Consumer Studies 1202

Unit 3: Management of Personal Resources
Chapters 9, 10, 11

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Why Budget?

A budget is a plan of how you will spend your money and includes both a list of expenditures and estimates.

A budget usually covers a month or a year - you cannot spend more than you have allotted in each category

A financial plan is a forecast of how much money you will need to achieve a given future financial goal - usually more long term than a budget

Both a budget and a financial plan are tools which allow you to live without financial stress regardless of how much money you earn. It enables you to live within your means, while acquiring needs and wants without worrying about DEBT!

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There Are Three Steps to a Budget

Income - Expenditures = Savings or Debt

A financial plan looks at your savings or debt as part of a larger picture to ensure sensible fiscal responsibility. It shows you how to save or invest your money for major purchases (house, vehicle, retirement, etc.) and eliminate or manage debt

Step One: Understand Income (Chapter 9)

Most common types of income are:

- Employment
- Saving money
- Investing money
- Lending money and receiving it back with interest
- Social programs
- ~~Robbing a bank/Winning the lotto~~

Neither are endorsed :)

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Employment

In general, you want to choose a career that you enjoy, which pays you well and allows you a good standard of living and quality of life

Some benefits of employment:

- Self-actualization or self-fulfillment (what makes you happy)
- Skills development
- Pension
- Health insurance
- Stock options/bonus
- Income

Career Cruising Assignment

http://public.careercruising.com/us/en

Worksheet #1 - Page 252-255

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Savings vs. Investment

Savings: putting away a portion of your income today in order for you to have money in the future

Investment: you give up the use of the money for a period of time in exchange for a chance to make more

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Social Assistance Programs

Social Assistance Programs: provide income for those who are unable to work due to illness, layoffs, or age. Two examples are:

1) Canada Pension Plan (CPP): protects you and your family against the loss of income due to retirement, disability, or death. This is also a tax taken from your pay and sent to CRA (Canada Revenue Agency)

2) Employment Insurance: an income you can receive if you have lost your job through no fault of your own. This is also a tax taken from your pay and sent to the CRA

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Step Two: Determining Expenditures - Ch. 10

Your first expense comes from Income Deductions

Deductions are money that an employer takes from your salary before giving you the remainder

Mandatory deductions: amounts the federal government takes from you. This includes income tax (provincial & federal), CPP, and EI.

Sales tax: made at time of purchase for the federal and provincial coffers, while property tax is separate bill send by local municipalities to raise revenue for municipal expenses

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Step Two: Determining Expenditures - Ch. 10

Voluntary deductions: something you decide to pay like to charitable donations

Other expenses:
- Food
- Shelter
- Clothing
- Personal care items
- Transportation
- Utilities
- Entertainment
- Savings

Worksheet #4

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Shelter

Shelter is a huge expense and a major need. You have to decide if you will rent or buy. If you choose to buy, you need to consider your lifestyle choices, down payment, and mortgage options.

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Step Three: Where to Put Your Savings

Personal Banks (Schedule 1): The Big 6

1) The Royal Bank
2) TD Canada Trust
3) The Bank of Nova Scotia
4) CIBC
5) The Bank of Montreal (BMO)
6) National Bank

Commercial Banking (Schedule 2): Ex. Hongkong Bank of Canada

Virtual Banking: no branches, all online

Ex. ING Direct

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Trust Companies and Credit Unions

Trust Companies: offer services similar to those of banks. Yet they also operate pension funds, transfer company stocks and bonds

Credit Unions: offer services similar to bank and trust companies. they are non-profit and have owner-members who invest a small amount of money to join

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Banks and Other Financial Institutions Provide a Variety of Services

Savings accounts: used to save money and it pays a small amount of interest

Chequing accounts: used to traditionally write cheques and pay bills.

*NOTE: Still used to pay bills, but online bill payment is more the norm than cheque writing

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Investments

GIC (Guaranteed Investment Certificate): offers a fixed interest rate on a sum of money deposited at a financial institution for a fixed term

Mutual Fund: the contributions of many individuals are combined and invested by a professional find manager in a variety of stocks and bonds. Profits are split according to the number of units each investor owns, very low risk

Safety Deposit Boxes: you can rent one to store valuables such as jewellery, stock certificates, bonds, collectables, passports, or anything you feel has value

Read 283-287 and do question #4!!

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Debt

- Credit cards and other sources of credit
- A credit card is a card issued by a financial institution that allows you to obtain goods or services on credit
- If you pay the bill before a certain date, the credit card costs you nothing (except sometimes a small annual fee)
- If you don't pay the bill on time, the card turns into a very expensive loan

Page 336 #s 1-3
(Read 329-335 for help!)

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