Budgeting and Cash Flow

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A budget is like a clip from a movie at an awards show. It's a small scene that is part of the larger picture. A financial plan looks at the long term, encompassing your goals, preferences, circumstances and important life decisions. The budget is a snapshot of that plan that zooms in on a sub-period to see how the plan is going. As you move through time, you can zoom in on the details of the budget for a specific time period, and then zoom out to see how it fits with your overall plan.

This article series is designed in sections so you can focus on what is needed for your situation so you can zoom in where you need to and gloss over what you don't need or already have. The analogy is the annual check-up with your doctor within the lifetime of your overall health. The budget is asking the "How am I doing at this moment in time?" and then looking at the long term and asking "What is this telling me about my money long term?"

The budget itself is composed of 2 main parts – money coming in (revenues) and money going out your expenses). One of the central parts of successfully managing your personal finances is to, and your

budget is what helps you determine if you are succeeding at that. Your means is the revenue piece, and comparing that to the expenses piece tells you if you are living within your means.

It used to be that budgets focused only on expenses, because job security was common and revenues were stable. This is no longer the case even if you have a "full time government job" because mass layoffs, downsizing and instability are now normal in the workplace. The 3 main types of income that this covers are employment income, entrepreneurial income and retiree / investor income. A fixed income scenario like a disability pension can also be put into the retiree category. Realistically, a person will go through all of these income types and will likely combine them at certain points of their lives.

Budgets represent that balance between your income and expenses over a period of time. A budget spanning a year is recommended and very common, but there could be sub-periods like monthly or quarterly if this is useful, and budgeting for each paycheque can be useful for staying on track. Over these periods, you will notice patterns of income and expenses which will provide insight as to where your money is going and for what reasons.

To build your budget, you will need to determine those two main components: how much money you have coming in, and how much you have going out. The specifics for each are discussed in detail in the rest of this article series.

What Is Your Income Available for Spending?

When people are asked how much money they make each year, the response is typically the gross salary that they earn. Is this the amount you should be using to calculate your budget? No, because there are various amounts that are taken from that salary that are beyond your control which would shrink the amount of money available for spending. There are 3 categories of such amounts. I call them mandatory deductions, optional deductions in that they are chosen by you, and fixed expenses where the parameters can be changed over multiple years. If you have business type revenue, there are some differences in these mandatory deductions which will be highlighted when they are relevant.

Mandatory Deductions

The easiest and best way to know what these deductions are is to look at a pay stub at the end of the year. You can also use a T4 Slip for income tax purposes or a Record of Employment (ROE) form if you have left a job, but these forms may not have all the deductions. What do you see? You will see various amounts taken from your salary like CPP contributions, EI payments, company pension contributions, union dues, health and life insurance premiums, worker benefits, and income taxes paid throughout the year. For more detail about how each deduction works, read the paragraphs below - otherwise you can skip to the section entitled Fixed Expenses.

CPP Deductions

Every employee or self-employed person between the ages of 18 and 65 must contribute to the Canada Pension Plan (CPP). These contributions are divided into an employer portion and an employee portion. The employer portion is paid by the company you work for and is not taken from your salary or visible

on your pay stub. The exception is for a self-employed person who will pay the CPP employer portion out of their income and this would then be a budget item – more on this later in the document. The employee portion will come from your annual salary and would not be available for spending until you collect CPP. For the year 2020, the rate for the employee portion of CPP is 5.25%. This rate may change each year so you would have to check the government sources to obtain the current rates. To add another wrinkle to the calculation, the CPP contributions will apply to income ranging from $3500 per calendar year to the maximum annual pensionable earnings. The maximum annual pensionable earnings is fancy language for saying there is a maximum annual salary above which the CPP deductions stop. For 2020, this maximum amount is $58,700. If you make $80,000 in salary as an example, the contributions for CPP would cease once your salary reaches $5,700 at some point in the calendar year. For a sample calculation, if your income is $80,000 per year, the CPP contribution you would pay each year is equal to: ($58,700 - $3,500) x 5.25% = $2,898 per year. If you make $40,000 per year, contributions would be applied without a cap and be equal to: ($40,000 - $3500) x 5.25% = $1,916.25 per year.

CPP For the Self-Employed

If you are self-employed or run your own business, you are now *the employee and the employer*. This means that you would have to pay CPP contributions for both. For the employer, the numbers are identical to the employee which means that the CPP contributions would be doubled. If you have a mixture of income from employment and being self-employed, you would have CPP contributions from both sources of income. The maximums are still in effect on a combined basis and if you exceed the maximum annual pensionable earnings, the CPP contributions would stop. How does a self-employed person pay these CPP contributions? They are paid for as part of your tax return calculation. There is a schedule 8 on your tax return which shows you the detail of the CPP contributions. Any CPP overpayments due to double-counting would be refunded on your tax return as well.

The assumption here is that you are working by yourself and are not hiring employees. If you hire employees, you have to remit CPP, EI and taxes *for their income as their employer on a periodic basis according to the government payroll remittance schedule. This gets into managing payroll which is beyond the scope of this article series.*

For contractors, if you are considered an employee for tax purposes, your CPP contributions will be treated like the employment example above. If you are treated as a self-employed person, your CPP contributions will be treated as a self-employed person. For gig workers, including arts grants, artists, or casual workers, the same rules apply. If you are claiming income as an employee, follow the employment rules. If your income is categorized as self-employed, follow the self-employment rules. The CRA definitions for each are here. How your income is considered matters because if you are self-employed, you can claim expenses but as an employee you cannot. Your deductions for CPP and EI are also different if you are considered an employee versus being self-employed. An easy way to find this out is: If you receive a T4 from your employer and if the employer is taking CPP and EI deductions, then you are an employee. Sometimes the T4 will have a code that says you are self-employed – this is covered on this page from the government.

Timing

Note that for employees, CPP contributions must be deducted every pay period or on every pay stub. This means that there are deductions made by your company's payroll department every time you get paid. When you reach the maximum annual pensionable earnings, the deductions would stop from that pay period to the end of the calendar year. This results in your net pay cheque being higher in the second half of the year depending on how much salary you make versus the CPP contribution maximum. For self-employed individuals, their CPP contributions will be calculated along with their income taxes, and they may have to put money aside to pay taxes and CPP (and possibly EI) contributions at the end of the year. Many self-employed people may make quarterly installment payments to the government, but either way they must plan ahead and set money aside to pay these amounts rather than having them withheld by their employer.

Multiple Jobs

If you have multiple jobs and multiple pay stubs, this deduction will occur for each one unless you are younger than 18 years old, older than 65 years old where CPP contributions are optional until age 70, or your income is projected to be below $3500 per year. If you are working past age 70, CPP contributions will not be deducted. If you have multiple jobs, CPP contributions are taken from each employer, which means you are likely overpaying. When your tax return is filed, the CPP contributions from all employers will be taken into account, and you will be refunded any overpayment through your tax return.
Employment Insurance (EI) Premiums

For employees, EI deductions are mandatory for employees, like with CPP. There is no minimum income amount like the $3500 for CPP, and EI will be deducted regardless of age or money earned. Like CPP, these contributions are divided into an employer portion and an employee portion. The employer portion is paid by the company you work for and is not taken from your salary or visible on your pay stub. The employee portion will come from your annual salary and would not be available for spending. For the year 2020, the rate of the employee portion is 1.58%. This rate may change each year so you would have to check the government sources to obtain the current rates. For EI, the maximum annual salary for contribution calculations is the maximum annual insurable earnings. For 2020, this maximum amount is $54,200. For a sample calculation, if your income is $80,000 per year, the EI contribution you would pay each year is equal to: $54,200 x 1.58% = $856.36 per year. If you make $40,000 per year, contributions would be applied to your entire salary and be equal to: $40,000 x 1.58% = $632 per year. If you make less than $2000 on a T4 slip and have no self-employment earnings, you would not pay EI premiums.

Timing and Multiple Jobs

These concepts apply to EI as well as to CPP, and you contribute too much to EI for multiple employers. This would be reconciled on your tax return and you would be refunded any amounts overpaid for EI contributions. There would also be a bump in your take home pay when EI contributions stop during the year if your gross income exceeds the maximum annual insurable earnings for the year.

EI For the Self-Employed

EI for the self-employed is not mandatory but it is optional. However, once a self-employed person opts into EI they may not opt out again. It is sometimes opted into for cash flow management during maternity leave or for possible compensation due to injury, illness, or for compassionate care of a dying relative. If you have opted into this program, account for the EI deductions as part of your mandatory deductions. See this link for more information.

Company Pension Contributions

Pensions come in mainly 2 types: Defined Benefit pension plans (DB Plans) and Defined Contribution pension plans (DC plans). The word "contributions" in pension language refers to how much money you are paying into the pension plan while you are working. The word "benefits" refers to the money being paid out of the pension plan once you retire. A defined benefit pension plan is where the payouts (or benefits) that you receive in retirement are "defined" or fixed. For a defined contribution pension plan, the money you are paying into the pension plan is "defined" or fixed. If one element is fixed, the other element can change over time to allow for unpredictable circumstances.

How do you know what type of pension plan that you have? For a DB plan, you will not have any decisions to make with respect to how the pension money is invested. The rate of return on the investments is provided by the plan sponsor, which is based on an actuarial study which the pension plan conducts about every few years. There would be a retirement calculator that would predict your retirement payout for a future date.

For a DC plan, the employer would provide you with a list of company sponsored investment products, and you would choose from the list. There would not be a calculator that can predict a payout because it would depend on how well your investments perform and the investment products that you choose within your DC pension account. If there is a retirement calculator, you would have to assume an average rate of return on your pension investments up until your retirement date.

What does this have to do with my budget? Depending on the type of pension plan you have, there may be decisions on how much money will be contributed from your pay cheque. For a DB plan, there is no choice. The contributions are set each year by the employer and you would have to account for them. For a DC plan, you may have a mandatory component and an optional component to how much you contribute. There may also be an additional component called an "employer match", where your employer matches your additional pension contributions up to a maximum percentage.

Note that contributions have 2 components for both types of plans: The employer portion and the employee portion. The employer portion is not part of your salary or your budget and remains in the background as long as you are an active member of the pension plan which means you are either actively working or making contributions as if you are working. The only time the employer contribution would be of interest to your budget is for the calculation of your RRSP contribution room or if you are leaving the employer and want to find out how much pension you will be receiving. The employee portion is coming from your salary and would be a deduction similar to CPP and EI.

Other deductions

Other deductions that occur on a pay stub that would reduce the amount of money available for spending include annual union dues, life insurance premiums, health insurance premiums, critical illness insurance, long term disability (LTD) insurance, automatic savings plans co-ordinated through your employer as well as benefits that you are paying for through your employer. Since these deductions vary greatly depending on where you work, the easiest way to account for these deductions is to look at your pay stub or ask the Human Resources department at your employer for the details.

Taxes

Employee

The easy way to estimate taxes for your budget is to use your prior year's tax return and add up the taxes that were paid for the whole year – from your pay cheques and additional amounts recorded on your tax return. Another source for the taxes paid throughout the year is your last pay stub of the calendar year, or your T4 slip which shows taxes deducted throughout the year only. If your income or tax claims are changing on your tax return versus the prior year, you may have to pay more or less income taxes when you do your tax return. The paragraphs below delve more into the details of the tax estimate.

There are taxes taken at source from every pay period from your pay cheque. The taxes deducted are based on a payroll schedule which assumes various tax credits and that you make a constant annual amount of money from a single employer. The language used in the last sentence is deliberate to show where taxes may deviate depending on your situation.

The tax credits are listed when you begin a new job on a form TD1. Typically, a person will automatically get the basic personal amount and any other tax credits would be accounted for on your tax return when you file it. If you have a situation where you know you would be entitled to other credits, you can indicate them on the form TD1 and the employer will take less taxes off each pay cheque to account for them. As with everything tax, there is also a provincial version of this form for provincial credits. Alternatively, you can request to have more taxes removed (but not less) from your pay cheque for various reasons such as: You want a larger refund, you want to cover taxes from non-employment sources, or as a means of saving.

If you have multiple employers, you will be paying taxes for each of them via your pay cheque. If your salary changes, you leave the employer, you have multiple employers, or you receive bonus compensation, this will change your tax situation.

Self-Employed

For the self-employed, taxes are paid when you do your tax return. If you have been in business for a few years or longer with consistent income, you will have an idea what you will have to pay. Your taxes are charged on your *net income*, or your business income after your business expenses. If you collect HST, the HST is remitted separately and is removed from your revenue and your expenses for the

purposes of doing your income tax return. These HST amounts should be kept aside and remitted when they are due to avoid squeezing cash flows when the HST amounts are being paid. If you are paying taxes each year because your business is profitable, you will likely pay installments periodically to the CRA. These payments are effectively paying taxes throughout the year instead of paying all at once when you do your tax return. Keep these amounts in your budget to keep the cash flows predictable.

Optional Deductions

The mandatory deductions are what you do not have control over. There are some small exceptions like a DC plan contribution match, but those deductions are largely mandatory. Optional deductions are choices that you have made that reduce the amount of money available for spending on a day-to-day basis. These are primarily items that are going towards future goals like education, retirement, or saving for a large asset purchase. Examples are contributions to RESP plans, RRSP contributions, TFSA contributions, profit sharing plans, employer option purchase plans, or automated savings account and investment purchases. These examples are meant to be ongoing, but there are cases when these choices can be changed. This information is available from the institutions where the accounts are held in the case of the RRSP, TFSA, or RESP accounts. Any pension decisions, stock option plans, or profit-sharing plans would be going through your employer. If you have an automatic savings plan, this would be co-ordinated through the institution where your bank account is and where the deposits are being made.

Fixed Expenses

Fixed expenses are those costs in your life that are occurring today and are designed to pay for something that is needed today, but will be fixed over a longer time period and can be hard or impossible to cancel in the event of a financial shock. The amount of the payment tends not to be affected by seasonality or the time of the year. These expenses tend to persist in their current form for at least several years, and even though everything can be changed eventually, these expenses tend to take longer to modify due to commitments being made to them. A mortgage is a good example of this: The terms will be renewed every few years and payments may change slightly, but it will be done over time. It is difficult to make radical changes to your mortgage within hours. Other examples are car leases, utility contracts like Bell or Rogers, or payment plans for renovations.

When you zoom in on the details of the budget or zoom out to make decisions on the big picture cash flow, what you have control over and what decisions you have made will allow you to ask different questions about what can be changed in your budget. Fixed expenses get the most attention because of the lack of control over short time periods. So carefully consider your mortgage, rent, lease payments for your car, utilities, property taxes, voluntary insurance payments for a house or car, interest payments on other forms of debt that are long term like lines of credit or student loans, instalment payments for big ticket items and sometimes daycare if it is relatively fixed in cost.

Discretionary Expenses

The last category of expenses is the discretionary expenses. These are expenses for everything else including food, entertainment, clothing, gifts, travel, household goods, electronics, hobbies, small repairs, furniture, children's needs and any other items where money is spent. You have the most control over these types of expenses, and they get a lot of attention when it comes to budgeting for this reason.

Budget Framework

Generally speaking, the budget should be created over a 1 year period. Why? There are seasonal spending patterns that affect what you spend. What you purchase in the winter in terms of food, entertainment, travel, gifts will be different than in the summer. What you do with your children during summer break or camps will be different than when they are in school. Shopping for gifts tends to be highest at Christmas time and lowest in the summer time versus other points in the year. To capture these seasonal differences, a budget should be done over a calendar year. There can be a breakdown by month or quarter if this is helpful to manage day to day bills.

Balancing your budget, emergency funds and other reserves

A budget that is balanced is one where there is enough income coming in to pay for all of the expenses. Ideally, you want to have a budget surplus, where you have more money coming in, unless building your savings is already an item in your budget. This is because unexpected expenses can crop up from time to time – emergencies and other surprises. Building an emergency fund or buffer can help your multi-year budget deal with the year-to-year differences that will appear. The reserve fund adds a greater margin of error in balancing your budget. Some expenses will also only appear in certain periods. Taxes, for example, may only be due once a year (every three months for some), so you may need to plan ahead and save for them each month. Major home repairs can be even less frequent, requiring that homeowners plan to save over multiple years for some expenses.

A budget shortfall, where expenses are greater than income, can lead to drawing down your savings, or going into debt. Achieving a balanced budget can relieve a lot of stress in a person's life, even if it means sacrificing some discretionary spending. This psychological trick has been known for centuries, as Charles Dickens put it:

"Annual income twenty pounds, annual expenditure nineteen pounds, nineteen shillings and six pence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery"

Framing budget decisions in different ways can also help make the decisions easier to make. For example, increasing your budget surplus (your savings rate) from 5% to 10% may sound daunting – a doubling of your savings rate! However, it only requires that you cut your spending from 95% to 90% of your disposable income, a much more achievable-sounding reduction in your spending.

Budget Scenarios

There are 3 types of income models: Employee income, the entrepreneur or gig worker, and the retiree or investor. The employee budget has relatively stable revenue but may have variable expenses. The entrepreneur has unstable revenue but can have stable expenses and would create a budget focused more on expenses. The gig economy worker, contractor or a holder of multiple part-time jobs can also use this model. The retiree, investor or fixed income scenario has stable revenues but may have to be more active in how they are managed and has more stable expenses. Many people have aspects of all 3 income models and they can all be combined at different stages of life or in different circumstances

Employment Income

A worker with a full-time job and a predictable salary and benefits is a common profile, making up more than half of all adults in Canada. The revenue part of the equation which is the mandatory deductions and optional deductions are predictable and so the revenue part of the equation is straight forward. The expenses are where the work needs to be done because the lifestyle will determine where the remainder of the money goes.

Entrepreneurial, Contractor or Gig Economy Income

The entrepreneur has two major differences versus the worker. 1) The cash flows are unpredictable, so the value of doing a budget over a year becomes more important. Cash flows tend to follow a feast or famine trend where you may perform some work and not get paid for a long period and then be flush with cash at a certain time of the year. 2) The second major difference is that there will be business expenses as well as personal expenses which will often overlap. One tip of major importance is to itemize the business expenses separately from the personal expenses. If there is overlap such as a home office, automobile use, or utilities, the expenses will be there regardless of the business, but the tax implications and maybe the usage will be different between having a business or not. Why separate the business expenses from the personal expenses? Your budget will answer 2 questions at the same time: How is my business doing and is it worthwhile to keep doing it? Above and beyond my business, how are my personal expenses and are they being covered? A bonus feature is that taxes will be easier to calculate with a budget set up in this way.

Note that if you rent properties, this can be treated as a self-employed type of situation, except that there are no CPP or EI deductions because renting property is considered passive income. The budget aspect would be identical otherwise.

If you collect HST as a self-employed person, separate HST collected and HST expensed as the money comes in. This money is not yours and will have to be remitted to the government so assume that you are just holding it for someone else. You can technically use it as a short term loan but would then have to replenish your account when you remit your HST.

If you have a business, keep in mind that some people may not pay their bills even though the work is completed. If this is common in your business, you may have a budget item for “bad debts” or non-collectible payments which would reduce your revenues or budget income.

Always think of your cash flows on an annual basis where some months have low cash flow and other months have high cash flow. During the high cash flow months, allocate enough money to cover expenses until the next period of high cash flow. How do you know if your budget has any surplus? You generally will not know until 1 year has passed and you have witnessed the variable cash flows and seen the results. The bedrock of the budget is your expenses.

Reserve Fund

For dealing with uncertainty, a reserve fund becomes more important than for those receiving stable income. For a full-time job holder, the reserve fund is designed to cover large unexpected expenses and job layoffs. For the entrepreneur, the reserve fund must also cover the low cash flow periods because work can come and go at any time, and customer payments can be variable even when the work is steady. The reserve fund acts as a buffer to absorb periods of low cash flow and should be replenished when there are periods of high cash flow. An alternative to handing this is to use a line of credit or some other means of debt. You would draw down or expand the line of credit balance during periods of low cash flow and then repay or pay down the balance during periods of high cash flow. This can be a good solution if there is no money available for a reserve fund. However, there are 2 issues with doing this. Debt usage always has an interest charge which is an added expense that provides you with no benefit. Secondly, you are at the mercy of the lender. If interest rates rise, fees rise or lending becomes restricted, you will have issues meeting cash flows when you need money the most.

Investment, Pension Income or Fixed Income Situation

For the investment, pension or fixed income situation, cash inflows are not derived by working but from investments or pensions. It is assumed that there is no income from a business. There would be no CPP deductions, EI deductions, pension deductions or other deductions typically found on a T4 slip from an employer. The main deduction in this case would be taxes. Taxes can be deducted at the source if it is pension income from any pension source (government or private) or an annuity. For investments, taxes are not deducted at source but would be payable when the tax return is filed. You may also have to pay the CRA installments if you consistently owe more than $3000 per year on your tax return. These installments are typically paid every 3 months throughout the year and would be a budget item to consider.

There are tax quirks with investment income which are not present with income from a job or a business. The 3 main quirks are the Canadian dividend tax credit, income from capital gains and foreign dividend withholding taxes. Without going into too much detail, the Canadian dividend tax credit “grosses up” income and then provides a Canadian dividend tax credit which means taxes from this type of income are lower than from working or having investments that earn interest income. This credit is for Canadian companies that pay dividends in a non-registered account (not an RRSP, TFSA, RESP or LIRA Locked in Retirement Account). Income earned from capital gains is taxed at half the rate of income

derived from working, and if you have capital losses, they can offset capital gains, reducing taxes further. There are strategies that can generate income from capital gains, but this is beyond the scope of this article series. The last quirk is dividend withholding taxes on foreign dividends. These are taxes on income from international dividends which would reduce your dividend income since these taxes are taken at the source. The rules for these dividend withholding taxes are complex but suffice it to say that these taxes can be accounted for by looking at the actual amount of dividends received each year.

How Do I Estimate My Investment Income?

Interest Income

If you know the rates and the amount invested do not change much from year to year, you can look at your bank statement and see how much interest was paid as of December 31 of a given year, and input this number into the budget for the following year. Another place to look for this information are the T3 or T5 tax slips that you receive each year from the institutions where your investments are held. You would not get a tax slip for small amounts of interest income in some cases, but if amounts are small, they can be ignored for the budget. Note that tax slips are only given for non-registered accounts to show you how much income you have earned each year. If you are building a budget using RRSP income, TFSA income or other registered account income, you would need to factor the amount of withdrawals you plan to make each year as well as any withholding taxes taken at the time of withdrawal.

If you have income from interest which is government or corporate bonds, GICs, bank accounts or products that are considered the safest investments you can buy, the type of income you would receive is likely going to be interest. To know how much income you would receive, you need to know how much money is invested (your principle or cost base) and the yield or interest rate that you are receiving on the money. If the interest rate is locked-in or is the same throughout the investment, the amount of interest income you would receive is the amount invested multiplied by the interest rate. If the rate is unpredictable or is changed at some point during the year, you can estimate using an average of what type of rate the investment typically generates. If it is a fixed rate that changes once or twice throughout the year, you can calculate the interest income for each portion of the year by calculating the amount invested multiplied by the interest rate multiplied by the portion of the year that you held the investment. If you had $20,000 invested at a 1% interest rate for 4 months, the interest income is $20,000 x 1% x 4 months / 12 months = $200 *4 /12 = $66.67. For the remaining 8 months, if the interest rate is 1.5%, the calculation is $20,000 x 1% * 8/12 = $133.33 for the remainder of the year. For timing purposes, you may also want to know what time of the year the interest pays out because it could be monthly, quarterly, annually or whenever you redeem the investment.

Dividend Income

If you have investments in equities or stocks, you may receive income in the form of dividends. These dividends can come from Canadian companies or foreign companies. The calculation is the same as for interest income, but instead of using an interest rate, you are using a dividend yield, or percentage of the amount invested paid out in dividends each year. Not all equity investments have dividends. If you hold equities that do not pay dividends, this section can be skipped. Canadian and international

dividends have the same formula for calculation. The issue with dividends is that they are not guaranteed and therefore less predictable than interest. Using prior year bank statements and T3 or T5 slips is still useful for estimates. For timing, dividends are typically paid quarterly, but the cycle and pay date can vary in terms of which day of the quarter the dividend pays out. Some companies also pay dividends once a year, so be mindful of the payout schedule for each holding that you have.

Capital Gains

Capital gains are money created by selling something for a higher value than its cost. There are ways to engineer these gains to create income, but this is not predictable so it should not be a regular input into your budget. There are exceptions for years when you want to have extra capital or are rearranging your financial situation, but this gets more into bigger picture financial planning as opposed to the annual budget.

Withdrawals and Pensions

If you have registered accounts and they generate predictable income or you are forced to make withdrawals each year like a RRIF or LIF, this income will form part of your budget. For RRSP and TFSA accounts, withdrawals are optional. When you turn age 71, the RRSP becomes a RRIF and you would have a minimum amount that you would have to extract each year according to a government table of withdrawals. Though the money has to be withdrawn from the RRIF, it does not necessarily have to be spent – you can choose whether this money is available for spending, or if you will reinvest it in another account (e.g., your TFSA or non-registered account). The key takeaway is that this money will appear in your budget and you would have to decide what it should be used for.

If you have a fixed pension from an employer or an annuity from an insurance contract, the payments will be predictable and are indicated to you in advance. Many of these situations will index your payments to inflation, meaning that they will increase your payments as inflation rises. The assumption is that inflation rises every year which theoretically does not have to happen. There may also be limits to whether the payments will cover the entire inflation rate increase or a portion of it. These details can be obtained by whoever is paying you the pension and annuity. The same treatment can be applied to CPP, OAS or other government pensions like disability pensions.

Mixed Investments

Many people have investments in mutual funds, exchange traded funds (ETFs) or similar products that have multiple types of income within one product. The way to predict income from such products is to split them by how much income comes from interest, dividends, capital gains (which I would ignore for purposes of an annual budget), and possible return of capital. Return of capital is when an investment gives you your invested amount back to you over time for purposes of differing taxes. I bring this up because it will be cash flow available for your budget and it will be fairly predictable. The tax consequences are dealt with when the investment is sold. If you have someone managing money for you, they can provide you with the information of income from different sources. The composition or

asset mix within each product or a portfolio of products may change each year, so this is something to keep an eye on.

The key for the investor is that income can vary by factors beyond their control – which are primarily market forces. There are choices that can be made in terms of asset allocation and risk in your investment portfolio, but income can change unexpectedly. Unlike the entrepreneur, changes in income will come more slowly and will not be as drastic. The expenses side would be treated like the employment income situation. If the investments contain expenses that can be changed, this would be something to track in your budget. For the retiree or fixed income situation, the income is stable and does not require much effort. The focus will be on expenses and whether they are covered.

Taxation on Investment Income

Different forms of investment income will have different tax rules applied to them. Interest income is taxed at the same rates as employment income would be, though there will likely be no tax withheld so you will need to be prepared to pay tax at a later time. Dividend income has a more complex tax treatment, involving a gross-up and dividend tax credit, but will be taxed at a lower rate than an equivalent amount of interest income. Only half of your capital gains are included as income for taxation (or equivalently, they are taxed at half the effective rate of other income). Additionally, investment income may be in tax shelters that negate these rules. Gains in a TFSA or RRSP are tax free, though any withdrawals from an RRSP will count as income and be taxed accordingly.

Building the Budget and Putting it All Together

Okay, how do I actually build my budget? The first stage is to list all of your income sources. This includes all jobs, gigs, businesses, government grants, investment income or pension income. If there are sources of income that are not likely to be repeated, list them for now but keep in mind that they may not be there for future budgets. Government money like HST credits or Trillium benefits can also be added. This can be done on paper, in a spreadsheet, in an app or in a program like Quickbooks. Programs designed for businesses can be used for budgets as well because you can structure your budget like a business. The revenues are the same as income and the expenses can be business or personal expenses. The big picture equation is below.

Income From All Sources (Employment, Entrepreneur and Investment)
Subtract **Mandatory Deductions**
Subtract **Voluntary or Optional Deductions**
Subtract **Fixed Expenses**
Subtract **Discretionary or Variable Expenses**
Equals **My Budget Balance**

A Positive budget balance means that I have money left unallocated for this period – savings. A negative budget balance means that I need money to cover what I want to allocate this period – I will have to dip into my savings or go into debt. A zero budget balance means that all of my money has been allocated somewhere.

Once you have these items listed, list your mandatory deductions as per the paragraphs above. Include taxes deducted on pay stubs or installments being paid to the CRA throughout the year. Taxes may have to get adjusted at the end of the budget depending on what is happening on your tax return. You can use this stage to add HST collected or expensed as a self-employed person. Subtract these items from your income sources to arrive at income after mandatory deductions.

Now, make a list of any optional deductions such as RRSP contributions, TFSA contributions, RESP contributions, automatic savings plans or profit sharing incentives. These are voluntary allocations that tend to happen each year. If you do lump sum contributions each year, list these as well. Subtract these amounts from your subtotal to arrive at income after voluntary deductions. Lump sum mortgage or debt payments can also be listed here since these can be changed in a given year.

The next stage of the calculation is the fixed expenses. These are items that persist over multiple years and can be changed but typically over a period of time. These are also items tied to life's big decisions, like where am I living, what car am I driving, and how am I paying for big ticket items. Examples include rent, mortgage, continuing debt payments each month, car lease payments, day care expenses, tuition fees for a multiple year degree or diploma, utilities and insurance payments of all kinds. If you have a business and have fixed expenses for your business, this would be the stage to include these expenses. Examples include rent for commercial space, utilities used for the business, web site costs, or business automobiles. Since all of the money is part of your budget from personal and business, the personal and business aspects are listed separately but then are merged together to see where all of the money is going. You will now have income after fixed expenses.

The last stage of items is the discretionary expenses. This includes anything else that you would spend money on like food, entertainment, clothing, children's needs, gifts, holiday spending, electronics, household goods, landscaping, medical, hygiene, donations, travel and hobbies. Make a list of categories that describes where your money is being spent so that you can easily see where the money is going. The number of categories can vary as long as you have a decent picture at a glance of how much is being allocated to what category. Use categories that best describe your lifestyle as opposed to generic categories. For example, if you have children, you can have day care, camps, toys, children's entertainment, and so on. If you are a small business owner, you would have more business expense categories. If you are retired, there may be more expenses for various hobbies, grandchildren and leisure. The budget will be custom made for your lifestyle and your situation. The sample below is generic to give you an idea how the budget can look.

Notice that expenses can vary be month and by season, particularly holiday spending, seasonal hobbies and items like landscaping or travel. Note also that most of the budget can be done in a few hours. The mandatory, optional and fixed expenses do not vary much so once they are known, they can be looked at once per year. Most of the focus and work when it comes to budgeting is on the discretionary expenses. There would be more to consider when there is a big decision to make and many aspects of the budget can change.

How Much Detail Do I Need?

How do I total up the discretionary spending items because there are so many of them? There are many methods you can use – you can write everything on paper and summarize each week or month, look at credit or debit card statements an categorize them, download expenses into a spreadsheet if possible, use an app like Mint, or feed receipts into a Quickbooks - like software program. I don't find any method to be fool proof because people typically buy things with cash, credit and debit so you would have to account for all of the methods. Spending can be tracked as money is spent or done periodically like weekly or monthly. I wouldn't update every year because you will forget what you spent your money on after a period of time.

Do I need to track every dollar that I spend? The answer to this question is no. If you are off a few hundred dollars each year, it likely will not be noticed. If your budget is very tight, a few hundred dollars may make a difference so track until you have a good idea where the money is and can make accurate decisions. Be mindful of frequent small amounts that add up to large expenditures at the end of the year. If you have heard of the "latte factor," this is what it is referring to. If I spend a dollar a day on a coffee, I would spend $365 per year. Is this important? It might be. If I do this for 10 different items, I now have $3650 spent per year. This can make or break a budget. Does this mean you should not have these expenditures? This will depend on what value you are getting from the expenditures and how you are making your budgeting decisions. This will be discussed more in the psychology section.

A sample budget is provided below which has a bit of everything in terms of income and expenses so you can see how it fits together.

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec	Year
Income Sources													
Employment	4300	4300	4300	4300	4300	4300	4300	4300	4300	4300	4300	4300	51600
Bank Interest	40	40	40	40	40	40	40	40	40	40	40	40	480
Side Gig	0	0	0	0	400	555	334	265	0	0	0	0	1554
Small Business Revenue	0	0	0	2000	0	1000	0	0	1000	0	0	0	4000
Total Revenue													57634
Mandatory Deductions													
CPP	219	219	219	219	219	219	219	219	219	219	219	219	2632
EI	70	70	70	70	70	70	70	70	70	70	70	70	836
Pension Contributions	167	167	167	167	167	167	167	167	167	167	167	167	2000
Union Dues	55	55	55	55	55	55	55	55	55	55	55	55	660
Health Insurance	5	5	5	5	5	5	5	5	5	5	5	5	63
Taxes Deducted Paycheque	850	850	850	850	850	850	850	850	850	850	850	850	10200
Total Mandatory Deductions													16390
Income After Mandatory Deductions													41244
Voluntary Deductions													
RRSP Constributions	150	150	150	150	150	150	150	150	150	150	150	150	1800
Automatic Savings Plan	100	100	100	100	100	100	100	100	100	100	100	100	1200
Total Voluntary Deductions													3000
Income After Voluntary Deductions													38244
Fixed Expenses													
Line of Credit	115	115	115	115	115	115	115	115	115	115	115	115	1380
Car Lease	360	360	360	360	360	360	360	360	360	360	360	360	4320
Student Loans	240	240	240	240	240	240	240	240	240	240	240	240	2880
Condominium Fees	800	800	800	800	800	800	800	800	800	800	800	800	9600
Property Taxes	0	0	400	400	400	0	400	400	400	0	0	0	2400
Bell	56	56	56	56	56	56	56	56	56	56	56	56	667
Rogers	70	70	70	70	70	70	70	70	70	70	70	70	840
Hydro	50	60	70	80	90	120	130	110	98	85	80	65	1038
Car Insurance and Licence	150	150	150	150	150	165	165	165	165	165	165	165	1905
Total Fixed Expenses													25030
Income After Fixed Expenses													13214
Discretionary Expenses													
Business Expenses	0	0	250	300	220	300	0	0	0	0	0	0	1070
Food	223	152	236	212	189	252	321	268	279	202	199	297	2830
Entertainment	210	210	210	210	210	210	210	210	210	210	210	210	2520
Clothing	0	0	0	200	100	0	0	0	0	0	0	200	500
Children's Needs	0	0	0	0	0	0	0	0	0	0	0	0	0
Gifts	0	0	0	0	0	0	0	100	0	0	0	150	250
Holiday Spending	0	0	0	0	0	0	0	0	50	0	0	200	250
Electronics	100	50	0	0	25	25	0	0	0	0	0	0	200
Household	65	35	0	40	100	225	0	123	56	0	70	350	1064
Landscaping	0	0	0	0	0	0	0	0	0	0	0	0	0
Medical	0	0	0	0	0	0	0	0	0	0	0	0	0
Hygiene	0	0	60	0	0	60	0	0	75	0	0	45	240
Donations	0	0	0	0	0	0	0	0	0	0	0	0	0
Travel	0	0	0	0	300	250	300	0	0	0	0	0	850
Auto Expenses - Gas and Repairs	36	46	46	55	52	59	550	800	45	43	46	47	1825
Hobbies	80	80	120	130	150	80	80	55	55	100	80	70	1080
Total Discretionary Expenses													12679
Income After Discretionary Expenses													535

Organizational Component

Keep all of your receipts for at least a few years in case you want to check something with them – either virtual or physical in one place and have things categorized by institution or bill payee, by account and then by time period, usually monthly or quarterly and then by year. Keep the related items together. For

example, you can have a utilities folder and then have a subfolder for water, heat, hydro, rent, Rogers, Bell, etc. You can have an investments folder and then have each institution where you have money invested, followed by the account and then by month and year. For a business, you can have a revenues folder and then an expenses folder and have subfolders by types of revenue and types of expenses. There would be a folder for tax returns, CRA correspondence, CRA payments etc. Keep related documents close at hand as well, such as a deed for your house, rental agreement, car lease agreement, mortgage agreement and insurance contracts. You will likely have a physical and a virtual set of folders which is okay – the same setup would apply. It can be a box, filing cabinet, set of folders, an app, a USB stick, a cloud folder or an external hard drive. The key is to have the documents in one place and in some kind of order so you can retrieve something easily without searching through everything. Items can be stored on the cloud, but I recommend having a duplicate version somewhere within your reach. Statements stored by institutions tend to get wiped out after 6 months to 2 years and retrieving them beyond these time periods is either not possible, or time consuming and expensive. I would download material from the cloud as it comes in and store either on a hard drive, USB stick or in paper form.

Part 2

How Do I Tinker with My Budget or Make Changes?

This is where the sovereign aspect of managing your cash flow becomes more apparent. First off, there are 2 approaches to getting feedback from your budget. The first one is to make a budget of *what you want to spend for the next period or year*, and then track what you did over the period or year and see if you are "on budget". The other method is to track the spending first without expectations and see how the summary looks before deciding what should be changed. Does it matter which method you use? You should use the method that works best for you. If you like discipline, diets and rules, the first method would appeal to you more. If you have a lot of guilt about not meeting the budget or are not sure what you should spend money on, the second method would be more appealing. It may also depend on the state of your finances: if you are going into debt, you may need to change your spending right away and it wouldn't make sense to wait to track first. You will eventually arrive at the same destination in that you created the budget and then look at it to see how it turned out. This will be the basis for making changes.

When consider tinkering with the budget, zoom out from the details and ask the larger questions. There are 3 main outcomes that can occur after looking at your budget. You may have extra money at the end of the budget period, you may be short of money or there is a third option which is that your budget revenues are equal to your expenses or is "balanced".

Extra Money from Your Budget – Short Term Surplus

If you have extra money from your budget, the question to ask is: Is this sustainable or is it likely to be repeated next year if there are no changes to your inputs? Is this the result that you expected? If you don't have expectations yet because it is your first time doing a budget, this question will likely be asked after doing it 2 or 3 times. If this budget result is sustainable or it is very likely that this will happen each year, then you can go to the set of questions below. When you zoom out from this result, there are 5

main areas where the money can be applied: paying down debt, spending today, saving for a future expenditure, building the reserve fund or investing the money. The money can be directed towards each of these goals or a combination of them depending on what is the most important.

If there is uncertainty as to whether this budget result is sustainable, then ask yourself if you have enough reserves or credit to balance your budget or make ends meet in any given year. If the answer is yes, then you can direct the money to one of the 5 options: pay down debt, spend, save, invest or add to reserves.

Reserve means that you have cash available for you to put into your budget. Credit means you are using a form of credit (credit cards, line of credit, etc.) to balance your budget.

Having a Shortfall on Your Budget in the Short Term

If your expenses exceed your income or revenues, this is called a shortfall in your budget. You will need some extra money aside from your annual income sources to pay for your expenses. The same questions can be asked as for a budget surplus. Is it sustainable or will it likely be repeated? If the answer is yes, do I have enough reserves or credit to keep the budget balanced this year? If I do not, the options are to sell assets or increase credit.

Longer Term Questions if the Situation Stays the Same

Extra Money from Your Budget – Expected Surplus Long Term

If you have a budget surplus and it is likely to keep on occurring, then you switch your focus to your longer term goals. The first question to ask is: Am I on track with my long term goals and will my current situation get me to where I need to be over time? If the answer is yes, your budget can be left as it is. If there is something missing, the next question is: Can I increase my income or reduce my expenses so this scenario will be more aligned with my future goals or expectations? The focus of this question is for income changes or expenses that you can control quickly – either tweaking income for a side hustle, increased yield on investment, raising rent on your properties, or reducing the discretionary expenses.

Having a Shortfall from Your Budget Long Term

If you have a budget shortfall, the same questions can be asked as in the surplus situation. If the shortfall is temporary, you may be on track to reach your long term goals and nothing needs to be done to your budget. If you have a repeated shortfall, this eventually leads to a shortage of money and the same remedies can be asked: Can I increase my income or reduce my expenses so this scenario will be more aligned with my future goals or expectations? The focus of this question is for income changes or expenses that you can control quickly – either tweaking income for a side hustle, increased yield on investment, raising rent on your properties, or reducing the discretionary expenses.

Incremental Changes that Are Beyond Your Control

Prices creeping up for things like utilities, rent, and food can erode your carefully planned budget. The blanket word used for this phenomenon is inflation. Inflation is not the same across the board – it will depend on what your budget is composed of. If you have a relatively low income, your budget will be mostly made up of food, rent, utilities and maybe some transportation. These items tend to rise in cost the most often on an incremental basis because they are needed, producers are able to raise prices and physical goods are hard to substitute or eliminate from one's budget. If you have a higher income and a larger portion of your budget is on discretionary items like electronics, hobbies, entertainment and travel, inflation will not be as large of a problem because choices can be made to substitute or eliminate parts of your budget.

If you have a lot of income being derived from investments, forces beyond your control can also show up on the income side from changes in interest rates, dividend yields, or investment fees. If you have a rental property, some of your expenses may be subject to incremental increases, such as property tax and utilities payments.

The best way to handle these erosions to your budget is to know that they are there. Once you see the pattern of what costs tend to be subject to this incremental rising, you can predict what will happen for the following year and account for it, though it is best to plan for some inflation rather than none. Utilities, transportation, property taxes, and rent tend to go up with the inflation rate each year. Other items are more variable and you would have to see what pattern exists in your annual budget to decipher where the increases are in prices. There are cases such as electronics where prices decline each year due to newer and better options for products. This can be a source of extra money for your budget, but keep an eye on what you are getting and what the total cost is. As an example, the cell phone may be cheaper, but the cell phone plan may be more expensive.

Longer Term Questions if Things Can Change Voluntarily

The reason why the budget process is set up the way it is in this Article series is to include various sections on income sources and deductions is to test what would happen if a large change were to occur in your goals, choices, or lifestyle.

If you make a big change in your lifestyle, you can adapt each of the sections to see what a new budget would look like. Common examples of big life decisions are: Large home renovations, buying or selling a car, buying or selling a house, moving to another city or country, expensive vacations, getting a new job or leaving a job, starting or closing a business, investing or divesting a large sum of money in a business, getting married or divorced, buying or selling investment properties, having children or children leaving home, death of a loved one, retirement, large inheritances, large compensation payouts or receipts such as large insurance payouts, large lawsuits won/lost or a major health issue that impacts lifestyle. The key criterion here is that one of these events will change the nature of your financial situation and by extension your budget. Some examples of how to examine these types of decisions are below.

For each decision like this, look at your present budget and notice what is going to change for a future budget. Then you focus on 5 main areas: revenue, spending, investing or asset building, emergency reserve and debt. Ask yourself for each of these areas: What is going up or down comparing my present

situation with my future situation? This will get you a picture of all of the changes that are expected to happen and you can see where the surpluses and shortfalls in cash flow will occur. If you are dealing with something uncertain like future business income, you would have to make an estimate of what that would be and then keep an eye on it to see if your estimate is correct. When in doubt, make the estimates conservative because it is always nice to have additional money than not enough. The estimate would then have to be refined to match reality and a decision would be made further down the road to make the budget more feasible. You would also have to ask yourself: If my estimate is wrong, what are my options? If you can afford to be wrong due to extra money available to you, then this can be your backup plan. If you do not have this luxury, what are the other options? These can be selling an asset to raise the money, cutting expenses somewhere or borrowing money. There may be an option to increase revenue in another area as well.

Example 1) Changing from Employment Income to Starting a Business

If you start a business and shift your income from employment income to an entrepreneurial type of income there will be several implications for your budget. The business income may be uncertain if this is a business that is new to you and there is no established source of revenue, and this new income stream may be lower than employment for the first few years.

The mandatory deductions will change because there will be no pension contributions or life and health insurance deductions from your income, and there may not be EI depending on whether you decide to opt-in. There will however be additional CPP deductions to account for in your budget. On the whole, your mandatory deductions will likely be reduced when going from employment income to business income. Your reserve fund should now be expanded to cover the uncertainty of the cash flows that tends to happen for a business. You may have financing for your business which means additional interest payments each month. The voluntary deductions may change because without an employer you may not have a workplace RRSP or automatic contributions to make to a savings plan or share purchase plan. Discretionary expenses will change because business expenses will rise, but commuting costs, and your lunch budget allocation may be reduced. You may have to allow for higher internet costs and a faster computer to run your business. Once you factor in these changes, you will see a new budget emerge and you can see how well it will work. Many of these inputs are estimates, so you will have to accept the uncertainty, but your budget will be a tool to monitor how things are going. If there are shortfalls in the budget after taking account all of these changes, the options to balance the budget are to tap further into your reserve, cut expenses, borrow more money, increase revenues, or sell existing assets to generate cash flow. If there is a surplus in the budget after all of these changes, then the same areas can be looked at in reverse. You can add funds to your reserve fund, spend more, purchase more investments, or pay down debt.

Example 2) Purchase a House Versus Renting

If buying a house involves a move to another city and your employment income also changes, be sure to also look at that aspect of your budget, otherwise income sources are not affected by purchasing a home. The fixed expenses would be overhauled as rent is being replaced by mortgage payments,

insurance, and property taxes. There would be an increased reserve for home repairs which was not present as a renter, and a change in utilities spending depending on whether your rent included utilities, and if the property is changing (e.g., a detached house will likely have higher utility bills than an apartment). This may result in less money being available each year (or more) depending on the cost of rent versus the group of costs involved in owning a house (property taxes, mortgage payments, home repairs and utilities). Discretionary expenses would also be overhauled. More landscaping costs means a larger allocation in your budget, and some new homeowners take up renovations as a hobby. Depending on your move, you may be driving more which means higher automobile costs and lower transit costs. Other aspects of your lifestyle may change, such as spending more time in your new home, which may save money in the areas of entertainment and dining out.

Example 3) Having Children

Having children is a major life event that can touch on nearly every element of your budget. Parental leave can affect your income, and particularly in the early years you may feel pressure to decrease some voluntary deductions. Life goals will typically shift to focus on your children and on your home, which will affect discretionary expenses. Your hobbies may change to more home-based activities as opposed to eating out often or going to nightclubs. The obvious new expenses are there such as day care, saving for post-secondary education, and the children's needs – everything from furniture to clothes to diapers and food. There is also a change in hobbies to include more day camps, courses for your child, and entertainment. You may need a different car because you need more space to bring children somewhere or carry more items.

What if Things Change and They are not Voluntary?

If something happens that is not voluntary, like a job loss or relocation, getting divorced, business going bankrupt, investment income dropping or unexpectedly rising etc. you can use the same techniques as for the voluntary changes, except that you have not chosen the situation. The long term idea behind budgeting is for you to really get to know your financial situation. This would mean where your money comes from, where it is going, what tends to affect your situation acutely and what doesn't. This is akin to knowing yourself and your habits and your relationship with your money. If something unexpected does happen, you will be best prepared when you understand how you would handle financial changes.

Psychology and Habits of Budgeting

Up until now, this booklet looked at the techniques for building a budget and making changes to it. Now we will go beyond this into what drives your money decisions and digging into the psychology or money mindset that you have. Why is this important? When faced with choices about your money, you will apply your money mindset or habits to your decision making. If there is something that is not serving you well, it will hamper your budget decisions. If your habits are relatively consistent and mirror your life goals, you will have consistency in how you deal with your money which will make budgeting more effective. This is in effect being the sovereign of your cash flow. Examining your money mindset is optional in that you don't need to do it to create a budget or realize longer term goals. In what cases is examining your psychology useful? The first case is if your budget is going well in terms of the numbers,

but something is not satisfying about it. Another case may be that you are able to balance your budget and pay your bills, but there is a sense of obligation or misery that comes with it. A third scenario may be that you are having issues with your budget and doing all of the mechanical things correctly but can't seem to make it work. A fourth case may be that everything is going well but you would like to do as much as you can with your money and want your situation to improve.

Psychology of Money and Your Decision Making

Below is a list of tendencies that people have in handling money and by extension these tendencies may show up in how decisions with money get made. The whole budgeting process starts with: What are your goals? What are your priorities? These priorities and goals are shaped by your thoughts and feelings, which in turn are shaped by your experiences and past choices. If you know how you make these choices, it will help you to examine what your money situation looks like. The list below is designed to get you to look at your decision making process and ask if each item is relevant to you. You don't necessarily have to change anything, but if you are aware of how you make decisions, it will help you to manage your money.

Are you afraid of handling money? Do you believe it is too complicated? People who fear money and believe it is too complicated will tend to give their power and their money to someone else, and will rely on trust to get their needs met. Oftentimes this trust is based on something external like credentials, experience or something that can be proven. If you inherently believe that you cannot manage your money, you may feel a loss of control over your finances and a lot of worry about your needs being met. Underlying this belief might be a larger one that says, "I don't want to be responsible for my actions," or "I am not good enough to manage this aspect of my life properly." Part of the issue here is the societal belief that you need a university degree to handle money and that money is supposed to be complicated. In school, generally speaking, how to manage money is not taught to any extent, unless you purposefully study it; and in that case, you have to navigate through a lot of theories before gaining enough experience to properly understand what is going on. Most people think of money management as involving difficult calculations such as compound interest, and while understanding compound interest is useful, that understanding doesn't get at what really matters. If investing can be simplified this way, other aspects of money can also be simplified in a similar way.

Do you deserve money? Is being poor an expected way of life? I have often heard people say, "My parents were not good with money" or "I wasn't taught how to manage money." In actuality, very few of us were taught how to manage money in an excellent fashion – many things are learned through exploration, trial and error, experience, and being mindful of other people's mistakes. It is much easier to learn from someone else's mistakes than your own – the trick is to remember the lesson learned. The emotional reaction that results from a decision you have made may not be present in a decision that another person has made. You can determine what sort of outcome you will receive in your life, and you can do it any time. Your thoughts drive the whole process, and they can be changed in an instant. Age and genetics are not relevant to this process, and neither is the past. If you feel somehow that you don't deserve the money, either the money will never get to you, or if it does, you will find some way to sabotage your finances and be poor again. The best examples of financial sabotage are people who blew

large inheritances or lottery wins. For most people, this effect comes in the form of lost-job opportunities, botched investments, or simple advice that is ignored in favour of something that has high odds of losing. You do not have to do what was done in the past, and your beliefs are not set in stone.

Is money being spent to make yourself feel good or to feed addictions? Addictions serve to "fill" a hole or desire that you don't believe you can meet. The addiction can be anything: drugs, alcohol, shopping, dieting, running, internet use, overeating, cell phone use, sex, stock trading, ice cream, gambling, and the list goes on. It is not the activity that is the addiction, it is how you feel when you are doing it. If you do this activity to escape your life or your present situation, or because you are trying to overcome depression, and if there is an obsessive quality where you need more and more of this thing to keep you at the same level of satisfaction, then this habit is an addiction. Since most addictions cost money they will have an effect on your finances. The only way to heal these addictions is to figure out where you don't feel well and where the programming that is perpetuating these negative feelings is coming from in your mind. Once the initial trauma or thought is discovered, brought to the conscious mind and cleared out, the addiction will not materialize and the financial effect will be eliminated. There are many ways this clearing can be done, but that is far beyond the scope of this booklet. Addictions are also an example where budgeting would not work, because they would not tell you why you spend such and such on the addictive activity; and since desires are insatiable, trying to hold them back would cause enormous stress and not solve anything.

Did you receive a large inheritance and squander it? Or did you squander a large work bonus or a great opportunity to change your financial situation? If you are not ready to handle the money, getting a large sum of it will likely not do you much good, since your beliefs will create the desired consciousness of lack, poverty or whatever, and you will "lose" the money to re-create the situation where your subconscious believes you should be. Your mind will, in effect, "sabotage" the scenario until it matches the beliefs that are currently present in your mental and emotional states. Further, buying a lottery ticket should be done only for entertainment. If you are buying it to escape your job or because you have dreams of making a big change in your life, this behaviour is a sign of your current state of mind. Even if you win the lottery, chances are you will lose in other ways. Instead of expecting to get rich quickly, make changes incrementally and you will have the freedom you desire.

Do you hoard money? Do you save money at the expense of enjoyment? Is there never enough money, even though you are a millionaire? This self-perceived lack will persist regardless of how much money you make or have. The issue behind this behaviour is believing there is not enough and fearing the loss of what you have. This belief and fear can happen regardless of how much money you earn, how much you presently have or how secure your mode of wealth is. Furthermore, this state of mind cannot be satiated, so it will find other fears to make you hoard even more, to satisfy your state of fear temporarily. The mind is masterful at creating fears, and there will always be another fear if you entertain it. If you require proof of this phenomenon, watch the news or listen to a security or insurance sales pitch; there is always a new way to lose data, have your house broken into, die in an accident, get

an illness or have some other drama happen to you. When you purchase some device or take some measure to quell this fear, inevitably another fear will show up.

Do you tend to get into debt frequently and automatically? Do you expect that debt is a way of life and you will never buy things without using credit? Much of this reasoning is conditioning and a resignation that "this is how money is." The use of debt doesn't have to be that way every time. There are times when having debt is prudent, but be very mindful of the time needed to pay off the debt, the costs of holding it, and any possible changes to your situation where the debt costs may also change. If you choose to acquire debt, acquire it in a way so that the costs are the cheapest and the time to pay off the debt is the quickest.

Do you feel that money is evil – so you spend it because it is "dirty"? This is a common belief that comes from the saying "Money is the root of all evil." Another expression that reinforces this idea is "filthy lucre"; however, these expressions are not necessarily true. Money is a tool that allows you to do many things, things that can be either "good" or "bad." Is electricity evil? You can cook and feed people with it -or electrocute people with it. Are knives bad? You can prepare food with them - or kill people with them. Are cars evil? You can transport people with them - or cause an accident with them. This thinking applies to many things. It is the intention and state of mind that can make money "evil," but in and of itself, money is neutral. It is okay to be rich and prosperous – it is what you do with that prosperity that determines what effect it has.

Are you buying because someone is telling you to buy? Translated into plain English, this means "I am not good enough," or "I need to feel as if I belong." Many of the fashion trends and fads key in on this idea. Peer pressure is also related to this idea. Awareness of how you perceive yourself is reflected in everything you do, including in what you buy.

Is what you are buying really what you need? Or is it an addiction or stimulant? How can you know? How long does the feeling of elation last after a purchase? If the feeling withers shortly thereafter, it is likely an addiction. The purchase is trying to make you feel good for the short term and yet covering up a bigger problem in the long term. Do you need a bigger "hit" or elation after each purchase, meaning you need to buy more and more of the same item to feel the same degree of joy? The underlying reason for why you don't feel good in the first place is what you will ultimately need to deal with. Does the feeling of satisfaction with the item you purchased grow as time goes by, or is it fleeting and forgotten? Some hints would be if you are still using the product long after you bought it or if you have a closet full of unused items. The recent trend toward decluttering is really an exercise in uncovering – and clearing your habits and state of mind. If you embark on decluttering, be very mindful of how these items got piled up in your residence to begin with and what they signify for you. If you do not understand what is going on in your mind, you will just reclutter all over again. Have you used a certain purchase at all? Can you look back over time and experience joy over the purchases you have made, or do you have no idea what you bought and why? Notice that many of the things people cherish don't cost much money—like photographs, heirlooms, or items that spark memories. This whole process is part of knowing yourself and what is driving your decisions. The process is to take patterns of behaviour from the unconscious

and make them conscious, and then align the conscious and unconscious together so that they act as one or are aligned.

Summary

This booklet has described budgeting in 2 main parts. The first part is building your budget accounting for the income sources and expense sources which can be fixed or variable in nature. The budget is broken down into parts that you can control in the short term and parts you can control in the long term for you to see your options in adjusting your budget. The second part of the process is how to make changes to your budget and how to examine its various parts. The changes range from something incremental to a major life decision that can change many aspects of your budget. Much of this is scenario specific as in what parts of the budget get changed are driven by what situation you find yourself in. An extension of making changes to your budget is your money psychology, mindset and habits which underlie your decision process when it comes to money. A budget is a small scene that is part of a larger picture which is your financial situation. As you become more acquainted with the process, you can become the sovereign of your budget and cash flow!