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Reviewing Your Personal Finances?

AUTORITÉ DES MARCHÉS FINANCIERS

About the AMF

The Autorité des marchés financiers (AMF) is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. The AMF is an integrated regulator, ensuring oversight of, in particular, the insurance, securities, derivatives and mortgage brokerage sectors, deposit institutions (other than banks) and the distribution of financial products and services.

The AMF has published three brochures to help consumers manage their personal finances. As the first in the series, this brochure will help you prepare a balance sheet, make a budget and set realistic financial goals. The other brochures are: *Choosing Investments and Choosing an Investment Dealer or Representative*.

NOTICE

The AMF, its management and staff are not liable for the consequences of any potential errors contained herein. This brochure is provided for your information only. The AMF does not offer any advice on the purchase or use of specific financial products or services.

The information in this publication is current as at April 2022.
This document is available on the AMF's website.
Legal deposit – Bibliothèque et Archives nationales du Québec, 2016
Legal deposit – Library and Archives Canada, 2016
ISBN 978-2-550-74956-1 (printed version)
ISBN 978-2-550-74958-5 (on-line version)

Table of contents

Three steps to better financial management
1. Prepare a balance sheet 4
2. Make a monthly budget 7
3. Set financial goals 13

The difference between savings and investment 16
Why saving early is important 16
Why returns are important 17

Review your personal finances

Take a few minutes to think about your current financial situation and then answer the following questions:

- Have you reviewed your personal finances lately?
- How much do your debts, savings and/or investments amount to?
- Do you have a clear idea of your total income and expenses?
- Do you have specific savings or investment goals?

If you're not sure about the answer to any of these questions, or if you're not satisfied with your answers, this brochure can help you.

Three steps are recommended to help you achieve your savings and investment goals: first, prepare a balance sheet; second, make and stick to a monthly budget; third, set financial goals.

Three steps to better financial management

Consider asking a financial representative (a person who sells financial products and services) to help you with these steps.

1. Prepare a balance sheet

Preparing a balance sheet will give you a better idea of your financial situation and help you see where you stand. Use the tables on the following pages, also available at lautorite.qc.ca. This financial exercise should be done periodically.

Pay special attention to the amounts you enter for your registered plans such as RRSPs in the YOUR ASSETS section. The amounts you withdraw from these plans are added to your income and are taxable. Therefore, enter the after-tax amounts. It's normal not to know exactly how much tax you'll owe. A representative can help in this regard.

Under YOUR DEBTS remember to include instalment purchases. For example, if you just bought a TV with 36 monthly payments of $20 each, enter the balance of this debt, e.g. $720.

To convert a weekly expense into a monthly amount, multiply it by 4.33. Multiplying by 4 would spread the annual expense over 48 weeks instead of 52.

You have a negative net worth

If this applies to you, the balance sheet can help you rethink some of your financial habits, for instance, the way you save and use credit.

Ideally, the next step is to take a good look at your income and expenses. You might decide to reduce some of your expenses or look for other sources of income to increase the odds of achieving your financial goals. Jot down any questions you may have and discuss them with your representative.

YOUR ASSETS	You	Your Spouse	Total for both spouses
Cash			
Chequing or savings accounts			
Tax-Free Savings Account (TFSA)			
RRSP/VRSP and other similar plans*			
Cash surrender value – life insurance			
Non-registered investments**			
Employer pension plan			
Real estate (home, cottage or other)			
Commercial property (equipment, inventory, etc.)			
Vehicles			
Other assets			
YOUR TOTAL ASSETS			

YOUR DEBTS	You	Your Spouse	Interest Rate ***	Total for both spouses
Credit card balance				
Line of credit balance				
Personal loan balance				
Car loan balance				
Mortgage balance				
Student loan balance				
Other debts				
YOUR TOTAL DEBTS				

	You	Your Spouse	Net worth of both spouses
NET WORTH (assets less debts)			

* RRSP: Registered Retirement Savings Plan / VRSP: Voluntary Retirement Savings Plan

** Non-registered investments do not grow tax-free.

*** Enter the interest rate you pay on your debts. Once you have made the minimum payment for each debt, pay off those with the highest interest rates, keeping in mind that some interest is tax deductible, such as certain loans for investment purposes. Consult a representative if necessary.

GO OVER YOUR BUDGET REGULARLY

A budget can help you achieve your financial goals by setting certain limits, so you don't live beyond your means. However, it should regularly be adjusted as your financial situation changes.

2. Make a monthly budget

Although it does require some effort and discipline, making a monthly budget is the best way to track income and expenses. It's also very useful for anticipating major expenses so that you don't always have to borrow to finance them.

With a budget, you can see where your money is coming from and where it's going. Complete the following tables by entering how much you expect to earn and spend for a given period (for example, a month or a quarter). Then try to stick to your budget in order to achieve your goals.

INCOME	You	Your Spouse	Household
Net salary			
Net rental income			
Public plan benefits (Employment Insurance, CNESST, Québec pension, etc.)			
Private plan benefits (from a pension plan, insurer, etc.)			
Family allowance			
Support payments			
Investment income*			
Other income			
TOTAL INCOME			

These tables are available in the Personal Finances section at lautorite.qc.ca.

* Investment income is part of income. However, if you are not yet retired, the amount derived from registered plans may not yet be available. Moreover, the value of these investments usually fluctuates, making it difficult to calculate the amount you will receive. To simplify the exercise, enter 0 and assume that you will reinvest these amounts, meaning they are not available to you.

EXPENSES	YOU	Your Spouse	Household
HOUSING			
Rent / Mortgage payment			
Electricity / Heating			
Telephone / Cable / Internet			
Municipal / School taxes			
Home insurance			
Condo fees			
Home maintenance			
Furnishings, accessories, tools			
Other housing expenses			
Total housing expenses			

TRANSPORTATION			
Public transit			
Gas			
Car insurance			
Registration			
Driver's licence			
Car lease / Parking			
Car maintenance and repairs			
Other transportation expenses			
Total transportation expenses			

INSURANCE OF PERSONS			
Life insurance			
Other (health, drug, etc.)			
Total insurance expenses			

FOOD/BEVERAGES			
Groceries			
Restaurants			
Alcoholic			
Total food/beverages expenses			
CLOTHING			

EXPENSES	YOU	Your Spouse	Household
RECREATION			
Cultural activities			
Sports			
Newspapers, magazines, music			
Movie and game rental			
Lotteries			
Travel			
Other recreation expenses			
Total recreation expenses			
EDUCATION			
Courses			
School supplies			
Field trips			
Other education expenses			
Total education expenses			
HEALTH			
Care / grooming			
Hairdresser / Esthetician			
Drugstore			
Dentist, optometrist, other			
Total healthcare/grooming expenses			
MISCELLANEOUS			
Gifts			
Pets			
Tobacco			
Kids' allowance			
Banking fees			
Support payments			
Childcare			
Other expenses			
Total miscellaneous expenses			
TOTAL EXPENSES			

DEBT REPAYMENT (OTHER THAN MORTGAGE)	You	Your Spouse	Household
Credit card 1			
Credit card 2			
Other credit cards			
Line of credit 1			
Line of credit 2			
Personal loan			
Student loan			
RRSP loan			
Home Buyers' Plan			
Other loans			
TOTAL DEBT REPAYMENTS			

SAVINGS	You	Your Spouse	Household
Emergency fund			
RRSP/VRSP			
RESP			
TFSA			
Special projects			
Other savings			
TOTAL SAVINGS			

SURPLUS OR DEFICIT FOR THE PERIOD (INCOME MINUS EXPENSES MINUS DEBT REPAYMENTS MINUS SAVINGS)			

Use a calendar to mark the due dates of major expenses such as municipal taxes, insurance, holiday gifts and vacations. This way you can make sure to have the money when the time comes instead of having to borrow and pay interest.

Are there big changes coming up in your life that will affect your finances? Having a child, buying a home or starting a new job can have a significant impact on your finances. Planning ahead can eliminate surprises and the need to borrow.

Use credit cards intelligently

Some credit cards offer rewards. For instance, there are no-fee cards that give you back 1% of your purchases in cash, bonus points or reward credits. By using these types of cards, you can cut down on your bank transactions and associated charges and earn rewards. A word of caution: Using a credit card only pays if you settle your account in full every month; otherwise, the interest charges cancel out the savings.

Organizations that can help

The Association coopérative d'économie familiale (ACEF) and the Services budgétaires populaires (sometimes known under different names) have branches all over the province and offer a wide range of budget-related services. Most are grouped under the Union des consommateurs, the Coalition des associations de consommateurs or Option Consommateurs. To locate a consumer group nearest you, go to toutbiencalcule.ca.

Be prepared!

You should have an emergency fund that will allow you to live comfortably for at least three months without income. Building one is a good challenge that will teach you how to save. You should also have a last will to avoid substantial costs and unnecessary delays in distributing your assets to your heirs after you die. A properly drafted will also ensures that your estate is distributed according to your wishes.

Avoid unnecessary banking fees

Financial institutions charge different fees, for instance, for transactions made at an ATM, through a teller and on-line. They offer plans with fixed monthly fees so that you don't have to pay for each transaction. Some waive the fees if you maintain an account balance of anywhere from $1,000 to $5,000, depending on the institution and type of plan. For example, keeping a $1,000 balance could entitle you to a certain number of transactions.

Accumulating the funds needed to avoid paying fees could be a worthwhile goal that will save you money. For instance, let's say you're looking for a savings plan that will entitle you to a number of free monthly transactions. Such a plan could cost $11.95 per month, but if you keep a $3,000 balance in your account, the fee is waived. This translates into savings of $143.40 per year or the equivalent of an 8% pre-tax return on a guaranteed investment certificate.* If you already have an emergency fund or plan on building one, why not kill two birds with one stone; in other words, keep some of the reserve funds in your account in order to eliminate the monthly banking fee. This reserve could save you a lot of money.

* Based on 40% tax rate on interest earned.

3. Set financial goals

Now that you've prepared a balance sheet and made a budget, you know how much you spend and how much you can save. You probably have some goals in mind: buying a home, enjoying a worry-free retirement, travelling, helping the kids pay for their education, etc. You might even want to reduce your debts.

For each major project, ask yourself how much it will cost and how long it will take to save the money needed. If you're not sure, for example, of how much you'll need for a comfortable retirement, jot down the question and ask your representative.

This exercise will give you a good idea of whether your plans are realistic, allow you to set priorities and maybe lead you to rethink certain projects.

Here is an example of a couple in their early 30s

After preparing a balance sheet and making a budget, the couple finds out that they have **$250** left over every month to put towards three goals:

. Eliminate the $1,000 balance on their credit card so they can finally stop paying the 19.5% annual interest;

. Increase their emergency fund to $3,000 (currently $2,000);

. Save at least $1,000 for a ski vacation next Christmas.

The couple realizes that not all their goals have the same priority. Two are more long term while one is more urgent.

In the near term, the couple’s goal is to pay off their credit card… and maintain a zero balance. To do so, they take $1,000 out of their emergency fund but promise to replenish it in the next few months. Here is the breakdown of the couple’s financial plan for the next year.

NOTES TO ACCOMPANYING TABLE

1. The couple is committed to never running up credit card debt again. Paying off the balance will save them almost $200 a year in interest charges. The couple also replaced the card with one that gives them 1% cash back on their purchases, giving them over $250 per year. This amount is not included in the table because the couple chose to use the money to treat themselves to one or two special restaurant outings.
2. By increasing their emergency fund to $3,000 and keeping it in their joint chequing account, the couple is entitled to unlimited transactions, eliminating their banking fees and saving them $143 per year.

By exercising a bit of discipline, the couple paid off their credit card by year-end, obtained a better credit card, built up their emergency fund and eliminated their banking fees. As a result of these changes, they will now have $593 more in their pocket every year with no extra effort.

ANNUAL FINANCIAL GOALS	1. Pay off credit card[1]	2. Increase emergency fund[2]	3. Plan a trip
January	Repay $1,000 (Balance drops to $0)	$1,000 withdrawal from emergency fund. At the end of the month, the couple deposits the $250 saved. Fund value: $1,250	
February	The couple immediately pays off their credit card balance using $1,000 from their emergency fund.	$250 deposit Fund value: $1,500	
March		$250 deposit Fund value: $1,750	
April		$250 deposit Fund value: $2,000	
May		$250 deposit Fund value: $2,250	
June		$250 deposit Fund value: $2,500	
July		$250 deposit Fund value: $2,750	
August		$250 deposit Fund value: $3,000	Once the 2 other priorities are met, the couple sets aside $250 every month for a trip.
September			$250 deposit Amount available for travel: $250
October			$250 deposit Amount available for travel: $500
November			$250 deposit Amount available for travel: $750
December			$250 deposit Amount available for travel: $1,000

The difference between savings and investment

SAVINGS

Savings is the amount of money you manage to put aside. It's the difference between your income and your expenses.

As a general rule, when someone manages to save money, it usually ends up in a chequing or savings account. Although these are safe vehicles, this safety feature has a price: low return.

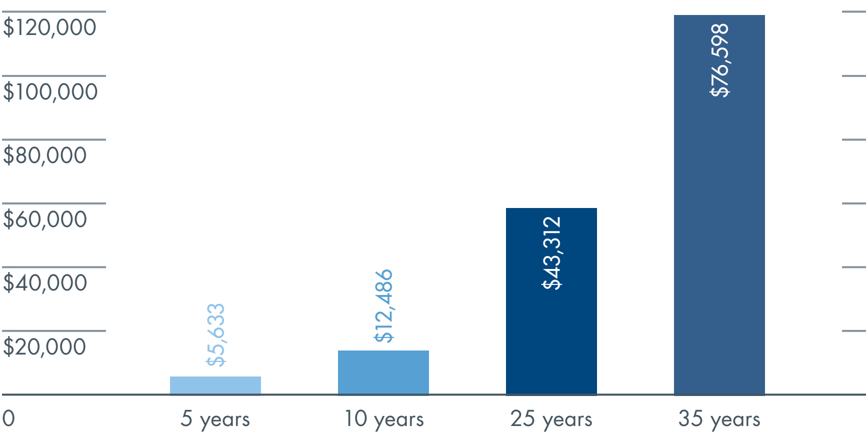
INVESTMENT

You make an investment when you use your savings to purchase a financial product such as stocks or bonds. Our second brochure, Choosing Investments, discusses different types of investments.

Why saving early is important

If you invest $1,000 per year in an RRSP or a TFSA that earns 4% annually for 25 years, you will accumulate $43,312. However, the same investment made over 10 years will total $12,486. The graph below shows the importance of saving early.

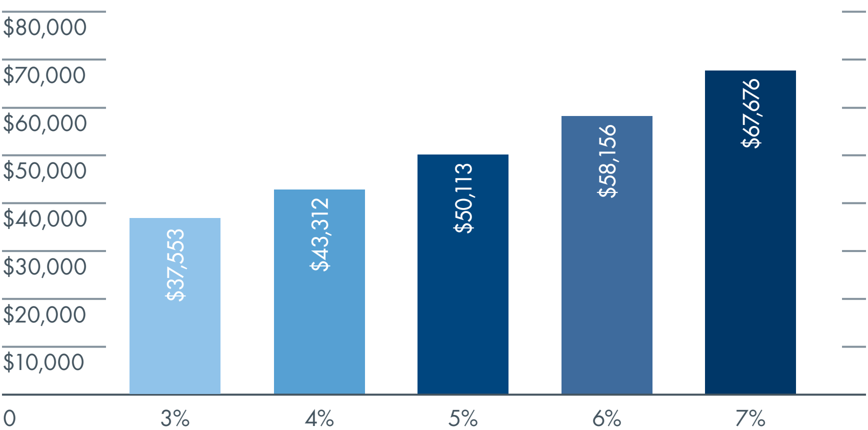
Growth of a $1,000 annual investment with a 4% annual return



Why returns are important

You now know that the earlier you start investing, the more likely you are to accumulate a substantial amount of money. The return you earn is just as important. The graph below shows how much a $1,000 annual investment would grow based on different rates of return. So, for instance, to find out how much $2,000 would be worth down the road, simply multiply the result by two.

Growth of a $1,000 annual investment after 25 years



If you followed the three steps presented in this guide, you should now know what your financial goals are, have a good idea of what your balance sheet looks like and have an accurate picture of your income and expenses. This information will go a long way to helping you achieve your financial goals. In the next two brochures of this series, you'll learn about investments and how to choose a professional to manage your finances.

TES AFFA!RES .com

The AMF youth site (tesaffaires.com) provides teenagers and young adults with useful financial tools.

It also features a section intended for teachers at all levels.

AUTORITÉ
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tesaffaires.com