan.

Specific: Ensure that the goal is truly specific. "A car" is not specific. It could be new or used, full-size or compact, luxury or basic. Each goal should be specific enough to be clearly pictured in your mind, and specific enough to meet the rest of the criteria. If you can focus on your goal, you can find the motivation to begin making the changes necessary to achieve it.

Measurable: If the goal is stated in dollar terms, it will be readily measurable. For example, "a comfortable emergency fund" is NOT measurable. "$800 in an emergency fund" IS measurable. If the goal cannot be stated in dollar terms, find ways to identify both:

- When you have achieved your goal, and
- Each step on the way toward it.

Attainable: Goals will be attainable only if there is a realistic plan. Each goal needs an estimated cost, due date, and a plan to achieve it. Without those pieces of information, your list of goals is simply a wish list. Thoroughness at this stage allows for re-examination to see if each plan is still realistic. Otherwise, the goals, costs, or due dates need to be revised until the overall plan is achievable.

Relevant: Each goal must be relevant to the person who is expected to reduce or adjust spending in order to achieve them. If family members do not "buy into" the goals, they may consciously or unconsciously sabotage the budget plan.

Tentative: Flexibility must be built into the goal-setting process. Since we have no way of predicting which financial goals will continue to be relevant in the future or what our financial circumstances will be, it is important to be cautious of commitments of future income which cannot be adjusted later. Generally, this means avoiding credit contracts, leases, or the type of investment contract in which previous payments are lost if ongoing payments are not maintained.

Assess all the different methods of reaching the objective. Say it is to buy a car: Will money be saved or borrowed to buy it, or some saved and some borrowed? In that case, how much of each?

List the trade-off that must be made. What must be sacrificed to get what's wanted? For example, if it is decided to curtail expenses to save money for a major expenditure, then the household may be deprived of something that has become a regular part of life, such as a weekly night out, or a vacation plan may have to be modified.

Re-evaluate the situation before making a final decision. Look again at the alternatives, the negative trade-off, the goal itself, to be sure that it's what's wanted.

Develop a strategy for taking action. If spending has to be reduced, decide specifically what regular expenditures to cut. Decide on the timing: When does everyone start to make the specific cuts identified? Set a deadline for reaching the goal.

Make a list of checkpoints so that progress can be tracked. This will allow everyone to determine at regular intervals how the plan is proceeding.

Examples:

Goal TO REACH THE END OF THE MONTH WITHOUT NEEDING TO BORROW $

Step 1 DETERMINE YOUR FIXED COSTS - Rent, food, heat, etc.

Step 2 TRACK SPENDING HABITS - What? Where? When? How?

Step 3 PLAN FOR THE WEEK'S EXPENSES

Step 4 SUPPLEMENT THE BUDGET - Sales, coupon-clipping, walk instead of drive, etc.

Step 5 LEARN HOW TO MAKE OTHER ECONOMIES

This is only an example; each individual approach will look different.

You will of course have many goals in life. They can be categorized into long-term (over 5 years), medium-term (1 to five years) and short-term goals (up to 1 year).

Long Term Goal - *An example may be to have X number of dollars in an RRSP by the end of five or six, or even ten years.*

Medium Term Goal - *An example may be to have X number of dollars in a savings account to purchase a car, or new appliances, or GIC's, in more than a year, but within five years.*

Short Term Goal - *In respect to the long-term goal, your short-term goal might be to have X number of dollars deposited to an RRSP account each month. Your step-wise approach may look like this:*

Goal HAVE $40 SAVED FOR RRSP BY MONTH-END

Step 1 re-assess budget to determine where spending may be cut back.

Step 2 allocate less per pay period to flexible expenses (movie rentals, lunch out) and allocate this amount to an RRSP fund.

Step 3 set up bank account for this purpose.

Step 4 each pay period set aside money allocated to RRSP fund in labeled envelope.

Step 5 deposit the monthly savings in your bank account.

Do not be too hard on yourself when a goal is not reached. Perhaps instead of saving $40 you saved $20. Reassess the goal. Perhaps, given your income and living expenses, you were not being realistic. Next month change your goal to $20 or $30.

Personal Diary

Long-Term Goals (5-ten years)	Methods of Reaching the Goal	Trade Off

Medium-Term Goals (1-5 years)	Methods of Reaching the Goal	Trade Off

Short-Term Goals (1month to 1 year)	Methods of Reaching the Goal	Trade-Off

Monthly Expense Budget

What I take home each month		**What my partner takes home**		**Other income through the year**	
Paycheque 1	$	Paycheque 1	$		
Paycheque 2	$	Paycheque 2	$	Paycheque 3 / bonus	$
Child Tax Benefits	$	Child Tax Benefits	$	Spouse: paycheque 3	
Child Support	$	Child Support	$	Tax refunds	$
Alimony	$	Alimony	$	GST	$
Pension/Annuity	$	Pension/Annuity	$	Dividends/Investments	$
Miscellaneous	$	Miscellaneous	$	Gifts	$
				Miscellaneaous	$
				(divide "other" total by 12 for a monthly amt	

FIXED EXPENSES

Examples of Fixed Expenses:

Loan Payment, cable, daycare, child support, bus pass, emergency fund and savings. These are amounts where you pay the same amount (or close to the same) every month, and do not have the ability to immediately control or change the amount on a month to month basis. (like rent, car insurance)

Fixed, Monthly	**$ bugdet**	**$ Actual**
Rent / Mortgage		

Total Fixed monthly expenses = $____________ **(B)**

*Available funds after fixed monthly expenses: (A) $____________ - (B) $____________ = $______________ **(C)***

Fixed, occasional	$ paid per year	$1/12 of annual pymt	**$ Actual**
Property Tax			
Car Insurance			
House/Contents Ins.			

Total Occasional expenses = $

1/12 of Occasional expenses = $_________ **(D)**

Available income after fixed occasional expenses: (C) $___________ - (D)$______________ = $__________ **(E)**

Examples of flexible expenses:

Electricity, oil, phone, food (groceries, meals out), clothing, gas, parking, car repairs, house maintenance, gifts/cards, alcohol, gambling (lottery or casino), entertainment/recreation, hair care, medical, dental, cigarettes, baby-sitter, stamps, personal hygiene, household supplies, tires, bus tickets.

Flexible monthly expenses	MONTHLY	PER WEEK	Month Actual
Groceries			
Laundry/dry-cleaning			
Gas/oil (car)			
TOTAL FLEXIBLE	$ (F)		

Income after Flexible expenses: (E) – (F) = $_____________ ***(G)***

** NOTE: an excel workbook for budgeting is available: email admin@cecraig.com to request.

Implementing the Budget Plan

A budget must be **realistic** to suit your individual needs and wants. Use a system that suits your personality. One person's system may not suit someone else.

Suggestions for Setting up the Budget Plan

- Set aside money each pay-day for all items in the budget.
- When there is more than one person contributing income to the household, open a joint account for household expenses only. Each person deposits their contribution each payday, OR
- If spouses do not want a joint account, or if one income is too irregular for this method, set up two budget sheets.
- Deposit irregular income from weekly or bi-weekly pays (when there is an extra pay period in the month), bonus, GST etc, immediately into a savings account. These funds can be saved for emergencies or earmarked to pay for irregular expenses.
- Weekly Expenses - handle with cash (use the envelope system). Place the cash in a labeled envelope each week. This method discourages impulse spending and makes you more aware of actual costs. When the money runs out for the week, you stop spending on that expense.

- Monthly Expenses - handle through a personal chequing account, whether using cheques, automatic payments, or online banking. Calculate the amount for each expense required per payday and deposit this amount in your account prior to the due date. With this system you must enter each deposit and each withdrawal in your cheque register. Also keep track of service charges. If you use online banking, you can view and print your cheques from online. If not using online banking, you may want to request that canceled cheques be included with your monthly statement. Note: This may not work for those with history of NSF cheques.

- Occasional Expenses - put the money aside each payday for these items. Deposit to a savings account that you cannot access with your debit card. This discourages impulse spending. Keep an account book (any notebook will do) of the money deposited, withdrawn or transferred. If you do not receive a monthly statement on this account then remember to have your bankbook updated regularly.

- Tracking your actual expenses: by knowing exactly where your money is going, you can take control of your spending and make choices on how to spend your money. Record your actual expenses in a notebook (carry it with you!), and keep receipts when received. Add these up on a weekly basis. Record these amounts beside your estimated expenses on your *Budget Work Sheet*. Adjust your next month's budget accordingly. This allows you to see the areas in which you are allocating too much of your income and those where not enough is being allocated.

- Mark on a calendar for the year ahead when your bills fall due e.g. telephone, electricity, occasional expenses like car insurance or property taxes.

- A simple filing system, and a cheap form of saving receipts, is to label envelopes in a shoe-box (or an accordion folder).

- Keep copies of each month's budget sheets for a full year. At the end of that time you will be able to review them and have a clear picture of how you are handling your money.

- Add "savings" under the category of fixed expenses. The ultimate is to save 20% of your net income. If this is impossible, try even 5%. Something is better than nothing.

- Keep a log of each purchase and enter immediately after the purchase.

- Make realistic allocations of your money.

- Find a system to suit your personality.

- Plan for unexpected expenses and add this to your categories of expenses. The goal for your "emergency fund" should be 2 or 3 times your monthly salary.

- Do not consider your budget plan to be inflexible. If it becomes inappropriate for some reason - alter it.

- If your budget plan doesn't work for one month, do not give up. Remember, part of budgeting is being flexible, and making changes to your plan. Try again until you find what works for you.

Tips for reducing/controlling your expenses

Transportation:
- Move closer to work (on a bus route or walking distance).
- Walk or use public transportation when possible. This saves on both gas and parking costs.
- Dispose of a secondary vehicle (save insurance, gas). This takes some scheduling of use.
- Get a less expensive model car (reduces insurance rates), or a more efficient car (less gas).
- Car pool for work, school.

Life Insurance:
- A Term insurance policy is cheaper than Straight Life or Ordinary Life insurance policies. The last two may also have a cash surrender value.
- Two or more policies could be combined into one resulting in better coverage and savings.

Cigarettes:
- Reducing your usage, or even better, of course, quit. Try putting yourself on an allowance system (just like the envelope system), allow yourself a limited number per day. When they're gone, you're done for the day.
- Shop around for the lowest price. Retailers may differ up to $1 per pack.
- Buy economy brands, or roll your own.

Food/sundry items:
- Plan for meals to be prepared at home. Take-out is always more expensive than home-made.
- Buy more unprepared (whole) foods.
- Cut down buying snacks and coffee while at work. At $3 per day, this can add up to $60 per month. Buying a thermos and teabags, or paying 25 cents for hot water, can save up to $40 per month.
- Plan meals in advance, a week at a time seems to be most popular and reasonable.
- Check the weekly flyers for specials.
- Always, always, always, WRITE A LIST, and stick to it.
- NEVER shop on an empty stomach.
- Take the cash from the budget envelope, and a calculator, with you to the store. Leave the debit/credit card at home. This is an easy way to self-restrict impulse shopping.
- Non-food items may be cheaper elsewhere. Check the weekly flyers for these items, and price check when in store.

Housing/Utilities/Clothing

If renting, consider the possibility of less expensive accommodations. If single, consider sharing

- Call your utility providers, and check online if available, for the best possible deal. Saving $20 per month by bundling services means a savings of $240 per year, and over five years $1200. This adds up. Do your homework regarding saving on electricity, cable, internet, water, long-distance phone charges, and especially cell phone services.
- Before buying a new household item at regular retail, check out garage sales and second-hand stores
- Clothing/shoes: try discount, outlet, and second-hand stores. Watch for clearance sales.
- **If you find an item you want (especially clothing) put it on hold for 24 hours. If you still want it the next day, and have the disposable income available, go and get it. This method reduces the amount spent on impulse buying.**

Recreation and Entertainment:

- If part of a family group, meet to discuss what form of entertainment is desired by all, and what can be achieved on the amount allocated in the budget.
- Temporarily curtail some recreational activities or substitute for less expensive ones. (walking is free)
- Examine the costs of paying annual or monthly dues to a club or sports organization. Does the number of times you use the facility justify the cost?
- How often do you eat out yourself and with the family? Fast food can also be expensive.
- How much is spent on lottery tickets, bingo, the casino, alcohol, each week/month etc.? Do you want this form of entertainment? Or would you prefer to spend the money on something else?
- Go to the movie theater on "cheap night". If the theatre doesn't offer cheap night, check the ticket prices at different theatres. Also think about parking costs. (Example: Odeon is cheaper than Silver City, and free parking on the street on Sunday) Check if you can use your Air Miles/Points for free tickets.
- DVD/Videos: don't assume that everyone charges the same rental rate. Shop around. Also, DVDs from the library are free (for a week). If the library doesn't have it in stock, you can put it on hold.
- Recreation Centres have programs specifically designed for low-income families. You can apply for the program at the center or online.
- Last months bus pass can be used for one admission to any pool in GVRD.

Using the Monthly Expense Budget

USING A CALENDAR, OR DATE BOOK

- Mark when your pay dates fall for a full year.

- List fixed expenses. Note which are paid weekly, bi-weekly, and monthly. Divide the monthly expense by the number of pay periods per month and enter what you will have to set aside per pay

- Calculate the balance of your income after fixed expenses.

- Pro-rate amount to be set aside for fixed **occasional expenses** (over the time remaining for payment in full at the time of planning your budget)

- Divide the amount to put aside per month by the number of pay periods and list what you will have to set aside per pay.

- Calculate the balance of available income after fixed monthly expenses and occasional expenses.

- When considering **flexible expenses**, ask yourself how much you spent the last time on each item and how often do you spend on these items. Figure out the average monthly sum on a 12 month basis. Enter the monthly amount of each item, then divide by the number of pay periods to arrive at the amount you should allow per pay for each item.

- Calculate the balance of your income after flexible expenses. This amount is your disposable income.

- At the end of the month, enter the amount actually spent for each expense. Then make adjustments accordingly to the allocation of your income for the next month.

Month End Evaluation

- In which categories did I overspend?
- In which categories did I under-spend?
- Compare proposed dollar figures with actual figures.
- Do I need to change my allotted dollar amount or wait for a month to see if the situation averages out? Justify.
- Indicate any new categories with an *.
- Indicate any deleted categories with a - sign.
- Indicate which control mechanisms you used to manage your spending during the month...indicate your success.
- Indicate any changes or additions to your control mechanisms.
- THIS MONTH I LEARNED.....

What Is Credit?

Credit is a service extended by the lender, at the sole discretion of the lender. It is not a right of the consumer.

Why We Use Credit

1. Convenience, security.
2. To obtain something before we have saved enough to pay for it.
3. To bridge the gap if income is insufficient, infrequent, or irregular.
4. Occasionally to consolidate debts.

Disadvantages of Using Credit

- The interest rates on outstanding balances are usually quite high.
- A credit card may encourage impulsive shopping.
- Flexibility of your future income is decreased.
- It is easy to over-extend the use of credit cards.

Personal Diary

Reasons why I have used credit:

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Why We Become Over-Indebted or Insolvent

Definitions:

Indebtedness: Something (as an amount of money) that is owed.

Insolvent: Unable to pay debts as they fall due in the usual course of business; having liabilities in excess of reasonable market value of your assets.

Four Primary Reasons for Becoming Over-Indebted

1. **Loss of Income**: lack of work, seasonal employment, irregular employment, etc. You may be on E.I., Social Assistance, or have no income at all.

2. **Voluntary Over-extension**: voluntarily assuming debt(s), which you may or may not be able to repay.

3. **The debtor feeling they had not been well treated by creditors:**

Personalizing a business transaction is a common event. When business is personalized, an individual may feel justified in not paying a bill, or following up on the status of their account. This may result in being behind in payments. Some reasons reported by consumers/debtors for not paying a bill include:

a) not credited with a payment;

b) did not know where to pay;

c) returned merchandise and considered the matter closed; or

d) co-signed a loan or credit application and felt betrayed when the creditor tried to collect. Did not fully understand the implications of co-signing.

The reality is that the bills have to be paid. It is the consumer's responsibility to monitor their accounts for accuracy, and to ensure any errors found are corrected to their satisfaction.

It is important to remind yourself that the creditor is an institution, not a personal friend. The representative calling/writing you is doing the job they are paid to do, and have no emotional attachment to you, the consumer.

4. **Unexpected Demands:** Involuntary demands on your income due to illness, strikes, accidents, etc.

Underlying Causes of Over-Indebtedness

Those having marital, family, or personal problems may have difficulty meeting their debt obligations because of the pressure from these problems. Such pressure can lead to irrational behavior, financial and otherwise. The cost of the problem itself may also cause difficulty in meeting debt obligations, i.e. excessive spending on drugs or alcohol, gambling, or the cost of caring for a handicapped child or a sick parent.

It is not unusual for an individual to have multiple problems whereby one problem affects another. However, there is usually a fundamental issue, which should be dealt with first.

Personal Diary

The reasons why I have become over-indebted or insolvent:

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