RealMoneyPlan User Guide

RealMoneyPlan Personal Financial Plan

Expert Canadian Edition

Version Expert CA 3.1

TABLE OF CONTENTS

Contents

INTRODUCTION

Introduction

Congratulations!

Congratulations on embarking on developing your personal financial plan using the RealMoneyPlan spreadsheet template for Canadians available at RealMoneyPlan.ca. This guide will show you how to use the RealMoneyPlan spreadsheet template to easily develop your personalized and realistic financial plan. It will also provide you with the critical fundamentals for understanding and controlling your money. Having a personal financial plan is the single most important thing you can do to ensure your financial well-being.

What is the RealMoneyPlan template?

RealMoneyPlan template is an easy to use yet flexible and powerful spreadsheet template for:

- Developing a real view of your **"annual finances"** for the current/upcoming year including income, expense, cash flow, savings, investments, assets, liabilities and net worth, and,
- Developing one or more scenarios of your **"lifelong finances"** that realistically reflects the financial implications of life phases and events such as marrying, moving, raising children, saving, and retiring.

The RealMoneyPlan template contains an **Annual Plan** tab and a **Lifelong Plan** tab that are linked together and work together. If desired the links can be deleted so that the two parts work independently, or if only one part is going to be used.

The spreadsheet workbook file contains two plan sets, (1) an example of a complete and realistic annual and lifelong plan for reference, and (2) a blank annual and lifelong plan set for you to edit to make your own personalized plan.

The spreadsheet template is designed to be suitable for all types of users. Beginners can simply use only the main features to keep it simple and easy. Others may use more or all the features it offers if a high level of detail, flexibility and accuracy is desired. The spreadsheet is designed to be easily modified if needed. It is suitable for individuals, couples, families, young people just starting to plan their finances, the rich, the poor, and anyone planning for or in retirement.

This guide provides step-by-step guidelines for first completing the Annual Plan and then the Lifelong Plan. Information from the Annual Plan is linked to and feeds into the Lifelong Plan for the current year of the Annual Plan. Any updates made to the Annual Plan are immediately reflected in the Lifelong Plan.

REALMONEYPLAN FEATURES

RealMoneyPlan Features

Annual Plan Features

The Annual Plan includes the following features:

- Page 1: Summary – Including Cash Flow and Net Worth charts.
- Page 2 and 3: Income
- Page 4 and 5: Regular Expense
- Page 6: Non-Regular Expense – Including Expense Pie chart.
- Page 7: Cash Flow – Including Month End Balance chart.
- Page 8: Net Worth
- Page 9: Additional Details

Lifelong Plan Features

The Lifelong Plan includes the following features:

- Page 1: Summary – Including Net Worth and Cash Flow charts.
- Page 2 and 3: Income
- Page 4 and 5: Tax
- Page 6: Expenses
- Page 7: Cash Flow
- Page 8: Retirement Plans
- Page 9: Savings Accounts
- Page 10 and 11: Investments
- Page 12: Personal Assets
- Page 13: Liabilities
- Page 14: Net Worth
- Page 15: Present Value
- Page 16: Other Information

Getting Ready

Download, unzip and backup the files

If you have not already done so, browse to the RealMoneyPlan.ca website and purchase your copy of the RealMoneyPlan personal financial plan spreadsheet template. Immediately following your purchase, you can download a zip file containing the spreadsheet template and this user guide. Unzip the downloaded file with Windows or any unzip app or program.

Important - first create a backup copy of the original unmodified template file and save it.

The spreadsheet file can be opened with Microsoft Excel or any spreadsheet program compatible with Microsoft Excel .xlsx files. Old versions of Excel (that use .xls files) can also open this file if you download and install a free compatibility add-on from Microsoft. This user guide can be opened with Adobe Acrobat Reader or any program compatible with .pdf files.

Familiarize yourself with the templates

You are probably anxious to start editing the template, but don't change anything in them just yet. First spend some time looking around the templates to get familiar with them. It is also a good idea to read this guide before proceeding.

The RealMoneyPlan spreadsheet workbook contain multiple worksheets. You can select between worksheets by clicking on the tabs at the lower left of the workbook window.

There is an Annual Plan and Lifelong Plan set of worksheets (same color worksheet tabs) that are filled out with data to provide a realistic example for your reference. This example worksheet set is provided for your reference and not for editing therefore these worksheets are by default protected from editing.

The other set of Annual Plan and Lifelong Plan worksheets (different color worksheet tabs) do not have any data within them yet. These are the worksheets you will work with to create your personalized financial plans. You may rename these tabs if desired. The graphs within these worksheets look empty but don't worry they will fill in once data is added in the worksheet.

Note that some of the cells in the Annual Plan and Lifelong Plan worksheets have a double border around them. These cells are links directly from the Annual Plan to the Lifelong Plan and allow changes in data in the Annual Plan to automatically be updated in the Lifelong Plan.

Also note the different color of amounts in different cells. Generally, black amounts are planned amounts, green are actual amounts, red are estimates that need updating later, and fuscia (pink) color indicates a cell where the data or formula has changed. Bold amounts mean they are calculated, not entered. Cells with background color are part of the template and are not intended for entering data.

Set a scope for your financial plans

Decide the scope of your financial plan – is it for you personally, for your family, or for your household including supported relatives? Do you have children in college or university that should be included, or not? Different people take different perspectives – for example some couples prefer to keep their finances completely separate while others operate as a combined household. Don't worry you can change your mind later and make adjustments accordingly.

Collect your financial information

To get started you are going to need to collect some information about your finances. This information, which for most people will be in various files in your filing cabinet, is what will make your plan accurate, realistic and personalized. Don't worry, you can just start with estimates, or even guesses, and then refine it later. In fact estimating and then refining in iterations is the recommended best approach.

Collect or estimate the following for the current year: income, expense, deposits and withdrawals to or from savings accounts and investments. You can use the Data Form tab in the workbook to assist in gathering and developing this information.

The expense part can be determined in one of two ways. The first way is you can add up all expense items you can think of. The flaw with this approach is that the result will likely miss a lot of stuff that didn't come to mind. The other way, which I recommend, is to work backwards and determine your total expenses from the difference between your net income (after taxes and deductions) and what you were left with at the end of the year. Then you can take that number and divide it up between different types of expenses, transfers to/from accounts and so forth. Initially the expense breakdown detail does not really matter, it only matters later when trying to understand and optimize your expenses.

Become familiar with spreadsheet basics

RealMoneyPlan templates are designed so that you only need to be familiar with the basics of using spreadsheets to work with them – there is no fancy stuff. If you don't yet have the basics, then we recommend a short free tutorial from Microsoft which can be found at:

Microsoft Excel Tutorial

Preparing your Annual Plan

OK, let's get started! First, if you have not already done so, make a backup copy of your file.

Open the RealMoneyPlan file and then open the tab "2020 Annual Plan". Note: If you wish you can change the name of the tab, for example to "2021 Annual Plan", by simply double clicking on the tab name and editing it.

The first edits you will make to your Annual Plan should be the title at the top of page 1, typically the year and your name. If you should make a mistake don't worry, just use the "Undo" function to undo changes and try again.

Remember that as you proceed only enter amounts in the areas of the spreadsheet intended for editing, not in the bolded cells that contain formulas that are part of the template. Remember to save often and use the "Save As" function to make new versions so you always have a recent backup version, just in case you should want to go back to it.

Income

Next enter your income in pages 2 and 3 as follows.

On the page titled Income – Self and in the section titled Employment Income enter your pre-tax gross pay and total deductions for each month of the year.

In the All Income section enter any other income you may have such as business income, pension income or investment income. These should be pre-tax amounts. Note that the Employment income is prefilled in the first line.

In the Tax and Deductions section enter all tax and deductions including taxes paid or refunded at tax filing time. Note that the Employment deductions is prefilled in the first line.

Then on the next page titled Income – Spouse enter your spouse's income and deductions in the same manner.

Expense

Next enter your expenses in pages 4, 5 and 6 as follows.

Start with your total expense amount and break it down and spread it over the major expense areas applicable to you such that the total amount appears in the Expense Total line on the middle of page 6.

In breaking it down, regular expenses are those which are expected to reoccur every year while non-regular expenses are usually one-time whether planned or unexpected. Note the pie chart of the expense categories. Add or change the names of items or categories as you may need.

Initially the breakdown is not critical - it only becomes important later when you want to fully understand and adjust your spending habits. That is in itself an involved exercise best left for later.

Savings

Note the Available Savings section in the middle of page 6. Quite simply, income minus expense gives you your savings after expense available for purchasing assets, paying down liabilities or transferring to different types of savings accounts or investments.

The month by month available savings represents the amount you may transfer in the next section at the top of page 7. If you have months where the available savings are negative, that means you will need to withdraw money in the Transfer section of the next page to satisfy the expenses. You will see how that works in the next section, its easy.

Budgeted Cash Flow

Before entering any transfer amounts in the Transfer section, first go to the Net Worth page (next page) and in the Cash Assets section enter the Year Start amounts of your chequing accounts and any significant cash stash. This sets the amount of money you have on hand at the start of the year.

This amount now appears in the Budgeted Cash Flow section as the Start Balance for the month of January. It is used to calculate the running balance or float for subsequent months. Ideally you will want to maintain a balance or float at some level, typically a few thousand dollars. Too low and you risk bank account overdraft with expense swings, too high and you may not be getting much return (interest) on the money sitting there.

Now take note of the Budgeted Cash Flow section monthly End Balance amounts. These End Balance amounts indicate if you can transfer money into accounts or must transfer money out of accounts in the Transfers section. Again, ideally you want to maintain budgeted monthly balances or float throughout the year.

PREPARING YOUR ANNUAL PLAN

Transfers

Now with the benefit of the budgeted month end balance amounts you can now enter all transfers (deposits and withdrawals) to or from your various forms of assets and liabilities. For example, putting some money aside into a savings account is a transfer to the savings account. Assets and liabilities have lasting positive or negative financial value affecting your net worth, whereas expenses do not. Do not put expenses in the Transfers section.

Review the list of assets and liabilities in the plan template and consider all that are applicable to you. Later, not now, you may add or delete line items in the Transfer section as needed, but you must make the corresponding changes in the Net Worth page including links to the corresponding Lifelong Plan.

Actual Cash Flow

First, remember that the budgeted cash flow is the cash assets you have at the start of the year, plus your budgeted savings after expense, less your planned transfers to or from assets or liabilities. This Budgeted Cash Flow is calculated for you month over month ending in a year-end balance.

The Actual Cash Flow amounts are the actual amounts of your chequing account balances at month end as the year progresses. Actual Cash Flow represents historical reality whereas the budgeted amounts are a forward-looking plan.

Here is where everything needs to add up. The difference between the budgeted cash flow and the actual cash flow is the tracking figure. The tracking figure should ideally be relatively small to indicate that the budgeted and actual amounts are tracking reasonably close – how close is up to you. A large tracking figure indicates that some adjustment is needed to the budgeted amounts to better track to the actual amounts, or that there are some errors or omissions with the actual amounts.

The Month End Balances chart shows the tracking of the budgeted cash to the actual cash. It is recommended (not cheating) to go back and make adjustments to both past and future amounts and to iterate as much as you need. You will likely want to budget to have a reasonable cash asset balance (chequing account buffer) throughout the year.

It is a good idea to study your cash flow to understand how much is coming in, going out and being retained. You need to know this because it is fundamental to financial planning.

PREPARING YOUR ANNUAL PLAN

Net Worth

Your net worth is simply all your assets minus all your liabilities. Whereas the prior pages of the plan showed how your money flows in and out, and how much you managed to retain, the net worth page provides a snap shot in time of what you have to your name. It is another fundamental to financial planning that you really need to know.

The Net Worth page shows you your:

- Assets, liabilities and net worth at the start of the year,
- Transfer to and from your assets and liabilities during the year (real amounts),
- Gains or losses realized (for example interest on savings or depreciation on vehicles),
- The resulting assets, liabilities and net worth at the end of the year.

To complete the page enter in the Year Start column the real value of all of the assets and liabilities you have at the start of the year. You likely have these amounts in your filing cabinet. In the Transfer column enter the transfer amounts. These amounts should be the same as the amounts in the transfers to/from assets and liabilities section of the Cash Flow page. Enter into the Gain/Loss column the amount which results in the correct year end amount for each asset and liability. Do not directly enter amounts directly into the Year End column as amounts in this column are calculated. Note at the bottom of the page the Change in Net Worth.

Summary

By now you have probably noticed that the summary page has filled in with data and charts. Take a look at it to see if it makes sense to you. If not, then something needs to be adjusted.

At this point you can go back and make whatever changes to your Annual Plan as you feel are needed, or you may proceed to creating your first iteration of your Lifelong Plan.

Congratulations - you have now completed the first iteration of your Annual Financial Plan!

PREPARING YOUR LIFELONG PLAN

Preparing your Lifelong Plan

You should always prepare your Annual Plan first before preparing your Lifelong Plan. The only exception is if you have no intention of preparing an Annual Plan.

Open the "Lifelong Plan" tab of the same file as your Annual Plan. The Lifelong plan tab is linked to the Annual Plan and therefore you should see some data from your Annual Plan automatically populating some cells of the Lifelong Plan. If you do not see this then check if you are opening the wrong tab or file.

Before starting to edit your Lifelong Plan, you should become familiar with the layout of the plan and important concepts such as indexing. The next sections review these.

Layout of the template

First notice that there is a line for each year that carries across all pages of the template (except for the Summary page). The first line is for the previous year which is not necessary to use but can be helpful in some situations. The second line is the current year and the amounts are in red to emphasize them. Cells in this line that have a double box around them get their values directly from cells in the Annual Plan. You probably want to keep these links intact unless you wish to separate the Lifelong Plan from the Annual Plan in which case these values will then have to be entered manually. The subsequent lines are for subsequent years.

Columns highlighted in pale yellow with bold numbers contain calculated values (formulas) and are part of the template. Do not edit the cells in these columns unless you are comfortable with changing the template. Cells with non-bold black numbers are usually input values that are calculated but may be overwritten if the calculation is not needed. Cells with fuscia (pink) numbers are input values but are specifically entered and may be values or calculated amounts and can be edited. Cells with green numbers represent historical or actual known amounts and are usually entered manually.

Indexing

Indexing is a simple function used in your plan to increase amounts by a set amount from one year to the next. As an example you may expect that your income will increase each year by a set percentage. Your expenses will probably also increase by approximately the consumer price index if for no other reason. Your savings and investments will grow by the expected return. Your retirement plans may grow faster if well invested, or perhaps not. Your personal assets will appreciate or depreciate based on what you have for assets, for example, your home may appreciate while your vehicles will likely depreciate. As such you can appreciate the importance and power of the indexing function in your plan.

Now take note of how indexing works in your Lifelong Plan by looking at the formula in cells where the amount is increasing from year to year. Typically, the indexed amount is equal to the amount of the year before multiplied by 1 plus (or minus) the index amount.

Notice towards the top of some columns on some pages there are cells with percentages. These cells enable indexing for amounts in cells in the column below. Entering an index (in percentage) in the index cell changes the index for all cells in the column that use the index. This makes it very easy to change the index for a column and see the effect.

Initial Set Up

Make a backup copy of your file before making any edits.

Remember that as you proceed only enter amounts in the areas of the spreadsheet intended for editing, not in the bolded cells that contain formulas that are part of the template. Remember to save often and use the “Save As” function to make new versions so you always have a recent backup version, just in case you should want to go back to it.

Note: If you wish you can change the name of the tab, for example to “Retirement Plan”, by simply double clicking on the tab name and editing it.

The first edits you will make to your Lifelong Plan should be your name(s), age(s), the year and certain indexes as follows.

At the top of the Summary page (page 1) edit the title and the names. Enter a set of assumptions, for example, when you expect to retire, or when you expect to buy a house.

Enter your name (abbreviation, alias or initials that fit) in cell G5 (column G, row 5) on page 2. Your name will autofill across your plan. Enter your age in cell G7 on page 2 and it will autofill for other years and pages.

Check that cell F7 on page 2 has the correct current year. If needed change it to the current year of the Annual Plan. All year cells on all pages are calculated from this one cell.

If applicable, enter your spouse’s name (abbreviation, alias or initials that fit) in cell T5 (column T, row 5) on page 3. Enter your spouse’s age in cell T7 on page 3.

Check the CPI (Consumer Price Index) in cell H5 on page 2. You may adjust it if you think it will be different over the life of your plan. Note that even small changes to the CPI can have a large impact to your plan over many years.

Check the Tax Index in cell AH5 on page 4. You should make it the same as the CPI index unless you have tax information that indicates otherwise.

Check the Expense indexes of cells BG5 through BL5. You should make it the same as the CPI index unless you think otherwise. Like the CPI, small changes to the Expense indexes can impact your plan over many years.

Once you have completed these initial settings press “Save As” to create a new version file ready to enter data. Going forward use “Save” or “Save As” often.

Summary Page

The first page is the Summary page with a Net Worth chart and Cash Flow chart. These charts will autofill once you enter data into your plan.

Income Page

The best place to start entering data into your Lifelong Plan is on the Income page. Here you will enter your (and your spouse if applicable) expected income over the years which may include employment income, business income, company pension, government pension, personal retirement plan income, investment income and possibly other forms of income. Generally, most people will have employment and/or business income before retiring and then pension and savings income afterwards. The plan template can accommodate any combination of income sources and amounts. Decide how many years you want make your plan for (5, 10, 20, up to 43). You may start with just a few years to make it easier.

Do not enter income from Retirement Plans, Interest Income or Dividend Income directly into the income columns on pages 2 and 3. These columns are auto-filled from columns on other pages in the spreadsheet.

Income can be entered in the income columns for Employment Income, Business Income, Employer Pension and Government Pension. It can be entered either by directly typing in each cell, or if you have stable income that you expect will increase predictably each year, you may use indexing formulas as described earlier. See the example spreadsheet for indexed income examples.

Employment and Business Income

On the Income – Self page enter in the Employment Income column your expected before-tax gross employment income for each year starting with the year after the current year and ending when you expect to retire from employment. In the Business Income column enter your expected before-tax business income. Now enter your spouse's income into the Income – Spouse page. Your spouse's retirement age and date may be different from yours. Note that taxes and deductions for you and your spouse will be handled on a different page.

Employer and Government Pension Income

Your (and your spouses) retirement income may come from two different types of sources that are handled differently. The first type is employer and government pension income that is paid to you from group plans where you do not hold an individual account with a personal balance. There are many different forms of employer and government pension depending where you live and the type of pension plan. These include employer defined benefit pension plans, Canada Pension Plan and Old Age Security. With these plans the amount of pension you will receive is determined by a pension benefit formula. Once you have determined (or estimated) how much you will receive, entering it in the plan is relatively straight forward. Enter before-tax amounts. You may use indexing. Your start date for drawing pension does not have to coincide with when you cease employment and/or business.

Personal Retirement Plan Income

Now the second type of retirement income is personal retirement plan income from your personal/individual retirement plan accounts held in your name that you (and possibly your employer) contributed to. These include for example Registered Retirement Savings Plan (RRSP). Notice that your retirement plan income in the Retirement Plan column is calculated from the amount withdrawn from your Retirement Plan(s) on later page(s). How much (and when) you can (or have to) withdraw depends on the plan rules and whether it is still in the form of a retirement savings plan or has been converted to a retirement income fund or a fixed term annuity or life annuity.

Your Personal Retirement Plan accounts hold pre-tax amounts. Deposits into your retirement plan made by you and/or your employer reduce your taxable income for that year. Typically deposits made by your employer (matching or otherwise) are considered a benefit to you that goes to your retirement plan account rather than your pay cheque. Withdrawals add to your taxable income in the year you withdraw it. In years of high income, you should put some pre-tax income into your retirement plan(s) thus reducing your taxable income in those years. You should plan that during years of low income (usually after retirement but not always) you will make withdrawals from your retirement plan or convert it into a recurring retirement income stream of some form. The benefit, compared to a savings plan, is to pay less net tax overall and to earn additional return on money in the account that was not taken as tax earlier.

Some people in retirement take the approach of not making withdrawals from their personal retirement plan until after they have drawn down their other savings and investments. However, this may not the best approach for those that take early retirement where their taxable income will be lower for a few years before government and/or employer pensions start. In the Lifelong Plan example, the Retirement Plan Income is started when retiring from employment and then reduced a few years later when government pension starts. This results in income leveling over the years and helps minimized taxes. You may choose that at some point in time to convert your retirement plan to a life annuity that will last as long as you live. You can estimate the annual annuity income amount from annuity tables based on average life expectancy (see RRIF tab). Alternatively you can calculate the amount you would receive from one or more term annuities and directly enter those amounts. You have the flexibility to try it any way you like and to compare scenarios.

Personal Retirement Plan Deposits and Withdrawals

Personal Retirement Plan deposits and withdrawals are entered on the Retirement Plans page. Note that the template has separate columns for deposits and withdrawals. Separate columns allow the template to apply different tax treatment to deposits and withdrawals. Deposits to your retirement plan are treated as a deduction from Total Income to derive Taxable Income on the Taxes page. Withdrawals from your retirement plan are captured as Retirement Plan Income on the Income page.

On your Retirement Plans page and under the Retirement Plan Accounts Deposit column enter the amounts you expect to deposit. Also consider if there is an employer direct contribution amount to add on the Retirement Plans page and included in your Employment Income as a benefit. If so adjust your plan accordingly.

On your Retirement Plans page and under the Retirement Plans Withdrawal column enter the amounts you expect to withdraw for the years you expect to make withdrawals. These amounts will appear on the Income page. Ensure that the Balance column of the Retirement Plan does not go negative.

Follow the same steps for your spouse.

Interest Income, Dividend Income and Capital Gains

Amounts in the Interest Income column come from the Savings Accounts on the Savings page. Amounts in the Dividend Income column come from the Investment pages. Capital Gains from Investments are not shown on the Income page, but they are included on the Taxes page.

Expense

In each of the Expense columns enter your expenses for each year using your current year expenses as a baseline. You can make adjustments to the indexed expenses. For example, at retirement you may expect your regular expenses to reduce by perhaps 15%. If your retirement line cell for regular expenses is for example BG19 then you can make the 15% reduction by entering =BG18*(1+L$5)*0.85 into cell BG19. This reduction will carry forward to subsequent years. To keep the spreadsheet tidy change the text color of BG19 to fuscia (pink) to indicate there is a change to the formula in this cell, and you may also add a note indicating that at retirement your expenses reduce by 15%.

Tax Page

The Tax page calculates tax using an approach similar to actual tax calculations. Total Income is calculated, then Deductions are calculated and taken off to arrive at Taxable Income. Taxable Income is then used to calculate the Tax on Income. Tax Credits are then calculated to further reduce the taxes. This approach allows for a range of tax treatment ranging from easy estimation to accurate handling of more complex tax situations involving capital gains, dividends, spousal RSP contributions, pension sharing, tax/credit transfers, etc. You may need to adjust the formulas on the Tax Page of your plan for your situation.

The Example Plan uses tax rates for a BC resident and exemplifies different income types and different approaches to handling taxes in the plan. On the Tax pages the Total Income column includes regular income (from employment, business, pension and interest), as well as eligible dividends (appropriately marked up by 38%) and capital gains (appropriately reduced by 50%). This is where any other adjustments to Total Income would be made.

The Deductions column is where you include applicable deductions and adjustments. This may include for example RRSP contributions, pension splitting, etc.

The Taxable Income column is calculated from the Total Income column minus the Deductions column. This column is used for calculating taxes.

Tax Calculation Methods

On the Tax page, the Tax on Income column and the Tax Credits column are used to calculate (or estimate) the tax and credits. There are different methods that you may use to calculate the tax and credits as follows. You may use an easy method based on extrapolation or average tax. Advanced users may wish to use a more precise method based on marginal tax bracket formulas. These are described below. It is best to start with an easy method and refine it later if desired. The Example Plan provides examples of all three methods and is based on BC taxes and credits information found in the Tax Detail reference tab. The Tax Detail tab includes tax detail for all provinces and territories.

Method 1: Extrapolation of Tax, Deductions and Credits

This method extrapolates forward from prior years the net combined result of taxes, credits and pay deductions such as Canada pension plan premium, employment insurance premium, company pension deduction, health/dental insurance plan, etc. This method is relatively easy and is suitable if we can assume all or most of the income is from a stable and predictable income source such as steady employment. With this method you would only need to use the Deductions column and/or Credits column if you wished to include any additional deductions and/or credits not already included.

Method 2: Average Tax Rate

This method uses Average Tax Rates to estimate the tax. This method is relatively easy and is usually accurate enough. Take note though that this method will not provide accurate tax calculations for incremental income, dividends or capital gains. Tables for Average Tax Rates for your province are provided in the Tax Detail reference tab. Average Tax Rate tables may or may not include certain common credits such as the Personal Amount. Therefore, ensure that any credits or other adjustments already included in the Average Tax Rate table you choose to use are not included again in the Credits column.

Method 3: Marginal Tax Rate (for Advanced Users)

This method uses Marginal Tax Rate tables to calculate tax on taxable income in the same way as real tax forms do. This method is suitable if you have no employment income (with complex deductions) or want accurate tax calculation on incremental income, dividends and capital gains. All credits are calculated separately in the Credits column. This method can be quite accurate because it can follow the actual tax form calculations, but to get that accuracy requires fitting the right tax bracket to the taxable income for any year or period of years. It also requires ensuring any dividends and capital gains are correctly included in income and that all significant credits are included.

You may use any of the above methods to calculate or estimate taxes and may apply different methods in different places. For example, you could apply the Tax and Deductions Extrapolation method to employment income and the Marginal Tax rate to investment returns. Taxes are unfortunately complicated and are subject to change so you cannot expect to perfectly predict future taxes. Adding more tax detail in your plan may increase its realism and accuracy, or it may just result in unnecessary complication with little additional benefit. You have the choice.

Tax Credits

Tax credits reduce the amount of tax you owe and there are many different tax credits which may or may not be applicable to you. Descriptions and amounts for tax credits for your province and situation can be found on the Internet.

Here are a few 2020 Combined Federal and BC examples of tax credits:

- Personal Amount – $2,538,
- Pension Income – $351,
- Eligible Dividends – 27.02% of grossed up dividends,
- Age amount (65+) – $1,394.

Note that most common credits are non-refundable which means they cannot reduce your tax below zero.

Cash Flow

The Cash Flow page calculates your Cash Balance (column BY) which you use to decide how much money should be transferred each year to or from your various Assets and Liabilities.

Remember that for any given year your total income after taxes and deductions minus your total expenses equals your savings after expenses. Your savings after expenses is the amount you have available to transfer to or from different assets and liabilities including savings accounts, investments, real estate, vehicles, personal assets, mortgage, vehicle loan, etc. The amount you can transfer is the amount which leaves the cash account balance at a reasonable level, typically the same level as last year's balance which represents the running balance desired in your chequing account(s).

The Cash Flow page starts with a column for Combined Actual Income After Tax which is includes you and your spouses combined actual income less taxes. The next column calculates your Combined Available Income After Tax which is the amount of money available to cover your expenses, make major purchases or save for the future. It excludes investment income that was taxable but is not available to spend because it is in the investment. The next column calculates your Combined Available Savings After Expense which is the actual amount available for transfers. The next column Transfers shows the total of all transfers. The next column Cash Balance calculates the cash balance left after transfers. The Cash Balance column is highlighted in blue to make it easy to identify and scroll back to as you make changes across your plan.

PREPARING YOUR LIFELONG PLAN

Go ahead and experiment with transfer amounts to and from savings and investments, personal assets and liabilities for a few years ahead that result in a reasonable cash balance. Here is where you need to make choices about where to put your money. If you have spare savings you may want to try to reduce your liabilities first. Don't get too precise just yet as you will likely have to come back and make adjustments a few times until you are happy with it.

Savings Accounts

On the Savings Accounts page enter the amounts you expect to transfer in or out. Adjust the expected return percentages for the type of investment and account. As you proceed take note of the Cash Balance on the Cash Flow page.

Note that interest from Savings Accounts is calculated and included in Interest Income column on the Income page.

Grant amounts and interest (or return) from Education Plans is taxable to the beneficiary (e.g., child) and not to the provider (e.g., you) and therefore it is not included in income. Also, transfers to or from Education Plans is included in the transfer calculation in the template. Therefore, withdrawals that go to the beneficiary should have a corresponding education expense entry. If you plan to use an Education Plan be aware of the specific rules for contributions, grants and withdrawals applicable to you and develop your plan accordingly.

Investments

On the Investments pages enter the amounts you expect to transfer in or out. Adjust the expected return percentages for the type of investment. Again, take note of the Cash Balance on the Cash Flow page.

Interest (or dividends or capital gains) from Tax Free Savings Accounts is not taxable and therefore is not included in income. Canadians should consider Tax Free Savings Accounts as a preferred investment option, but be aware of the contribution limit rules.

The actual amount of dividends from investments in column DE and DP are included in Dividend Income columns O and AB respectively. The dividend index and the dividend amount are used only for income and tax calculation purposes. The stock template treats dividends as reinvested, that is, part of the reinvested investment return. The investment balance total return is set by the index in columns DC and DN irrespective of the dividend index. If you have dividends that are not reinvested you may adjust the template formula in column CT to include those dividends in the transfer and also adjust the investment balance of columns DC and/or DN to remove those dividends.

Personal Assets

On the Personal Assets page under the Transfer columns enter the amounts you expect to transfer to or from Real Estate, Vehicles and Other Assets.

Liabilities

On the Liabilities page under the Transfer columns enter the amounts you expect to transfer to or from Mortgage, Line of Credit, and Loan/Debt/Other.

Net Worth

Your net worth at any point in time is your total assets minus your total liabilities. Take note of how your net worth is changing over the years by looking at the Net Worth column on the Net Worth page. If you are “Getting Ahead” as they say, this number should be increasing over the years.

Present Worth

Present worth calculation converts actual future amounts into amounts equivalent to what it would be worth presently. What this means is that due to inflation all future amounts will need to be larger than what seems reasonable today. In fact by the time you are old you may need amounts which are two to four or more times higher than what seems reasonably today. If that seems hard to imagine just think about income and expense levels say 40 years ago. What did your parents make for income and what did they pay for a car or a house? Now think ahead for your case and consider that at only 2% inflation that a dollar today is worth only one half of a dollar in 35 years. Or in other words you will need twice as much money in 35 years if inflation stays low at 2%, perhaps much more if inflation should increase.

The Present Worth page calculates the present worth of future amounts. The charts on the Summary page use these present worth amounts. Breaking even, as they say, is represented by a level horizontal Net Worth line on the chart. If it goes upward you are getting ahead, and if it goes downward you are losing ground. It is OK to lose ground during retirement, as long as you don’t run out of money.

Summary

Now take a look at the Summary page again and in particular study the lines on your Net Worth and Cash Flow charts. You will want to make adjustments throughout your plan to bring the lines on these charts into levels that you think are reasonable and realistic.

Once your plan starts to take shape think about what that means to you in terms of when you can retire, how much you need to make and save. Can you live the lifestyle you want, do the things you want to do and retire when you want? Can you afford a continuing or increasing standard of living for life while not risking running out of money? Do you need to find a better paying job or save and invest better? Are you in a position to spend more, enjoy life more and perhaps be more giving?

Every person can develop a plan that fits their circumstances and gives them vision and control of their finances. That can be financially rewarding as well as very satisfying and comforting.

Congratulations - you have now completed the first iteration of your Lifelong Financial Plan!

Maintaining your Plan

Updating throughout the Year

You should revisit your Annual Plan to revise the planned amounts into actual amounts at least once per month. Updating it more often such as whenever you receive a bank or card statement can make updating easier.

It is recommended that you use a different color for actual amounts (green) to differentiate them from planned amounts (black). You may use other colors for other purposes such as red for estimated amounts that you know will need to be revisited and adjusted.

You should also revisit your Lifelong plan whenever you think of adjustments you would like to make. Use fuscia (pink) color to mark cells where the data or formula changes so that you can easily find them later.

Use notes as you need, however be aware that Excel unfortunately handles notes poorly and scrolling can become jerky when there are many notes.

Updating from Year to Year

As one year moves to the next you will need to update your financial plan to transition to the new year. The update takes a bit of work and time, but you only need to do it once per year and it is much easier than preparing your first plan.

First save your current plan file to a new file with a new name that includes the new year and version. Use the new file going forward and keep the old one. Update your Annual Plan first and then your Lifelong Plan as follows. Remember to “Save As” or “Save” often.

Here are the recommended steps for updating your Annual Plan from one year to the next.

1) Copy your current year Annual Plan to a new tab with a new name with the new year.
2) Edit your new Annual Plan changing last year actual amounts to new year planned amounts. Starting with last year actual amounts is easier than starting with a blank plan.
3) Make sure the Start of Year amounts on the Net Worth page of your new Annual Plan are the same as the End of Year amounts on the Net Worth page of the previous year Annual Plan. Ensure the Cash Assets from last year end to this year start are the same. Any carry-over discrepancies will cause problems in the Lifelong Plan later when it is updated.
4) Do not delete your old Annual Plan, at least not until after your Lifelong Plan has been updated and you are really sure you want to.

MAINTAINING YOUR PLAN

Here are the recommended steps for updating your Lifelong Plan from one year to the next. There is no need to create a new Lifelong Plan, just update the one you have.

1) Familiarize yourself again with the links in your Lifelong Plan that link from the current year line to the old Annual Plan. These are the cells with the double box border. Notice the formula in the cell and the part that links it to the Annual Plan. For example cell J7 may contain: ='2020 Annual Plan'!AB23 This means this cell copies the contents from cell AB23 in the tab 2020 Annual Plan.
2) Use a systematic approach (cell by cell initially) to create links in your Lifelong Plan from cells in the next year row to the new year Annual Plan. For example, copy cell J7, paste it into cell J8 and then edit cell J8 to contain ='2021 Annual Plan'!AB23 Yours may be different but now you understand the method and syntax. (Before you paste over a cell take note if the cell has a note attached to it that will be lost, and also if the cell below it is dependent on it. You may want to first make appropriate edits to the cell below.)
3) There is no need to delete last year's Annual Plan and there is no need to delete the links in the Lifelong Plan that link to it. However, if you really do want to delete a prior year Annual Plan you will need to turn all associated links in the Lifelong Plan into fixed numbers **before** deleting the Annual Plan. For example, see row 6 of the Lifelong Plan.