



Wealth  
Management

# The magic budget formula

Set the stage for budgeting success

Financial education is an important part of the journey to create financial peace of mind.

Depending on your stage of life and your lifestyle, there may be a wide range of items or services that contribute to your overall expenses. Some may be smaller, day-to-day expenses, such as groceries, mobile devices and entertainment, while others involve much larger costs, such as a home or car, post-secondary schooling or raising children. When you consider all of these types of expenses, it's no wonder that setting money aside and saving for the future may often seem difficult.

In general, a budget is a tool that helps to track, organize and prioritize your income and expenses. It can be established on a daily, weekly or monthly basis and can include varying levels of detail.

## Budget benefits:

1. Track cash in and cash out.
2. Determine savings required to meet short-term and long-term financial goals.
3. Manage monthly bills and expenses.
4. Prepare for unexpected expenses.
5. Avoid overspending or unnecessary spending.

When it comes to budgeting, this is the formula that's most commonly used:



With this basic “cash in” versus “cash out” formula, expenses are simply subtracted from income and the remainder is what's then available for savings or for treating yourself. However, when your expenses become the focus, and there's no advance planning for where your money will go, the likelihood is often that there will be little or nothing left over for saving.

## How to make saving a priority

One simple change to the above budget formula can make quite a difference, and this is where it becomes important to focus on “paying yourself first.”



To find out more about budgeting or the RBC Wealth Management Financial Literacy program, please contact us today.

To achieve money success, savings shouldn't be an afterthought. Instead, it should be subtracted from your income first, and the remaining income is what's available to pay expenses. With this approach, the formula looks like this:

$$\begin{array}{c}
 \text{Income} \\
 - \\
 \text{Savings} \\
 = \\
 \text{Expenses}
 \end{array}$$

### Two main benefits of using the second budget formula:

1. Allows you to prioritize your savings goals.
2. Helps you become more conscious about what you spend your money on.

It's also important to keep in mind that the savings piece doesn't have to be difficult. For example, one of the simplest methods is setting up an automatic savings plan from your bank account. By automatically putting aside small amounts regularly, the money is out of sight and out of mind—and it can grow quickly.



### Financial education for everyone

When it comes to financial education, it's never too late or too early to start. Whether it's understanding the basics of earnings, budgeting or credit; tax considerations when leveraging registered and non-registered accounts; the benefits of wealth planning; or the ins and outs of transferring wealth, all members of your family will benefit from building sound financial management skills.