Part 3
Budgeting and managing your money

The purpose of Part 3 is to provide information on how to properly manage money using budgets and good financial habits. Once your money is in a safe place, you can start thinking about how to make smart decisions to support your goals. Goals can make budgeting and managing your money easier as they create something to work towards and look forward to. Saving for the future is important and so is enjoying the present, so it's good to find a balance!

Contents

First Nations Child & Family Caring Society of Canada

Part 3.1: How to create a budget

What is a budget?

A budget:

- Tracks your cash coming in (income) and cash going out (expenses and savings contributions)
- Indicates the money you need to save to reach your goals
- Helps you manage your expenses to make sure you have money to cover your bills

Staying within your budget vs. Going over your budget

Staying within your budget	Going over your budget
▪ Better control over your finances ▪ Staying on track to reach your financial goals	▪ Debt ▪ Unnecessary bank fees if expenses are not covered

This information is not meant to suggest that budgeting is a solution to poverty.

Steps to create a budget

1. Create goals for yourself and keep them in mind

Budgeting your money starts with having a goal and purpose for your budget. The purpose can be as simple as wanting to keep better track of your expenses. Savings goals are an important part of creating a budget so you have something to look forward to.

Savings goals can be personal or collective (money to share with family or community).

Separate your needs from your wants:

- Needs are things you cannot survive without.
- Wants are the extras in life.

Goal setting can include both needs and wants:

- Think about what you want your future to look like and the things you like to do.
- This includes both the present and future, including your older years.

Understand the difference between short-term and long-term goals:

- Short-term goals are goals that can be met in the next year. Example: Purchase a new winter jacket.
- Long-term goals are goals that require more funds or time. They are usually reached in 1 – 10 years. Example: Buy a new car.

Goals differ depending on who you are, what is important to you, your culture and your history.

Examples of goals that someone who acquires a lump sum of money may have:

- Education: Education can be an expensive journey. It's never too late to attend any level of schooling, and acquiring funds can be the first step.
- Starting a business: Receiving a large sum of money can begin your journey of starting a business by helping with supplies or rental building fees.
- Paying off debts
- Helping family or your community
- Housing: Funds could be used to help you move, make home repairs or qualify for a mortgage.
- Doing something nice for yourself: This could include travelling, buying something you previously could not afford or buying something that makes your life easier (e.g. a car to get to work or school).

2. List your incomes

Income = Money received or cash coming in

Sources of income include regular money coming in as well as funds that vary and one-time payments.
Examples of sources of income:

- Employment
- Investment returns
- Inheritance
- Gift
- Unexpected events (lottery)
- Government income
  - Consistent payments such as child benefits, a pension
  - One-time payments such as an on-reserve per capita distribution

Fixed vs. Variable income:

- Fixed income is an amount of money you receive on a regular basis. Examples: Bi-weekly paycheque, child and family benefits.
- Variable income is money you receive irregularly, or that varies in its amount. Examples: Commissions earned through work, interest on investments and income from gig work.

3. List your savings needs

Examples of savings needs:

- The amount of money you need for your short-term goals. For example, if you need to save $50 per month to buy a new jacket, add this $50 to your monthly budget in the savings section.
- The amount of money you need for your long-term goals. For example, if you need to save $100 per month to buy a new car, add this $100 to your monthly budget in the savings section.

Savings options are discussed in depth in Part 4.

4. List your expenses

Expenses = Costs that result in spending money or cash going out

Your cost of living will differ based on your location and lifestyle and will impact your expenses. Expenses that make up an individual's or family's cost of living include housing, food, transportation, telecommunications (phone, internet), utilities (electricity, heat, etc.), furnishings, clothing, education, recreation, health needs, taxes.

Regular vs. Irregular expenses:

- Regular expenses include food, housing, transportation (transit pass, auto loan payments), insurance, utilities, phone, internet, child expenses and loan payments.
- Irregular expenses include gifts, car or home repairs, vacations.

Fixed vs. Variable expenses:

- Fixed expenses are costs that must be paid on an ongoing basis and are the same amount each time they are paid. Examples: Monthly rent, phone and internet bills.
- Variable expenses are costs that increase as you use or purchase more and decrease as you use or buy less. For example, your electricity bill expenses increase as you use more electricity, and clothing expenses decrease when you purchase less clothing.

5. Edit your budget, if necessary

The goal of your budget should be for your income to match your expenses. However, once you create a budget, you may find it's balanced or you may have a surplus or a deficit. So what does this mean?

- Balanced: Your income – your savings = your expenses or
  Cash in (income) = Cash out (savings contributions + expenses)
- Surplus: You have income left over after paying your expenses and contributing to your savings.
- Deficit: You have an income shortfall after paying for your expenses and savings goals.

Reasons to edit your budget:

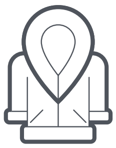
- Would you like to try to save more money? Is it possible to do so?
- Would you like to try to spend less on some things?
- Are there other things you would like to do with your money.

Tools to help you create and manage your budget:

- Use Microsoft Excel to create a table that tracks your income, savings and expenses.
- Use an app that will create a budget for you after you input your information.
- Use RBC's budget calculators found at https://www.rbcroyalbank.com/student/budget-calculator/ or https://online.royalbank.com/cgi-bin/tools/easy-budgeting-tool/calculator.cgi.
- The Government of Canada has financial tools and calculators: https://www.canada.ca/en/services/finance/tools.html
- Take advantage of RBC Online Banking[1] and mobile banking features for clients:
  - *my*FinanceTracker® (through RBC Online Banking) helps you track expenses, create a budget and set savings goals.
  - NOMI Insights® (through the RBC Mobile[2] app) analyzes your monthly cash flow and allows you to categorize spending.

Part 3.2: Goal setting

How to set a goal and make your goal a reality



- See it – Visualize yourself in a new winter jacket.
- Explain it – Ask yourself, *How much will it cost? What is my size? Which store should I get it from?*
- Time it – Determine how long it will take to save for your goal: *When will I need the winter jacket? How many months do I have to save for it? How much should I be saving per month*? For example, if the jacket is $250 and you plan to purchase it in five months, you will need to save $50 per month ($250 ÷ 5).

Importance of setting goals

Goals give you something to look forward to and make it easier to consistently put money in your savings and follow a budget.

Remember, to help reach your goals, make your savings part of your budget. Goals provide motivation and make decision-making easier because you have a clear idea of what you want. Plus, you'll feel satisfied and a sense of purpose when you reach them!

Part 3.3: Budget example

Katie is 22 years old and shares a two-bedroom apartment with a roommate in a mid-size city in Ontario. She splits the expenses of rent, electricity and internet with her roommate and the amounts in her budget reflect this. Katie works in an office full-time. She invested a lump sum in mutual funds at the beginning of the year, so her investments are not reflected in her July budget (information about investments can be found in Part 5). Katie's savings goals require her to make deposits to a Registered Retirement Savings Plan (RRSP) to save for retirement and a savings account to save for her travels. In addition to her other bills, Katie has to make monthly car loan payments.

Katie's July Budget	
Income	
Monthly salary	$2,140
Total income (cash in)	**$2,140**
Savings	
Registered Retirement Savings Plan (RRSP)	$100
Savings account	$20
Total savings (cash out)	**$120**
Fixed expenses	
Rent (includes water)	$800
Phone bill	$65
Internet bill	$50
Auto loan bill	$400
Variable expenses	
Electricity bill (includes heat)	$60
Food	$400
Entertainment	$80
Gas for her car	$60
Total expenses (cash out)	**$1,915**

Katie's budget is not balanced! Her cash in (income) is greater than her cash out (her savings contributions and expenses). Katie has $105 of income that has not been put towards savings or expenses.

Calculating a budget

Use the following formula to calculate whether your budget has a surplus, deficit or neither (is balanced):

Income – (Savings + Expenses) = x $2,140 – ($120 + $1,915) = *x* $2,140 – $2,035 = $105	Since $105 is a positive number, there is a surplus.

If the number is negative, there is a deficit, meaning the income is not enough to cover the savings contributions and expenses. If the number is 0, the budget is balanced.

Another way to calculate this is to determine whether the cash in equals the cash out:

Cash in = Cash out *Income = (Savings + Expenses)* $2,140 = ($120 + $1,915) $2,140 = $2,035	**$2,140 ≠ $2,035**	The numbers do not equal each other; the cash in is greater than the cash out, so the budget is not balanced. The difference between the numbers is the surplus of $105 we calculated above.

Note about cash out: The term "cash out" may be confusing as you technically still have the cash you put towards your savings in your accounts. But think about "cash out" as money you no longer have to spend this month because it is going towards savings or expenses.

Katie can now reevaluate her budget and decide where to put the surplus funds. For example she can contribute more to her savings or spend more on herself or her family.

50/30/20 budget rule

The 50/30/20 budget rule is a great tool. Unlike the budget above, it does not track spending with detailed categories. It simply tells us where to spend our income:

- 50% should go to our needs.
- 30% should go to our wants.
- 20% should go to our savings and debt.

Example

Step 1: Calculate how much money will go towards each category per month.

Monthly income = $1,800

How much can be spent on needs?	How much can be spent on wants?
Needs = *Income* x 50% = $1,800 x 50% **= $900**	*Wants* = *Income* x 30% = $1,800 x 30% **= $540**

How much can be spent on savings and debt?
Savings & Debt = *Income* x 20% = $1,800 x 20% **= $360**

Step 2: Decide what your needs, wants and savings are.

Here are some examples:

- Needs: Rent, transportation payments, food, telecommunication bills, housing bills (electricity), etc.
- Wants: Movie streaming subscriptions, restaurant costs, jewelry purchases, etc.
- Savings: Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), Registered Education Savings Plan (RESP), emergency fund, etc.

Step 3: Begin following this rule when you receive your income, and only dedicate the specified amounts to each of the three categories.

Part 3.4: Managing your budget

Best practices when budgeting

- You can create a daily, weekly or monthly budget.
- Do not spend money you think you will have, but don't actually have yet.
- Track the cash that comes in and the cash that goes out.
- Be realistic when setting your budget. You're allowed to have a section for fun!
- Budgets are meant to be adjusted based on life changes.
- Don't give up on your budget, even when it's difficult!
- Create "alerts" through online or mobile banking for bank accounts, credit cards, budget items and offers. For example, an alert can let you know when money is taken out of your account.

Good financial habits

Bank accounts, debit cards and credit cards can help you create good financial habits, if used wisely. Here's how.

Chequing accounts:

- They allow you to make **pre-authorized debits**, which make regular bill payments fast and easy.
  - You'll never miss a payment because the amount will come out of your account automatically.
  - You can set them up by visiting a branch or in online or mobile banking.
- You'll get an **account statement** summarizing your account transactions, including debit card usage.
  - This will help you keep track of income and expenses, which in turn helps you create and follow a budget.

Savings accounts:

- You can deposit or transfer money to this account for the **savings goal** portion of your budget.

Debit cards:

- Unlike cash, debit cards keep a **record of your payments** in your bank account.
- They are **safer to carry** than cash.
  - If you are carrying $1,000 and it's stolen, you lose the $1,000 and can't get it back.
  - If you are carrying a debit card with a $1,000 balance and it's stolen, the $1,000 is still safe in your account, provided you have kept your bank account information confidential.
  - In some cases it may be necessary to carry cash, so just make sure you are carrying a small amount!

Credit cards:

- Credit cards allow you to build your credit, which is helpful for making larger purchases to reach your goals.
- There are different kinds of credit cards: bank-issued cards, store/priority cards and travel/entertainment cards. Some credit cards provide rewards like points or cash back.
- Keep in mind credit cards can make it easy to spend more money than you have and charge interest on any account balance that is not paid back in full each month, leading to debt that can be hard to pay off.

Credit cards will be discussed in depth in Part 4.

Part 3.5: Gig work, commissioned work and seasonal work

What is gig work?

Work that is short-term or temporary. Gig workers can be independent contractors who work for one or many employers. Example: A landscaper who works, when needed, for multiple home or business owners.

What is commissioned work?

Work that someone is asked to do and is paid for. Example: An individual requests that a local artisan bead a pair of earrings and pays the individual for their work. This is commissioned jewelry.

What is seasonal work?

Work that is short-term and lasts for a period of time/season. Example: A student is a day camp counsellor during the summer.

Gig work, commissioned work and seasonal work can create an inconsistent income stream:

- Income from gig work depends on the amount of time you are working for.
- Income from commissioned work depends on the number and price(s) of the tasks performed.
- Income from seasonal work may only be consistent for a certain period of time, during the work season. There may be little to no income during the other seasons.

Tips for budgeting

- Deposit as much as possible into your emergency fund while you are working. This money will be important during the months where there is little to no income.
- Ensure you always have money in your bank account to cover the next month's bills. This avoids the stress of not having enough money to cover the necessary expenses when there is little to no income coming in.
- Keep track of your business expenses. Gig workers and commissioned workers often have to pay for their own equipment and supplies. Therefore, make sure these costs are being accounted for, especially during tax season so you can maximize your tax deductions.
- Instead of saving a fixed amount each period, save based on a percentage. This will ensure you are still saving money, but avoids a deficit of funds during months with less work.

Example

Commit to depositing **5%** of your monthly income into a Tax-Free Savings Account (TFSA) each month.

January	May
Full-time gig work with some overtime hours Monthly income = $3,000 ***Savings = Monthly income x Savings percentage*** = $3,000 x 5% = $150 At the end of January, you deposit $150 into a TFSA.	Part-time gig work Monthly income = $500 ***Savings = Monthly income x Savings percentage*** = $500 x 5% = $25 At the end of May, you deposit $25 into a TFSA.

Activity: Goal setting

Let's check your understanding of short-term and long-term goals.

Please indicate whether each example is a short-term or a long-term goal.

		SHORT-TERM GOAL	LONG-TERM GOAL
1.	Being financially stable during retirement	☐	☐
2.	Saving for a five-year-old child's university education using a Registered Education Savings Plan (RESP)	☐	☐
3.	Buying a new video game	☐	☐
4.	Paying off a mortgage for a house that was purchased one month ago	☐	☐
5.	Paying off a credit card if you are not behind in your payments	☐	☐
6.	Buying a gym membership	☐	☐
7.	Going to a bank and setting up an emergency fund	☐	☐

Answers on the next page.

Answers

1. *LONG-TERM GOAL: You should start saving for retirement when you're younger and invest the money for later.*
2. *LONG-TERM GOAL: If you start saving in an RESP while your child is young, you will have many years to save until they are ready for post-secondary school at around 18 years old.*
3. *SHORT-TERM GOAL*
4. *LONG-TERM GOAL*
5. *SHORT-TERM GOAL: Credit card payments have to be paid monthly.*
6. *SHORT-TERM GOAL: If money is put away regularly each month, it can take less than one year to accomplish this goal.*
7. *SHORT-TERM and possibly LONG-TERM GOAL: Setting up an emergency fund is quick, but adding to it can take as long as needed to reach your required balance.*

It is important to remember that everyone's goals differ in the amount of time it takes to reach them!

Next step

Write down one short-term goal and one long-term goal you can work towards, using the resources in this part. They can be for yourself, your family or your community!

My short-term goal:

My long-term goal:

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