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Budgeting is the first step to saving money

Aileen Kung is a fan of budgeting.

RICK EGLINTON/TORONTO STAR

By Suzanne Wintrob | Mon Jan 23 2012

Aileen Kung was in high school when her parents relocated the family from their native Taiwan to Toronto. As she puts it, her parents were immigrants with “no house, no job and no Western education.” So they pinched pennies for food, clothing and shelter. And, as they did, their children absorbed valuable lessons on how to save their hard-earned cash.

Thanks to that early intervention, Kung and her siblings are all living comfortably with good jobs, cottages and the ability to travel the world.

Kung, who works out of her home as an information technology specialist for a telecommunication company, deposits her paycheque directly into a savings account and only taps into it for holidays, sports and special occasions.

Her husband's salary goes to all fixed expenses such as insurance and utilities.

They have one car, walk whenever they can, and always look for grocery specials. They try not to use their credit cards, because "paying interest on your after-tax dollar is not worth the sale," says Kung. Every January, they examine what money they have left over, and, together, decide how much to tuck into their RRSPs, RESPs and savings, or what new investments to make. Being so frugal, they don't have a mortgage.

"Everybody over 18 who reads papers or talks to people or has a bank understands the consequences: if you take the money out, you don't have it for tomorrow," says Kung, 52. "It baffles me that people don't make that much money yet they're willing to pay 10 per cent of their hard-earned money to those [cheque cashing storefronts] to get cash right away. They'll never get ahead. If you don't save a penny, you'll never accumulate . . . a dollar."

Kung is one of the wise ones. According to Statistics Canada, the ratio of household credit market debt to personal disposable income increased to more than 150 per cent.

This means we owe one-and-a-half times more than we make.

Scary, but it doesn't have to be that way. By tracking expenditures and making smart financial choices, Canadians can dig themselves out of debt and find extra cash to invest for the future.

"The most common mistake is that people are just not aware what they're spending versus how much they're bringing in," says Andrew Sherbin, a financial advisor at Edward Jones in Toronto. "They're living beyond their means."

Armando Iannuzzi, a tax partner at Kestenberg Rabinowicz Partners LLP in Markham, Ont., says people need direction: "If you don't know where you're going, you're never going to get there."

Without a grasp on spending, he says, "your money starts managing you" in the form of high interest and a poor credit rating.

Instead, he believes in building a budget that takes into account everything from fixed expenses, such as utilities, mortgage, insurance and groceries, to occasional expenses such as entertainment, car repairs and vacations.

Tally these up in one column, and put incoming cash, such as salary in the other column, and try to keep the two in check.

Then set a savings goal and pick a number — say 10 per cent — and have that amount automatically transferred to a savings account or an RRSP. Finally, he recommends that people routinely re-evaluate their spending patterns to achieve their financial goals.

"[A budget] is not meant to be static," he says. "It's always evolving. You can't be afraid to make changes for new income, for new expenses."

For those who don't have a handle on their daily expenses, Sherbin has two simple suggestions: Keep a diary listing everything you spend including coffees, drugstore purchases and ATM withdrawals, or put all receipts in a shoebox, and then tally them up at the end of the month.

It's often a rude awakening, but well worth the effort if you're trying to save.

He likes Kung's idea of saving one salary for the extras, although he is aware not every family is lucky to have two incomes.

Kung wishes her two teenage daughters would start putting more thought into saving for their future. She admits she is constantly harping on them to save their birthday and Christmas money, suggesting that when they accumulate $500, they deposit half in the bank, and she is thankful that she usually wins the battle despite their protests.

"You cannot force the horse to drink if it doesn't want to," she says. "Same with my children. I cannot force them to save if they don't want to. If people really want to [save], they'll do it."

You can't invest, if you don't save. Irwin Igra, senior investment advisor at National Bank Financial in Toronto, offers tips that will leave more cash in your pocket at the end of the day:

- Start early! Start saving as soon as you get your first grown-up job, especially if you're living at home and paying nominal rent. Sock away 20 per cent of your income in mutual funds, be it a balanced fund or a Canadian equity fund, to take advantage of dollar-cost averages. Do it monthly, to be sure it happens! If you're older and have responsibilities, even five per cent will make a difference in the long run.

- Ring in the New Year! This time of year is ideal to put extra cash into an RRSP. But those who anticipate moving into a higher tax bracket should save money non-registered and create the RRSP room for when income is higher, so they get a higher tax write-off.

- Consider TFSAs! Students just coming out of school should consider a Tax Free Savings Account. The money grows tax sheltered and can be moved in and out without any tax penalties.

- Avoid interest! With credit cards companies charge about 19 per cent interest, consider applying for a term loan you can pay back regularly to pay off credit card debt. It pays to owe as little on your credit cards as possible.

- Be ready for a rainy day! Stuff happens, so diversify your assets and understand how much risk you're willing to take.