



Family Counselling and
Support Services
FOR GUELPH-WELLINGTON

Strategies for Budgeting & Managing Changes in Income

Budgeting. A dreaded word for some. Thoughts of restriction and endless number crunching. In fact the opposite is true. Budgeting does not have to be complicated and smart money management can help to avoid stress and provide you with freedom and security. Here are a few steps designed to help you manage your money wisely and address income changes.

- 1. Know where your money is going.** It is crucial to know where you are currently spending your money. Track your spending for 30 days. A little note pad that fits in your pocket and a pen is all you need.
- 2. Determine priorities.** After you have finished tracking, take a look at your spending habits. What are you pleased about? What would you like to change? If faced with an income reduction, determine what expenses you can reduce in order to compensate for the reduction. Your expenses should not exceed your income.
- 3. Determine the difference between needs and wants.** Always take care of basic needs first. Basic needs include items such as mortgage/rent, utilities, food, insurance, and medications. Spend on 'wants' only after the basic needs have been met. Sometimes it is easy to confuse needs vs. wants and it may be helpful to write down a list. In looking at expenses that

can be reduced, look at discretionary items first. These include areas such as recreation, eating out, and lottery/gaming to name a few. This does not mean you have to deny yourself pleasure, but rather look at ways to substitute. For example instead of going out to dinner with friends, you might try a potluck. Or instead of buying coffee or lunch everyday, consider bringing it from home. You will be amazed at how much you save. Two large coffees a day total over \$80 per month or almost \$1000 per year. Spending \$5.00 per day on lunches will total more than \$150 per month or \$1800 per year. You could save almost \$2,800 a year with a few small changes.

- 4. Don't forget irregular expenses.** Not all expenses occur every month. Car repairs, gifts, clothes, and home repairs are a few examples of expenses that occur irregularly. It is very important that these items be calculated into your budget. For example, if you estimate that car maintenance and repair costs you \$900 per year then it is important that \$75/month (\$900/12) be set aside to plan for this expense. After you have incorporated the irregular expenses into your budget, once again ensure that your expenses do not exceed your income.
- 5. Save regularly.** Life can throw us curves. Family emergencies, layoffs, marital breakdown, and accidents do happen. Having a financial cushion to help in these times can help to reduce stress immensely. Even if you qualify for disability, or employment insurance, there can often be time lags before payments begin. Also consider longer-term goals such as retirement and purchases of major assets and plan for these.
- 6. Find a method to follow your budget.** Once you have established your budget, it is important to find a way to track it and ensure it is being followed. This does not have to be

complicated. It can be as simple as setting up a few envelopes for your cash related expenses. For example, if you have determined that you are going to spend \$80 per month on recreation, then \$20 per week would be placed in the 'recreation' envelope (less if it's a month with 5 weeks). Once the envelope is empty, you will know that you have spent the amount budgeted for that week. Saving for irregular expenses can be as simple as asking your bank to withdraw money on a certain day of the month and placing it into a savings account.

- 7. Use credit wisely.** Use credit for convenience. It is not meant to be an extension of your paycheque. Do not exceed 15-20% of your net income on consumer credit. Look closely at interest rates. They can vary greatly and can increase dramatically if you are late in making payments. Try to keep your balance at less than 50% of your limit in order to maintain your credit score. Remember that the cost of credit is not only a function of the interest rate, but how long you choose to pay back the debt back. Making only minimum payments on a card is very expensive and is often a warning sign of financial difficulty. A card with a \$6,000 balance, at 18% interest, with the minimum payment being 3% of the balance, will take 17 years to pay back and you will pay back close to double what you borrowed.

Be cautious when considering a loan from a paycheque advance company. They can be especially costly as they generally charge very high rates of interest.

Another important consideration to remember is if your name is on or affiliated with a debt, then you are fully liable for that debt. This includes cosigners and secondary card holders. For example if a primary card holder puts \$5,000 on a Visa, and you as a secondary card holder put \$100 on the card, your liability is for the full \$5100.

- 8. If you are experiencing difficulty.** Imagine if you loaned \$1000 to your

friend and they suddenly stopped paying without explanation. You would probably find this frustrating. Creditors are the same. If there is no way that you are able to pay your bills on time, it is important that you contact your creditors and explain your situation. Be prepared with a reasonable alternative plan over a specified period of time. For example you might need to reduce payments for a 3-month period of time. Request that the creditor remove negative information such as late payments provided you follow the plan as agreed. However, be prepared, as not all creditors may be able to adjust their credit reporting system so smaller payments could affect your credit bureau. Make sure that you follow up all agreements in writing and document all phone conversations. Calls from collection agencies can be very stressful. However, consumers are often unaware that collection agencies are governed by the Collection Agencies Act and this act forbids certain aggressive collection practices. Consumers may file complaints with the Ministry of Small Business and Consumer Services if a collection agency breaches this Act. If you wish to learn more about budgeting or are feeling pressured by debt or collection agencies, please call **Family Counselling and Support Services for Guelph Wellington at 519 824-2431.**