Get on track with a spending plan

Have you ever felt like you are walking on a treadmill with your personal finances – doing a lot of work but not getting anywhere?

For example, mortgage payment, $860. Utilities bill, $90. Unexpected car repair, $250. Extra money at the end of the month, $0. If you constantly wonder what happened to your paycheque, coming up with a spending plan (or budget) may eliminate some of the guesswork and change that $0 figure into something a bit larger. A spending plan is a tool for prioritizing your financial goals and managing your money to help you reach them.

But developing a spending plan means you have to know exactly how much you are paying out on bills and other outgoings (your expenses) and how much money you have coming in each month (your income). Although this task takes some time and effort, the result may be better control of your finances.

Your expenses

Tracking your spending for a month or two is the first step in developing a plan. When you write down an expense, put it in one of these three categories:

Fixed expenses are essential items having fixed monthly payments. Your mortgage or rent, taxes, insurance, and auto or other loans – anything that you have a commitment to pay each month – belong in this group.

Variable expenses have payments that may change monthly. Utility and phone bills, groceries, credit card charges, transportation costs, maintenance and repair services, and other such necessary expenses fall into this category.

Discretionary expenses are for things you want but don't have to have. They include dining out, going to the movies, cable TV, vacations, magazine subscriptions, gym membership, furniture, and similar items. This is the spending category over which you have the most control.

Once you know where your money goes, you can find places to cut back, leaving you more cash for saving and investing.

Your income

The other side of the equation is the money coming in. You will want to list all incoming funds for the same period you track your spending. Your salary or wages from your job probably make up the greatest portion of your income. But you may have income from other sources, such as alimony or child support, income from rental property or business, tips, and gifts. If you are retired, you may get government benefits such as the Canada Pension Plan/Quebec Pension Plan, Old Age Security and employer pension benefits.

Investments, bank accounts, and similar assets often provide interest or dividend income. And don't forget any bonuses you receive from your employer. Keep in mind, however, that these income sources may vary from year to year – or even disappear – so it's wise not to count too heavily on them when you're doing your calculations.

Review your income over several months to get a more accurate picture. That way, you can take into account any surges or ebbs in your cash flow.

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The steps to building a spending plan

Once you have these figures, you can develop a monthly spending plan that matches your income and expenses.

The steps

- To create a spending plan for the future, you have to examine your past. Start by looking back through your bank statements and bills for the last year. Make a list of all the places your money went – mortgage or rent, utilities, phone, cable TV, food, insurance, taxes, entertainment, car and home repairs, and so on. You should also track how you spent any cash withdrawals.
- Make a list of all your income sources.
- Write down all your deposits over the past 12 months.
- Calculate the monthly payment for each expense category. For variable expenses such as food and utility costs, find the average cost over several months. For semi-annual or annual expenses, divide by 6 or 12 to get a monthly cost.
- Develop a budget based on these figures, and compare it with your actual expenses over the next few months. If there's a difference between the amount you budgeted for an item and the amount you spent, adjust your budget or find a way to reduce spending for that item.

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For more information, speak with your BMO financial professional.

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