

**Strategy: Create an overall monthly budget that includes a savings plan.**

Creating a monthly budget is not the only way to “get a grip” on your finances, it can also be the first step towards improving your overall financial well-being. A monthly budget can help you figure out:

- Your basic financial situation – how much money you have coming in, and how much is going out each month
- How to set aside money for emergencies, vacations, and large purchases
- How to save money for retirement savings
- How to allocate money to put into other investments that can contribute to your future wealth

**Your Monthly Budget**

Boiled down to basics, developing a monthly budget consists of adding up your monthly income and tracking your monthly expenses.

**Income**

Make a list of all your regular income sources. For most people, this consists of salaries from full and/or part-time jobs, pensions, and government payments such as the Canada Child Tax Benefit, old age security, or GST tax credits. Some individuals may also receive monthly payments from insurance, disability, and registered retirement income plans, or investment dividends. Convert all payments into monthly amounts, even those which come quarterly or once a year. Then, add them up, and that’s your approximate monthly income.

**Monthly Expenses**

Determining what you spend per month can be tricky since most people have so many different things they spend money on, including lots of small day to day purchases. The first step is to look at expenses by category, as follows.

Housing: rent or mortgage payments, home insurance, property taxes, repairs. This figure should also include amounts you pay for housing of adult children or parents you are supporting.

Transportation: car payments, insurance, repairs, gasoline, bus/subway passes, regular taxi trips

Food: grocery store purchases, regular restaurant meals (such as lunch and take-out coffee on work days), drug store purchases (other than medication)

Clothing: If you have not kept the receipts, try to think of all the clothing you and your family have purchased in the last three months. Estimate the cost as best you can and divide by three. That’s your approximate monthly average.

Child Care: Day care, nursery school, regular lessons, babysitting

Child or spousal support Payments – If applicable

Telecommunications: Cable or satellite TV, Internet, home telephone, mobile phone, long distance fees

Health: Medications, health and/or mental health services fees, insurance related services (e.g., massage, physiotherapy, counseling, etc.)

Debt Payments (other than car and mortgage): Loans, payments on credit card balances

Leisure: Estimated monthly spending on restaurant meals (other than work-related meals), movies, concerts, sporting events, DVD rentals, magazine subscriptions, club membership fees, gifts

This list may not cover absolutely everything you spend in a month but it should give you a good idea of what your core monthly expenses are. Add any additional items you feel are significant into the appropriate categories. As a tip, *looking at past credit card bills might be helpful.*

### **Adding Up**

The next step is to compare your income and expenses. Obviously, if your income is higher than your expenses, you already have room to save money. If you're just breaking even, you will need to reduce spending in order to save. If your expenses are higher than your income, you're probably gradually sliding deeper and deeper into debt and will need to start reducing what you spend as soon as possible.

### **Cutting Back**

If you want or need to cut down on your spending, start by looking at your variable expenses. Some expenses like rent, car payments and monthly phone bills are fixed. But how much we spend on clothing, entertainment, food and leisure varies from week to week, and there's a certain amount of flexibility here. So, variable and discretionary spending is a good place to start looking for ways to save. For example, cutting out one take-out coffee a day can save some people as much as \$35.00 to \$50.00 a month.

Credit Counselling Canada, an umbrella association for agencies and individuals who provide credit counseling services, has an online home budget planner, which can help you analyze the balance or imbalance between your income and monthly expenses. If your expenses exceed your income, the tool offers targets for reducing your spending in various areas. Click below for more information:

<http://www.creditcounsellingcanada.ca/ConsumerTools/FinancialCalculators/HomeBudgetCalculator/tabid/70/Default.aspx>

### **Saving Your Money**

One of Canada's best-selling books ever is *The Wealthy Barber*, a very simple, yet readable, personal finance book by David Chilton. It is based on the premise that investing 10% of your salary in mutual funds each month, starting in early adulthood, is the best way for ordinary people to become wealthy.

Chilton is by no means the only person to promote the “10 per cent savings” rule. Lots of financial advisors use it as a guideline because 10% of your salary is a relatively modest initial savings goal that can be geared to almost anybody’s income. No matter what your income is, you can easily calculate 10% of it.

Another reason for the 10% savings guideline: Generally, if a person with a steady, middle-class income (that keeps increasing throughout his/her working life) invests 10% of his/her salary every month, getting an average yearly return of six percent, it’s possible for that person to accumulate the “magical” figure of *one million dollars* in his/her lifetime!

Not all of us will become millionaires, of course, but the real point is that the way to get ahead financially is to consistently spend less than you earn and to invest, or at least save, that extra money. And for people with modest incomes, or people who have trouble saving, the process starts with working out a monthly budget.

### **Budget Help**

Fortunately, we don’t have to do this alone. Credit counsellors and financial planners can help you get started.

To review a related article in this series, please [click here](#).

### **Additional Resources**

*The Wealthy Barber: Everyone's Commonsense Guide to Becoming Financially Independent*, Updated 3rd Edition: by David Chilton, Prima Publishing, 1998.

Many financial institutions, including Desjardins Financial Security, provide online information about preparing a monthly budget. Click here to read more:

<http://www.desjardins.com/en/particuliers/conseils/gerer-finances/budget-mensuel>