



## **Creating an Annual Spending Budget**

Perhaps the most important variable in your financial plan, and the only one that you have complete control over, is your annual spending budget. Without an accurate picture of your annual spending going forward, it will be very difficult to create a reliable plan for the future.

### **You May Need Multiple Budgets**

You will need to create at least one budget, and may create as many as four (or even more). If you are recently retired and planning to remain in your current home (whether owned or rented) for the rest of your life, you likely only need one budget.

But if you expect major changes in your life going forward, you may need a number of budgets. For example, you would likely create one for each of the following scenarios:

1. You are still working full-time and have children at home.
2. Your children move out of the house and you are not supporting them in any major way.
3. You stop working but remain in your owned or larger home.
4. You downsize to a smaller home or move to a rental dwelling.

Each of these scenarios could have a very different level of spending.

Your annual budget(s) should only contain recurring expenses that you incur each year. One-time or occasional expenses will be dealt with separately in your plan. These might include: car purchases, major vacations, weddings, home renovations, college education, etc.

### **Accuracy**

Creating a single budget may seem like a difficult task, and upwards of four likely seems impossible. But it certainly can be done, and the exercise does not have to be “perfect” at the outset. While we will use the various budgets to develop a life-long financial plan, we will also adjust them annually as more information

becomes available. As long as the accuracy increases over time (which it should), you should not fret if you don't have a perfect spending budget to start.

## **How to Create a Budget**

There are three ways to get started on the budget process: the best (most comprehensive) way, the easiest way, and a "reasonable" compromise in the middle.

Let's start with the best way. In the ideal situation, you would have your spending broken down by as many categories as possible, and have this accurately. Schedule 1 shows an exhaustive list of spending categories. Going back over your credit card and bank statements for the past year would allow you to fill this out accurately and completely. HOWEVER, we're not naïve enough to think that you are as finicky as we are, and while we would love to have this, we don't really expect it.

Why such detail? For your financial plan, we ONLY need the total annual spending. However, for any changes to your budget into the future (such as developing alternative budgets as described above), it is important to know the spending by category. Otherwise, it's very difficult to make any estimates of alternative spending patterns. Also, if it turns out that after developing your financial plan we need to "trim" your spending to meet your goals, that is hard to do without the details.

There are a number of applications on the market that will assist you in creating and maintaining a budget. A number of our clients have had success with:

<https://www.youneedabudget.com>

This may be something you want to consider.

The easiest way to develop an annual spending budget is to have one bank account from which you do all your spending. Simply calculate how much income is transferred into the account in a year, and how much spending goes out of the account. That should give you an accurate calculation of your total spending (but without any categories).

In reality, you'll probably use a combination of the two above methods. You likely have an idea of your total spending in a year. If you don't, you should definitely come up with a system to calculate this. For certain major categories, such as property tax, heating, hydro, rent, mortgage, and car payments, you should have records. After using these existing records to calculate your major expenses, make reasonable estimates for the other categories. Then, take at least 1-2

months of your credit card statements and see if your estimates make sense. Are there categories you forgot? Are any of your numbers way off? If so, recalculate based on your credit card statements.

A word on credit cards – we do not advocate carrying a balance on your credit card. In other words, pay it off on the due date. But, we do encourage putting as many expenses as you possibly can either on your credit card or debit card, in that you have an easy to access record of your detailed spending.

Whichever budgeting method you use, we do need to come up with a reasonable estimate of your overall annual spending when we first put together a financial plan. By the end of the first year of your plan, it is important that we not only know your total spending accurately, but also have a reasonable estimate of your spending by category.

If you feel overwhelmed by the prospect of doing all this, don't worry. We will be there to assist you and together we will get it done.

## Schedule 1 – Suggested Budget Categories

### **AUTOMOBILE & TRANSPORT**

- Accessories
- Auto Payments
- Gas and Parking
- Insurance
- Maintenance
- Public Transportation

### **CHILDREN**

- Allowance
- Baby Supplies
- Child Activities
- Support

### **EDUCATION**

- Adult Education
- Books & Supplies
- Tuition

### **ENTERTAINMENT & MEMBERSHIPS**

- Books, Magazines, & Newspapers
- Entertainment
- Memberships
- Movies & DVDs

### **FEES & CHARGES**

- Bank Charges
- Finance Charges
- Interest

### **FINANCIAL & LEGAL**

- Accounting
- Financial Planning
- Investment Fees
- Legal
- Life Insurance

### **FOOD & DINING**

- Dining Out
- Groceries

### **GIFTS & DONATIONS**

- Charity
- Gifts

### **HOME**

- Cleaning
- Electric
- Furnishings
- Gas
- Insurance
- Landscaping & Snow Removal

Maintenance  
Mortgage Interest  
Property Tax  
Rent  
Supplies & General  
Water & Sewage

**MEDICAL**

Dental  
Eye Care  
General  
Health Insurance  
Prescriptions  
Provincial Health Care

**MISCELLANEOUS**

Cash  
Other Miscellaneous  
Pets

**PERSONAL CARE**

Gym  
Hair  
Health & Fitness

**SHOPPING**

Clothing  
Computer & Electronics  
Hobbies  
Sporting Goods

**TRAVEL**

Air  
Hotel  
Rental Car  
Vacation

**UTILITIES**

Cell Phone  
Home Phone  
Internet  
Television  
Utilities Billed Together