Tangerine guides to personal finance

Plan to Save, Plan to Spend

A practical guide to saving and spending

Tangerine
Forward Banking

Saving is simple to understand.

Why is it so difficult to do?

Contents

A problem of focus

If you're like many Canadians, then you know how tough it can be to manage the many needs, interests, and demands simultaneously competing for a piece of your monthly income. People in every income bracket can find themselves living paycheque to paycheque. Or worse: instead of saving, many of us are spending more money than we earn, and regularly paying interest on credit cards, car loans, and other debts.

What's getting in the way of your savings?

Meghan: "I'll be good and practical all month then I'll make an impulse purchase and blow my whole budget."

Sam: "I'm always going out with co-workers and clients after work and it adds up fast. Dinners and drinks make it hard to save."

Miriam: "My house is a money pit — there's always some new bill or repair I didn't plan for."

Pedro: "Saving for long-term goals is something I keep telling myself I'll worry about later… and later never seems to arrive."

Caroline: "I love buying gifts — I get carried away every Christmas and every birthday, and then when the bills come in, I'm always in shock."

But that doesn't have to be *your* financial picture.

People often think saving is difficult because it takes self-control and willpower, especially when we face so many temptations to spend. When expenses seem urgent — or time-limited opportunities seem too good to miss — even near-term savings priorities like vacations and renovations can fall off our radar.

A small shift in perspective can help.

The better way to think about saving

Traditionally, saving and spending are seen as being in tension with each other. You want to spend, but know you *ought* to save — hence the need for willpower. But we don't need to live with that view. Instead of a clash between "want to" and "ought to", why not make it a simple choice between spending now and spending later? Why not think of saving, in other words, as the easiest way of looking out for the future you?

No longer abstract and far off, the spending and saving decision becomes immediate and clear: how will you use the money you earn this month? Answering that question means thinking about *what* you want (your goals and priorities) and *when* you can realistically spend on those goals.

This guide will help you master saving by offering a framework you can use to make your plan, right away. In fact, there are only a few basic steps to follow:

1. Set your goals and priorities
2. Build a basic budget & calculate your discretionary income
3. Decide on your approach
4. Make your plan, then track your progress

Let's get started.

The cost of spending now

Next time you take out your credit card to buy something, do some rough math. Paying for a $1,000 outfit with a card that charges 20% in annual interest — and then taking six months to pay that balance back — will add another 10% (or $100) to the price of the clothes. Think of this interest as the cost of borrowing money from the credit card company — and always remember that the cheapest source of money is your own savings from your earnings.*

** This is rough math, as we said. Credit card interest charges are much more complicated than this.*

Step 1: Set your goals and priorities

Grab a pen and a piece of paper and write down your spending and savings goals for the next couple of years. Now circle the most important five or six of them. Two examples:

Kaitlyn just bought her first condo. Here are her top spending and savings goals:

1. Buy furniture
2. Pay back down payment withdrawn from RSP under Home Buyer's Plan
3. Go on a vacation
4. Build an emergency fund
5. Get a dog

Ali and Ayesha are newlyweds. Here are their top spending and savings goals:

1. Buy a house
2. Get a bigger TV
3. Put aside money to help Ayesha's retired parents
4. Take a professional upgrade course (Ayesha)
5. Go golfing more often (Ali)

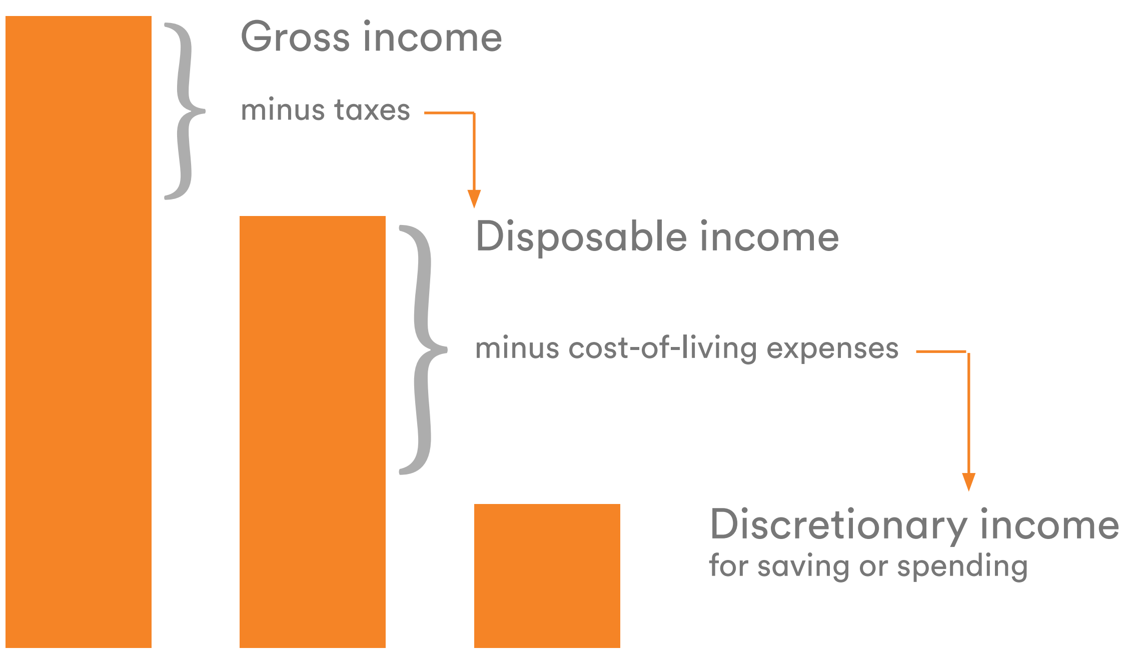
Kaitlyn, Ali, and Ayesha know what they want to spend their money on. Their next step is to identify *when* they can expect to achieve their goals — something that depends in part on how much each one costs, and on how they plan to prioritize them. Consider your own list. If you postpone a certain goal, will there be negative consequences? Might spending on a different goal generate benefits for you up front?

The final piece of the puzzle, of course, is your ability to save. And to figure out just how much you can put away each month, you'll need to build a basic budget.

Step 2: Build a basic budget and calculate your discretionary income

Confession time: How loudly did you sigh when you read the word "budget?"

It's an understandable reaction — but it's hard to make any progress at all without first completing a budget. Building one makes it easier to figure out your monthly discretionary income, and that will help determine when you'll be able to reach your spending goals. So don't skip this step unless you already have a budget worked out. To get a quick overall picture of your monthly income and expenses, use the worksheet on the next page. You should be able to complete it in as little as five to ten minutes.



Worksheet A:
Calculating your discretionary income

Monthly income	
Income (salary/wages/fees), after taxes	$
Other income (e.g. rental income, benefits, child support)	$
Total monthly income after taxes	**$**

Monthly expenses	
Mortgage or rent	$
Debt payments	$
Property taxes and maintenance fees	$
Utilities (gas, electricity, water)	$
Phone, internet, cable	$
Transportation (car payments, transit fares)	$
Groceries	$
Insurance (home, car, life), medical & dental costs	$
Childcare	$
Entertainment, clothes, personal care	$
Fitness, hobbies, pets	$
Other expenses	$
Total monthly expenses	**$**

Total monthly income minus total monthly expenses **= discretionary income per month**	$

Step 3: Decide on your approach

Now you know *what* your saving and spending goals are, and you've figured out how much discretionary income you have to work with. From here it's about choices. What you choose to do with your discretionary income will determine *when* you can realistically achieve your goals. Your choices will help you come up with your savings approach. Here are some simple techniques you can use.

The basics:

1. **Separate your "future" money from your "current" money**

   Set up a separate account for your saving & spending goals. If this money gets mixed up with cash in your day-to-day chequing account you may find that you've spent it on something else.*

2. **Use an automatic savings plan**

   Waiting until the end of the month to contribute to your savings is a sure-fire recipe for never actually making a contribution — there are too many other temptations every month. Set up an ongoing automatic transfer to move money into your savings account right after you get paid, so you won't need to depend on your willpower.

3. **Save an emergency fund**

   Unforeseen expenses are always going to pop up somewhere along the line. Your pet might get sick, saddling you with vet bills, or an appliance might break down. If you set aside money each month for an emergency fund,

*** Tip**

Set up additional and more specialized accounts for your longer-term and larger saving and spending goals. For instance, you may want to save for a down payment in a Tax-Free Savings Account (TFSA), and direct your retirement savings to a Retirement Savings Plan (RSP).

See Tangerine's guide "Understanding (and choosing between) RSPs & TFSAs" for more information about how these accounts work and when you should consider using one or the other.

http://www.tangerine.ca/pdfs/en/en_guide_rsp_vs_tfsa.pdf you'll be able to cover the unexpected and won't have to play catch-up later.*

4. **Keep up the momentum**

   If you have five top savings goals and you achieve one, two, or all five, celebrate your success — and then move on to a fresh set of goals.

*** Tip**

A good place to start is to set aside a small amount each month to build up a cushion equal to about 3-6 months of expenses.

Mastered the basics? Consider a few more advanced approaches:

1. **Maximize the earnings on your savings**

   Check to see if there's a higher interest account you could use for your savings. A Guaranteed Investment (GIC) might give you an even higher interest rate if you don't need your funds for a certain amount of time. You may even decide to invest your savings in mutual funds or other securities. Remember that doing any of the above inside a TFSA will eliminate taxes on the earned interest or investment returns, giving you a further boost.

2. **Take advantage of tax refunds**

   A tax refund can be an awfully tempting thing to spend, but it's also a big opportunity to establish an emergency fund, to catch up on your monthly savings plan, or to boost your RSP contributions. Mark a portion as "fun money", but see if the majority of the refund can be put towards something you'll thank yourself for later.

3. **Adjust your tax withholdings on your pay cheques**

   That big refund actually means that your withheld taxes were too high. If you're making regular RSP contributions, have child care expenses, or make family support payments, for example, consider requesting a reduction in your withholdings from the Canada Revenue Agency**, and put the extra funds to work in your savings.

*** You may have accomplished this already if you filled in a TD1 form upon starting your job, but your circumstances also may have changed since then, or you may wish to reduce your deductions based on tax credits not covered by the TD1. Obtain a T1213 form here: http://www.cra-arc.gc.ca/E/pbg/tf/t1213/README.html*

- [x] Set your goals and priorities
- [x] Build a basic budget & calculate your discretionary income
- [x] Decide on your approach
- [ ] Make your plan, track your progress

Step 4: Make your plan, track your progress

With the above strategies in mind, go back to your original top five spending goals and priorities. Then grab a pencil and do the following:

1. Print Worksheet B (page 14). This is where you'll make your plan, committing real money to real goals.
2. At the top of Worksheet B, write down your monthly discretionary income (from the final row of your budget worksheet).
3. Using the numbered table, rank your goals in order of importance. Write down both the name of the goal and how much money you think it will require.
4. Decide how much of your discretionary income you're going to put towards each goal, each month — based in part on when you need or want to achieve each of them. Write down the amount you'll commit and the number of months it will take to reach the goal. If you can't realistically save for all of your goals at the same time, make trade-offs that reflect the priorities you considered at the beginning of this process (see page 7).
5. Once your plan is finished, print Worksheet C (page 15) to begin tracking your progress. As part of a monthly checkpoint with yourself, the sheet will show whether you're still on track to achieve your goals — or whether you've fallen behind.
6. At the end of every month, write down the amount you've saved for each goal. Record your savings in a cumulative manner (i.e. if you're saving $200 a month, you'll log $200 in Month 1, $400 in Month 2, $600 in Month 3...), so that you'll always see at a glance how close you are to your goals.
7. Many plans will run longer than six months. Print as many copies of the worksheet as necessary, filling in the months as you go.

Worksheet B:
Making your plan

Monthly discretionary income

Break this down by goal

Goal #s	Goal	Goal in $	$ to save monthly	Months to reach goal
1		$	$	
2		$	$	
3		$	$	
4		$	$	
5		$	$	

Worksheet C:
Tracking your progress

Time to reach savings goals will vary, so print as many copies as needed.

Months

Fill in the names of the six months starting with the first month of saving

Goal #s

1	$	$	$	$	$	$
2	$	$	$	$	$	$
3	$	$	$	$	$	$
4	$	$	$	$	$	$
5	$	$	$	$	$	$

Add all $ amounts cumulatively so you can see how close you are to achieving each goal.

Example (assumes $200 monthly savings):

	March	April	May	June	July	Aug
1	$ 200	$ 400	$ 600	$ 800	$ ...	$ ...

About

This publication is part of Tangerine's series of guides for Canadians on important personal finance topics.

http://www.tangerine.ca/en/tools/index.html

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