

SMART  
START FOR  
BUDGETING



FIRST TIMER'S GUIDE  
Budgeting



WHERE TO  
BEGIN?

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There are a lot of myths about budgeting.  
Maybe you think only your grandparents bother to budget.

Or that a budget will be complicated, requiring hours of paperwork. Or that with a budget, you can't have any fun. But "budget" isn't a bad word and setting one up can be as easy as a few taps on an app. Knowing where you stand financially and having a plan will make your finances a lot less stressful and help you achieve your goals.

But we realize it's sometimes hard to know where to start. That's why we've put together this First Timer's Guide to Budgeting.

**It will take you through 5 easy steps:**

- 1: Where you stand today.
- 2: What's coming in and what's going out.
- 3: Where you want to be tomorrow.
- 4: Build your budget.
- 5: Build your financial plan for the future.

These steps will help get you started, and your credit union is here with all the information you need to get your financial house in order.

## Step 1: *Where you stand today.*

To get a sense of where you stand financially, you need to understand your net worth and find out your credit score.

### Understanding your net worth

With your finances, as with most things in life, you need to know where you are right now in order to know where you're going. Your net worth is your assets (house, car, cash, investments) minus your debts (loans, credit cards, mortgage). You can use a [Net Worth Calculator](#) or download our [Personal Balance Sheet](#) to figure out your current net worth.

Ideally, you want a positive net worth, but that's not easy to achieve. If you do calculate your net worth and it comes up negative, don't be discouraged—it tends to improve as you advance in your career and your income increases. Instead, focus on what you can change: start tracking your spending, building a budget, paying debt sooner, building an emergency fund, building an investment plan, and seeking expert advice. That way you'll be on your way to a positive net worth in no time.



### Understanding your credit score

Your credit score is a three-digit number, ranging from 300 (worst) to 900 (best), that reflects how well you handle having credit. Your credit score starts when you get your first credit card, loan or line of credit. The score is based primarily on your credit payment history, your current debts, the length of your credit history, what mix of credit you have, and how frequently you apply for new credit. The more responsibly you use the credit you have, the better your score. When you apply for a bank loan or mortgage, your score can be checked and can affect your ability to secure a loan.

You should check your credit score once a year to make sure there are no errors, like incorrect personal information and false credit information (like a payment you made on time showing up as late). You should also look out for credit you haven't taken out as this could signal identity theft. In Canada, we have two credit reporting agencies, Equifax and TransUnion. Since not every creditor reports their information to both agencies, Equifax and TransUnion may not have exactly the same information about you or use the same software to calculate your score. As recommended by the Financial Consumer Agency of Canada, when checking your score, it is recommended to contact both agencies.

#### WANT TO KNOW YOUR CREDIT SCORE?

**TransUnion Canada:**

1-866-525-0262 • [www.transunion.ca](http://www.transunion.ca)

**Equifax Canada:**

1-800-465-7166 • [www.equifax.ca](http://www.equifax.ca)

Now that you've calculated your net worth and know your credit score, you should have a good sense of where you stand financially.

## 5 Tips on How to Use Credit Cards Correctly

**1. Pay on time.** The first, most basic rule of responsible credit card use is to pay on time. Don't use your credit card to pay for items you couldn't afford otherwise. Credit cards are useful for building credit, making convenient online purchases, placing deposits on larger purchases, or taking advantage of reward programs. But if you're using them to pay for things you don't have enough cash for, soon late fees, charges, and interest can build, and your credit score will suffer. And you could find yourself spiraling into deep personal debt that can be difficult to recover from.

**2. Don't just pay the minimum.** Your minimum payment is often a tiny fragment of the total amount you owe. Don't just pay off that small amount. Credit cards usually charge anywhere between 10 and 20 percent in interest, meaning you could end up with big interest payments fast. But if you pay off your entire bill, you'll not only avoid paying interest on your purchases—you'll be improving your credit score as well!

**3. Check your statements.** Even with all the technology we have today, mistakes happen. Read your statement every month and make sure all the charges listed are right. Contest any charges that were made in error.



**4. Stay below your limit.** Running a balance close to your limit can negatively affect your credit score. Try to keep your balance around 50% or less of your total available credit.

**5. Report a lost or stolen card ASAP.** You won't be held responsible for purchases made on a lost or stolen credit card—as long as you report the loss before the card is used. So make sure you call as soon as possible if you think your card has been lost or stolen. Your credit union has a 24-hour, toll-free number on its website you can use to cancel your card and get a new one.

## Step 2: *What's coming in and what's going out.*

Before you make your budget, you need a clear sense of how much income you have and what you're spending in expenses.

### What's coming in: Gross versus net income

When you get your pay stub, you'll probably see two numbers. Your gross income is the total amount of money you've earned. Once taxes and other contributions are subtracted from your gross income, you have your net income or take-home pay. When you make your budget, make sure you use your net income as this is the money you actually have to work with. And don't forget to include other income sources like self-employment, commissions, bonuses, tips, government benefits, bursaries, and tax rebates.

### What's going out: Tracking your expenses

You should track your spending for 2-3 months to get a clear sense of where your money is going. Little things, like that daily morning latte, can add up quickly, so tracking your spending over time gives you a much clearer picture of where your money is going every month. This will help you build a solid, reasonable budget for yourself. And tracking your expenses doesn't have to be complicated.

### You have lots of easy options:

- **Notebook:** Low-tech and easy. Just carry a small notebook with you, and track your daily expenses as you go.
- **Receipts:** Collect all your receipts. Put them in categories based on the type of expense and input them into a spreadsheet. Check out our [Household Budget](#) template for an example worksheet. This will come in handy again in the next step.
- **Smartphone App:** Since your phone is with you most of the time, it's probably one of the most convenient ways to track your expenses. Just download a smartphone app that tracks expenses. There are many to choose from and some of the best-rated are free.



You want tracking your expenses to become an easy daily habit, like brushing your teeth, so make sure to find a method that best suits your lifestyle. Tracking your spending will help you understand what you have, where your money is going, and where you might be able to tweak to give yourself some more financial wiggle room.

Once you've tracked your expenses, what does your big picture look like?

**What's going in:** \$ \_\_\_\_\_

**What's going out:** \$ \_\_\_\_\_

### Step 3: *Where you want to be tomorrow.*

Once you know where you are, the question becomes:

*“Where do you want to be?”*

Maybe it’s in your first home or on a trip to Ireland. Maybe you want your student loans to finally be a thing of the past. Setting financial goals is important so you know what you’re aiming for.

So what’s the difference between where you are and where you want to be? Understanding the gaps helps you define your financial goals.

**Some financial goals you might be striving for could include:**

- Getting out of debt
- Saving for an emergency
- Saving for retirement
- Buying a home
- Buying a car
- Saving for an education
- Taking a trip
- Doing renovations

**Want to learn more about saving and investing?**

Check out our [First Timer’s Guide to Saving & Investing](#).



**LIST YOUR FINANCIAL GOALS HERE:**

**GOAL 1:** \_\_\_\_\_  
\_\_\_\_\_

**GOAL 2:** \_\_\_\_\_  
\_\_\_\_\_

**GOAL 3:** \_\_\_\_\_  
\_\_\_\_\_

**GOAL 4:** \_\_\_\_\_  
\_\_\_\_\_

**GOAL 5:** \_\_\_\_\_  
\_\_\_\_\_

Now it’s time to build a budget to get moving in the right direction.

## Step 4: *Build your budget.*

Now that you know where you are and where you want to be, it's time to build a budget to help reach your goals.

While your first budget may take some time to create, it will get easier the more you do it—we promise. Don't forget that the more accurate you are with your budget, the better it will work. So don't under- or overestimate your income or expenses. And once you have your first budget, all you need to do is tweak and adjust it as needed each month.

### Categories of Spending

To get started, download our [Monthly Budget Worksheet](#) and input your tracked expenses into the following categories:

- Housing
- Transportation
- Loan Payments
- Food / Clothing
- Family
- Vacation / Entertainment
- Other
- Insurance

These are general categories. Feel free to adjust them to reflect your own reality and circumstances.

### Fixed versus Variable Expenses

The next step is to figure out which of your expenses are fixed and which are variable. A fixed expense is a specific and definite amount that goes out every month. It doesn't change. A good example of this would be your rent—it stays the same from month to month. A variable expense can change. For example, going out to eat is a variable expense—the amount you spend each month can vary.

For budgeting, fixed expenses are easier to work with, since you know exactly how much they are each month. Because variable expenses can fluctuate, they can hurt your efforts at budgeting, making it easier to overspend. The solution is to try to make many of your expenses fixed. So, using our eating out example, you could fix your dining out expenses at \$150 per month in your budget. This means you agree to not spend more than \$150 a month on eating out (that includes coffee breaks)—turning it from a variable to a fixed expense.

### Needs versus Wants

Sure, you want the latest gadget or outfit, but do you really need it? Being able to distinguish a need from a want is important. Needs are necessary for you to live, like food or shelter. A want is something you'd like to have but isn't really necessary. When making a purchase, you should ask yourself: "Do I really need this?" It's a good way to help you avoid impulse purchases and stay on budget.

#### GOOD TO KNOW

A **fixed expense** is the same amount that goes out every month whereas a **variable expense** can change.



# Fill in Your Monthly Budget

INCOME				
	EXPECTED	ACTUAL	DIFFERENCE	
SALARY				
COMMISSIONS				
TIPS				
BONUS				
OTHER				
<b>TOTAL</b>				

  

EXPENSES				
CATEGORY	EXPENSE TYPE	EXPECTED	ACTUAL	DIFFERENCE
HOUSING	Mortgage or Rent			
	Home Maintenance			
	Utilities (ex. cell phone, electric, water, internet, cable)			
	Home / Tenant's Insurance			
	Other (ex. Condo or HOA fees)			
TRANSPORTATION	Auto Payment (1)			
	Auto Payment (2)			
	Auto Payment (3)			
	Auto Fuel & Maintenance			
	Public Transit			
	License & Registration			
LOAN & CREDIT PAYMENTS	Credit Card Payment (1)			
	Credit Card Payment (2)			
	Student Loan Payment			
	Personal Loan Payment			
	Personal Line of Credit			
	Other			
INSURANCE	Home			
	Auto			
	Life			
	Health			
	Other			
FOOD & CLOTHING	Groceries			
	Clothing			
FAMILY	Education Expenses			
	Childcare			
	Medical / Dental			
	Other			
SAVINGS	Regular Savings			
	Emergency Fund			
VACATION & ENTERTAINMENT	Vacation			
	Restaurant			
	Take-Out			
	Entertainment			
OTHER	Miscellaneous			
	Donations			
	Gifts			
	Other			
<b>TOTAL</b>				

Once you have entered your income and expenses into the budget, you'll see if your budget balances. A balanced budget means that your income equals your expenses.

If your budget isn't balanced and is negative, you should make adjustments to either reduce your expenses or boost your income to get it to balance. If your budget isn't balanced but shows you have money left over, this would be a great time to reconsider your savings goals. For more information, check out the [First Timer's Guide to Saving & Investing](#).

## Choose a money management system that works for you

Now that you've made a budget, it's time to choose a money management system. Here are some options to choose from:

### Low-tech: The Envelope Method

If you want to go old school, envelopes can be a great way to stick to your budget. How does this method work? Well, if you've allotted yourself \$400 per month for groceries, then you withdraw \$200 when you get your first pay of the month and put it in an envelope marked "groceries." No money comes out of this envelope unless it's going toward groceries (seriously, none). When you get paid again, withdraw another \$200 and place it in the envelope. When the money runs out in each envelope, you don't spend any more money in that category until the new month starts. And don't be tempted to borrow from other envelopes! If you have money left over in any of the envelopes at the end of the month, that means you've come in under budget. Congratulations! You can use this cash to bolster your savings or, if you're feeling a bit deprived, treat yourself to a night on the town with your friends.



### High-tech: Software and Apps

If you prefer gadgets and apps, there are plenty of excellent options. The great thing about apps is that they're on your phone and in your pocket or purse when you need them. Like the envelope method, they can show you how much you have left to spend each month. Some can even help you set up your budget. Take a look at your options and choose an app that feels intuitive and easy to use.

## OK, so you have your budget—now what?

Congratulations! Having a budget is a great first step in getting control of your finances. But that doesn't mean you're done. You'll need to revisit your budget to make adjustments, like when you're done paying that student loan (whoo hoo!) and can add some more to your savings. Your life doesn't stand still and neither should your budget.

## Step 5: *Build your financial plan for the future.*

In Step 3, we talked about what some of your financial goals are. Now that you have your list, it's time to meet with a financial expert to help you build a financial plan. Your financial expert can help you answer questions like:

- Are you saving enough?
- Are you paying your debt fast enough?
- What else do you need to consider?

We're here to help you tame your finances, achieve the results you want, and gain peace of mind.



### 3 Tips on How to Get out of Debt Faster

- 1. Pay down those debts with the highest interest rates first.**  
That will save you more money even faster.
- 2. Negotiate lower interest rates on your existing debts.**
- 3. Consolidate your debt.**  
This way you will pay less interest overall.



## Getting Control of Your Finances Doesn't Need to Be Overwhelming

Just as a journey of a thousand miles begins with a single step, gaining control of your finances begins with your decision to take a look at where your finances currently stand compared to where you'd like to be. Then it's just a matter of plotting out the route to get you there. And we're always here to help.

If you have any additional questions about the First Timer's Guide to Budgeting or any information included in this guide, [please contact your closest credit union](#). And make sure to check out our other First Timer's Guides:



[First Timer's Guide for First-time Homebuyers](#)



[First Timer's Guide to Smart First Vehicle Purchasing](#)



[First Timer's Guide to Saving & Investing](#)

