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MANAGING YOUR CASH FLOW

Budget is a Four-Letter Word

For many of us, Budget Day can be as stomach-churning as a root canal. It's the day we set aside to pour over the month's crumpled and fading receipts, marvel at how our hard-earned cash has once again leaked through our fingers, and try our best to 'balance the books' without losing our cool. Sound familiar? It doesn't have to be that way. Our grandparents and even our parents had nothing but good, ol' fashioned physical cash, and for them, dividing physical money into labeled jars made the most sense. These days, most transactions are electronic, and jars impractical. For many of us, losing the bucket meant losing the handle on our budgets. We need to find a way to make intangible cash tangible again.

Be a Squirrel; Have a Nut in Every Tree

The biggest problem with budgeting the old way is that you are always one step behind. You discover the missteps that took you off your budgeting path long after they've already affected your bottom line. The real fault then is a failure to follow up soon enough to see if the plan you had in mind is what is actually happening.

I want to show you a method that I use where the follow up happens automatically so staying on track is easy and budgeting no longer pushes your blood pressure to dangerous levels.

Step 1

Set up one account as your main money jar – ensure it is a chequing account. All sources of income should flow into this account, and all mandatory payments should come out of this account. Some examples:

- Mortgage and line of credit
- Insurance – home, life, car
- Property taxes
- Utilities – hydro & water, gas, cable, internet, cell, etc
- Childcare
- Donations
- Loan Payments – car, debt consolidation
- RESP and RRSP

Step 2

Take all of the payments you make in a year and get an average (total for the year divided by 12). Some payments stay consistent throughout the year (mortgage and insurance) however some might fluctuate (utilities), and some might only pay at certain times in the year (donations, property taxes).

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Step 3

Determine what major expenditures you have on the horizon and consider both the timeline and cost. Some expenses may include:

- Vacations
- Car repairs
- University or College
- Major medical
- Weddings
- Renovations
- New house or car

When do you anticipate that these expenses will occur? The exact date doesn't matter, but you should have a rough idea. Will they materialize within the year; in five years; or perhaps in ten? With kids, we are all pretty much in the same boat with braces, college or university tuition, a first car (a first accident?), a wedding. Kids or not, we all need transportation of some kind, and inevitably, a vacation!

Figure out how much you would like to have saved. Be realistic. You don't have to save for a $100,000 education, but you should have a figure in mind that represents how much you are willing to contribute (if at all.) There is no need to be exact; just put some numbers down.

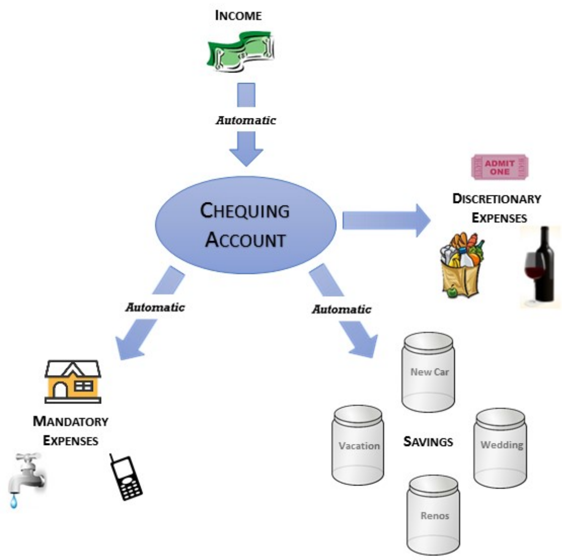
For example, a young couple with two kids:

- Vacation: $2400 per year OR $200 per month
- University: $5000 per year for four years per budding Einstein starting 15 years down the road OR $222 per month
- Major medical: $5000 per child starting in 10 years OR $83 per month
- New car: $5000 in 3 years (only part of the down payment) OR $138.88 per month
- Weddings: $5000 per child in 20 years OR $41.66 per month

Set up a monthly automatic transfer of the total of these amounts to a separate savings account. In effect, this account acts as a ‘savings jar.'

Step 4

Apply the formula to determine your discretionary spending amount:



The surplus you have is the amount each month you can use for discretionary spending. Divide this monthly surplus amount by four to get the amount you have to spend on a *weekly* basis.

You can use discretionary funds for things such as groceries, clothing, entertainment, (or a particularly lovely Chardonnay), etc. If you have a shortfall (meaning you have more expenses than income), you are going to need to review which of your mandatory expenses or large future expenditures you can reduce. Can you get a cheaper cell phone plan? Can you go without the full thousand-and-one TV channels? Would it make sense to plan for a three-star hotel in Fiji instead of a five-star? Is it possible to earn more income?

In this plan, you must have a surplus; meaning you have money remaining each month after you pay all your expenses. After all, you still need to eat! *Read further to learn how to manage this surplus.*

Step 5

Transfer this amount to your credit card every week and pay for your discretionary expenses using that card. This credit card is your discretionary spending jar. By prepaying your credit card and only spending that amount, you will negate any interest charges.

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Alternatively, you can set up a separate chequing account, transfer your discretionary spending amount into that account and pay for those expenses using a debit card. Make sure you only use it only for discretionary expenses! Note:

- I prefer the credit card because the annual fee for a basic card is low in comparison to the monthly fees on a chequing account and you are not charged for purchases as you are on an account.
- Also, if you are young and just establishing your important credit profile, using a credit card and paying it off each month is a great way to build you a great credit score!

The beauty of this method is that you can look ahead and determine if you need to spend less than the prepaid amount one week because you have a larger expense to pay in the following week. For example; you are hosting a dinner party and know your weekly grocery bill will be more in a particular week, you know you will need to reduce your spending in another week to accommodate.

A Word of Caution

It is essential to the success of this budget plan to spend *within* your calculated discretionary spending. By overspending, you will incur interest charges on your credit card or negate some of your savings for large expenditures. If you find you are constantly spending more than you have budgeted, then re-evaluate your whole budget. If you find you consistently have money left over at the end of the month, reduce the amount you transfer to your credit card and use that money to maximize your annual RSP contribution or pay down current debt.

Visualizing your money using this method not only makes it easy to budget, plan and save, but virtually eliminates the problem of straying off the path. Of course, you will need to make some adjustments on occasion as your needs, goals, or wants change. There are hidden benefits as well. Paying down your mortgage while saving for large expenses means debt is decreasing while investments are increasing. Watching your finances work for you instead of against you means you can better gauge the importance of various expenses and whether they are even necessary in light of your longer term goals.

Automatic Success!

The key to this method of budgeting is that it all happens automatically. Income is automatically transferred to the chequing account (main jar), mandatory expenses are automatically withdrawn from that main jar account, savings goal amounts are automatically moved to their appropriate accounts (or jars), and discretionary spending amounts are automatically transferred to the credit card (or spending jar). You've essentially taken the guesswork out of budgeting and eliminated the headache of constantly transferring money from jar to jar or making annoying bill payments. You now have the time to really look at what you are spending on a weekly basis and can make changes in your spending habits to help your long-term goals (and dreams!).