



BUDGETING: HOW TO CREATE A BUDGET

Creating a budget can seem like a daunting task but we'll break it down into some simple steps and, while it may take you a couple hours to do your first budget, it won't be difficult and it will be much easier and quicker to review and adjust your budget in the future.

STEP 1: FIGURE OUT YOUR AFTER-TAX MONTHLY INCOME

It's important to know exactly how much money you have coming in each month after taxes and other income deductions have been taken off (such as EI, insurance, CPP, etc).

If you have a regular paycheque, think about how often you get paid. This will help you determine how much income you have each month.

- ▶ Monthly?
- ▶ Twice a month on set dates like the 1st and the 15th?
- ▶ Bi-weekly?
 - You may want to divide your annual income by 26 pay periods to get an average monthly income amount to use for your budget.
 - Or you may find it easier to do a bi-weekly budget depending on when you receive your bills, etc.
 - If you can afford it, you may want to budget for 2 pay periods per month (or 24 pay periods per year) and then you can use the extra 2 pay periods to buy things you want, put into savings or pay off debt.
- ▶ Irregular or seasonal income?
 - You may want to average your income over the year to come up with an average monthly income amount for your budget.
 - If you're able, you could play it safe and budget for your lowest monthly income. Then in months when you make more you have extra money to spend on wants, to save or use to pay off debt.

STEP 2: FIGURE OUT YOUR MONTHLY SPENDING

Figuring out your monthly spending can be a bit more time consuming than figuring out your monthly income.

- ▶ If you typically spend money using your credit or debit card:
 - Use your last 3 months of bank and credit card statements as a record of your spending.
 - Go through each statement and write down each item in a category that makes sense to you (eg. entertainment, utilities, dining out, coffee, car, etc).
 - Then total up each category and divide the total by the number of months you've added up to see an average of how much you spend on that category each month.

- ▶ If you typically spend cash:
 - Ask for and save your receipts whenever you make purchases.
 - On a regular basis (ideally at the end of each day or each week at the latest), go through and group your purchases by type using categories that make sense to you.
 - If it is helpful, create categorized envelopes where you can organize and store your receipts for each category.
 - At the end of the month, add up all the receipts in each category to come up with an average of how much you spend each month.
- ▶ This will give you a good idea of where you are spending money and where you can adjust your spending to help you make ends meet or put toward savings or paying off debts.
- ▶ When you look at making adjustments, keep in mind:
 - Make sure you have budgeted a sufficient amount for your needs.
 - Keep your adjustments reasonable and practical.
 - It can be helpful to set a monthly cap or limit on how much you spend on your wants each month.
 - Always try to leave room in your budget for saving and paying off debt.

STEP 3: CALCULATE THE DIFFERENCE BETWEEN YOUR INCOME & EXPENSES

Whether you use an online budgeting calculator or just do the math yourself, subtract your expenses from your income.

- ▶ This will let you know if you are over-spending or how much you have left over to put into savings, use to pay off debt or spend on a want.
- ▶ If your expenses are higher than your income, you will need to go back and take a critical look at your spending.
 - This is where being able to identify your needs and wants is very important.
 - Keep going back and adjusting your numbers until you end up with a balanced budget. (One that will pay for your needs and some of your wants and put a priority on saving and paying off any debt you may have.)

STEP 4: KEEP TRACK OF YOUR SPENDING

Make a habit of tracking your spending every month.

- ▶ This will give you a good idea of whether you are sticking to your budget or not.
- ▶ This will let you know if there are any areas in your budget that you need to adjust.

STEP 5: SET ACHIEVABLE GOALS

Once you've done the initial set up for your budget, you may identify some financial goals you'd like to work on.

- ▶ Whatever goals you set, make sure they are achievable and then make a plan for how you are going to achieve the goal.
 - Are there any needs in your budget that haven't been getting enough of the budget?
 - Are there any wants draining your budget that should be adjusted?
 - Are there any extra expenses that could come up and affect your plan to reach your goal?
 - How much money are you able to contribute to your goal each month?

- ▶ It might be helpful to open a new savings account specifically for your goal.
 - You will be less tempted to use those funds for other purposes.
 - Most savings accounts do not have a monthly fee and will also allow you to earn some interest on your savings as they grow.
 - Watching your account grow will help to motivate you to persevere and keep saving until you reach your goal.
 - Once you reach your goal, that success will likely inspire you to set a new goal and begin working toward something new.
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STEP 6: REVIEW YOUR BUDGET REGULARLY

A budget that is made and then forgotten is not effective. If your budget is going to be helpful, it's important to make your budget and then stick to it.

- ▶ It's vital that you re-evaluate your budget regularly.
 - As you move through life, your income will change and so will your expenses and you will need to take a look at your budget and adjust it to accommodate those changes.
 - Try to re-evaluate your budget on a frequent and regular basis and especially when you run into significant life changes such as a raise or promotion, getting married, having children, etc.
 - Keep in mind that simple factors you may not be consciously aware of, like inflation, can also throw off your budget if you don't re-evaluate it often.
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BUDGETING TOOLS

We've laid out the basic steps involved in creating a budget here and you can easily do a budget with a pen and paper or using a spreadsheet on your computer but there are also a lot of online tools you can use to help you create your budget and stick to it.

- ▶ Government of Canada - Free Budget Planner Tool on their website
<https://itools-ioutils.fcac-acfc.gc.ca/BP-PB/budget-planner>
- ▶ Ask your F.I. if they offer any budgeting or spending tracking apps or resources.
- ▶ Check your app store for a wide selection of budgeting apps that can help you create a budget, track your expenses and set goals.