

my money At a Glance

Helping You Understand Financial Planning and Investments



Basics of budgeting

Bring your spending under control, so that you get the most out of every dollar

Instead of thinking of a budget as a burden, think of it as a means to help you achieve financial success. No matter what your income, a budget is one of the first and most important steps you can take towards putting your money to work for you. Budgeting can help you reach your financial goals – whether you're saving for a down payment or your child's education, planning for retirement, or saving for that dream vacation.

Evaluate your current spending

Since financial matters can be a source of marital disagreements, involve your spouse or partner in your planning. Working together, you'll get a better handle on your spending.

Begin by listing your sources of income. Don't include money you can't be sure you'll receive, such as bonuses, tax refunds, or investment gains. If making paper lists doesn't work for you, there are tools to help – many personal finance software programs contain budget-making tools that can help create your budget for you.

Then, list your expenses. It may be helpful to review several months of bank and credit card statements. Add up the totals and compare them. If your income doesn't cover your costs, then some of your spending is probably for wants – even if you think they're actually needs.



Needs vs. wants

It's important to understand the difference between needs and wants. We need clothes, but they don't have to be designer clothes. We need to eat, but every meal doesn't have to be at a boutique restaurant. Using your list of income and expenses, look closely at your wants to see where you can cut back.

Make sure you plan for unexpected and periodic expenses such as car maintenance and birthday and wedding gifts. Include a personal spending category to occasionally treat yourself. This will give you some freedom, while keeping to your budget.

Continued 

Trim where you can

Start small – smaller, trivial expenses are easy to find and cut.

For example: shop for clothes and household furnishings only during sales; keep your house warmer in summer and cooler in winter; and tackle chores that you usually pay someone else to do, such as mowing the lawn or shovelling snow.

Reduce larger expenses – larger expenses may be obvious, but may be harder to trim.

For example: if you smoke, try to quit. Trade in your luxury car or SUV for something that costs less to fuel and maintain.

Consider refinancing your mortgage – despite the initial cost to refinance, depending on your interest rate and mortgage amount, refinancing could mean significant savings.

Take advantage of registered savings vehicles – The money you contribute to a registered savings vehicle, such as a Registered Retirement Savings Plan (RRSP) is deducted from your taxable income, subject to a limit of 18% of earned income from the previous year, or a maximum of \$20,000 in 2008.

While Canadians are taking advantage of registered savings to the tune of nearly \$32.4 billion in 2006, there's a lot more room available – the total contributions represented only about 7% of the total room available. In addition, in 2006, almost 88% of tax filers were eligible to contribute, but of these, only about 31% actually made contributions.¹

Use capital gains and losses to your advantage – if you save through non-registered vehicles, you can sell, and then write off, investments that have lost money. Generally, you can use these capital losses to offset capital gains you may have in a given year.

Keep abreast of tax changes – just staying informed on other simple ways to trim taxes can help you save. *For example,* the 2008 Federal budget contained information on the proposed Tax Free Savings Account (TFSA). Beginning January 1, 2009² Canadian residents 18 and over can contribute up to \$5,000 per year in a TFSA and won't pay tax on interest earned or investment income.³

¹ Registered retirement savings plan contributions, The Daily, Statistics Canada, November 8, 2007.

² Pending royal assent.

³ Tax Free Savings Account
<http://www.cra-arc.gc.ca/agency/budget/2008/taxfree-e.html>

Please note that some employers and Sun Life Financial may decide in future to include TFSAs as part of a company's overall retirement savings plan. At this time however TFSAs for group plans are still being evaluated based on a number of factors. If at some point TFSAs are made available to you through your company sponsored group plan, you will receive information from your employer. In the meantime, this example is provided to you for your general information only.

The final word

While these suggestions are a starting point, they may not work for you. You may have other alternatives that suit you better.

As your annual income climbs from raises, promotions, and smart investing, it's a good idea to use those income increases as an excuse to save more. With a little planning and patience, a realistic, comfortable budget can be within your reach.

Please consult with a financial and/or tax advisor for more detailed information and for advice specific to your situation.



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