Out of the Weeds

How to Set Up Your Financial Mise en Place

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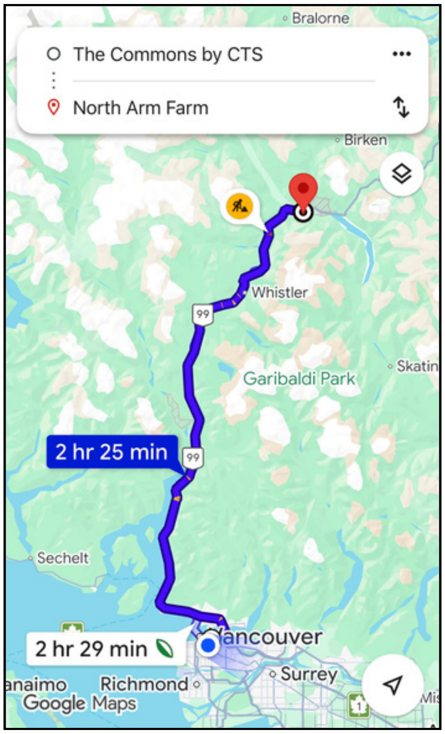

1. Determine your destination (goal)

2. Find out where you're starting from (cash flow, balance sheet)

3. Decide on the route (spending plan)

4. Recalculate the route and destination as needed

Setting SMART Goals

Goals are divided by time horizon:

- Short term: up to 2 years (e.g. emergency fund, new sofa)
- Medium term: 2 - 5 years (e.g. new car, vacation)
- Long term: more than 5 years (e.g. retirement, university)

Goals should be SMART:

- **S**pecific
- **M**easurable
- **A**chievable (Physically)
- **R**elevant
- **T**ime-framed

BALANCE SHEET: Lists your assets (anything you could sell/cash in to raise money, e.g. car, real estate, savings, investments) and liabilities (anything you owe, including loans, credit cards, bills, unpaid taxes etc.)

NET WORTH: Assets - Liabilities. Taken from Balance Sheet. Can be negative if you owe more than you own, very common when young, especially with student loans. You want to see it trending up over the long term.

CASH FLOW STATEMENT: Historical document showing all of your income and expenses for a period (usually a month). Use actual numbers, not what you want them to be. A fact-finding exercise for creating Spending Plan.

SPENDING PLAN: Forecast of where you will spend your money over the upcoming month. Include monthly portion of any irregular expenses like annual gym membership, car maintenance, Christmas gifts, etc.

TRADITIONAL ALLOCATION

- **50 % = Needs** (fixed expenses including minimum debt repayments)
- **30% = Wants** (discretionary spending)
- **20% = Savings / Investments / Extra Debt Payments** (money you're putting towards goals)

UPDATED ALLOCATION (MORE FLEXIBLE)

- **50 - 60 % = Fixed Expenses** (housing, utilities, other commitments including minimum debt repayments)
- **5 - 10% = Savings** (money towards goals, emergency account)
- **10% = Investments** (RRSP, TFSA, non-registered accounts)
- **20 - 35% = Discretionary Spending** (wants like travel, entertainment, dining out, clothes, plus extra debt payments)

Tips for Sticking to Your Spending Plan

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- **Keep an eye on your spending:** Actively monitor your spending (especially variable expenses) to make sure your plan is accurate.
- **Create an "income account" and a "spending account":** Have all income flow into your "income account" with automated payments going out to your bills, debt payments, savings, investments, and your "spending account" (for discretionary spending minus any extra debt payments)
- **Automate:** Set up auto-pay for as many of your payments as possible.
- **Use separate savings accounts:** Use separate savings accounts for emergency fund and short-term goals so you can clearly see how much you have. Customize names, e.g. "Italy 2027" or "Wedding Fund"
- **Review and update:** Review spending at the end of each month and compare to your plan.
- **Be flexible:** Often, the amount we're spending in each category isn't as important as the total amount we're spending.

Emergency Savings

Emergency savings are for expenses that can't be foreseen, such losing your job or other income, a health issue that limits how much you can work, unexpected home or car repairs, or getting out of an unsafe relationship or living situation, among other things.

- **Different from irregular expenses** like car maintenance or holiday gifts because they can be foreseen and planned for.
- **Much better than using a credit card**, using a line of credit, or a payday loan. If you have trouble paying for this expense now, you will likely also have trouble paying off the debt.
- **Should be 3 - 6 months worth of expenses**, but that might take years to get to that total. Just start with what you can!
- **Save in a separate account** so that you know what it's for. Fund either by adding it to monthly budget, or using irregular payments (tax refund, or one-off government payment).
- **Even a small amount will help you avoid future debt!**

Resources:

WEBSITES:

- Financial Consumer Agency of Canada: canada.ca/en/financial-consumer-agency
- Get Smarter About Money: getsmarteraboutmoney.ca
- MoneySense: moneysense.ca

BOOKS:

- I Will Teach You to Be Rich, by Ramit Sethi
- The Psychology of Money, by Morgan Housel

INSTAGRAM:

- @financialcoaching.ca
- @mixedupmoney
- @shanleesimmons

PODCASTS:

- Moolala: Money Made Simple
- Stress Test
- Money Feels

Q & A

Code: 93397074

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