RealMoneyPlan User Guide

RealMoneyPlan Personal Financial Plan

Expert Canadian Edition

Version: 4.1

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INTRODUCTION

Introduction

What is RealMoneyPlan?

Congratulations on embarking on developing your personal financial plan using the **RealMoneyPlan** spreadsheet templates available at RealMoneyPlan.ca. Having a personal financial plan is a critical step in ensuring your financial well-being.

RealMoneyPlan 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.

RealMoneyPlan personal financial plans are suitable for individuals, couples, families, the young or old, the rich or poor, and for anyone planning for or in retirement. You may use only some of the included features for simplicity, or all the features if a higher level of detail and accuracy is desired. The spreadsheet templates are flexible and can easily be modified.

The **RealMoneyPlan** Financial Plan template consists of an **Annual Plan** tab and a **Lifelong Plan** tab. The Lifelong Plan is linked to the Annual Plan such that any updates made in the Annual Plan are immediately reflected in the Lifelong Plan.

RealMoneyPlan Editions

There are three editions of RealMoneyPlan personal financial plan templates:

- **Singles Edition:** Provides an easy to use yet detailed financial plan. Suitable for singles or single parent families. Uses an easy approach to estimating future income tax.
- **Family Edition:** Provides an easy to use yet detailed financial plan like the Singles edition but is expanded to be suitable for couples or two-parent families.
- **Expert Edition:** Provides a more detailed and accurate financial plan but is not as easy to use. Suitable for those that want more flexibility and have a good understanding of finances and taxes or have a desire to learn. There is also an **Expert Canadian Edition**.

This User Guide is specifically for the **Expert Canadian Edition** of RealMoneyPlan. User Guides for the other editions are available free at RealMoneyPlan.ca.

PARTS OF THE TEMPLATE

Parts of the Template

Annual Plan

The Annual Plan includes the following financial planning components:

- 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

The Lifelong Plan includes the following financial planning components:

- 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 and 13: Personal Assets and Liabilities
- Page 14: Net Worth
- Page 15 and 16: Present Value and Other Information

Plan Sets

The spreadsheet workbook file contains two financial plan sets:

- A complete and realistic example Annual and Lifelong plan set for your reference and,
- A blank Annual and Lifelong plan set for you to edit to make your own personalized plan.

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 any PDF reader program or any web browser.

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 contains 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. It is recommended that you not edit these example worksheets, just keep them for reference. The example is of a family from BC, Canada, but the template is applicable to anyone, anywhere.

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 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.

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

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 "Annual Plan". Note: You should change the name of the tab to indicate the year of the plan to, for example, "2025 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 the Summary Page (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 recur 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. Analyzing and optimizing your expenses is an exercise best left for later.

Note: Mortgage, vehicle and loan payments should be entered in the Liabilities section of the Cash Flow page so that the Lifelong Plan calculates these liabilities correctly over time.

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, it's easy.

Budgeted Cash Flow

Before entering any transfer amounts in the Transfer section, first go to the Net Worth page (page 8) 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 (middle of page 7) 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.

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 section (just below the Budgeted Cash Flow section) is where you enter the actual amounts of your checking account balances at the end of each month 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 adjust either past or future amounts and to iterate this process as much as you need. You will likely want to budget to have a reasonable cash asset balance (banking accounts minimum balance) 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 Net Worth page, enter in the Year Start column the real value of all 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. If it is currently before the year-end, then enter in the Gain/Loss column estimated gain/loss for each asset and liability. After year-end enter in the Gain/Loss column the amount which results in the correct amount in the Year End column. Do not enter amounts directly into the Year End column because amounts in this column are calculated. Note at the bottom of the page the Change in Net Worth.

Summary

By now you may have noticed that the summary page has been filled in with data and charts. 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 you feel are needed. Iterate as much as you need. When you are happy with your Annual Plan proceed to the next section to create your first iteration of your Lifelong Plan.

Congratulations - you have now completed the first iteration of your Annual Financial 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 and can be ignored 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 plan year, and certain indexes. The steps to do that are 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.

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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.

PREPARING YOUR LIFELONG PLAN

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 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 in Taxable Income 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 adjust the indexed expenses as needed. 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 fuchsia (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 resident of British Columbia, Canada 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 (marked up by 38%) and capital gains (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 taxes and credits information for BC, Canada provided for convenience in the Reference tab.

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 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.

The Example Plan uses, for example, the following 2024 Combined Canadian Federal and BC tax credits:

- Personal Amount – $2,992,
- Pension Income – $351,
- Eligible Dividends – 27.02% of grossed up dividends,
- Age amount (65+) – $1,604.

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 desired running balance desired in your banking account(s).

The Cash Flow page starts with a column for Combined Actual Income After Tax which 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 titled Transfers shows the total of all transfers. The next column Cash Accounts Balance calculates the cash balance left after transfers. The Cash Accounts Balance column is highlighted in blue to make it easy to find when scrolling back and forth as you make changes across your 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 several times to make additional adjustments.

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 are 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.

In the Example Plan the Tax Free Account column is a Tax Free Savings Account (TFSA). All interest, dividends and capital gains realized on a TFSA are not taxable and therefore are not included in income. Canadians should consider TFSA accounts as their preferred first investment option but be aware of the contribution limit rules. Also, TFSA accounts are a good Estate Planning choice because when you pass away, they can be transferred to your spouse or children without being taxable.

The Taxable Stocks, Bonds, Mutuals and ETFs sections of the Investment pages provides a means to estimate future growth and tax effects of your portfolio of investments. It cannot predict or track the actual performance, cost base and taxes of individual investments. The index at the top of the Dividend column on the Investments page sets the dividend yield. The index at the top of the Balance columns sets the capital growth. The dividend index plus the capital growth index represents the total return in percent. The amounts in the Dividend columns and the Gain/Loss columns are included in corresponding columns on the Income pages so that tax is calculated on the dividends and gains.

The stock template treats dividends as reinvested (rather than paid out as cash) therefore the dividend amount is added to the investment Balance. If you prefer to treat the dividends as paid out to cash (not reinvested) then you can adjust the template formulas to include the dividend amount in Available Income on the Cash Flow page instead of the Investment Balance. You should ensure this section of your plan works correctly for your investment situation and tax rules, and if necessary, modify it accordingly.

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 about 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. These present worth amounts are used by the charts on the Summary page. 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

Look at the Summary page and study the lines on your Net Worth and Cash Flow charts. Breaking even, as they say, is represented by a level horizontal Net Worth line on the chart. If it trends up you are getting ahead, but if it trends down, you are losing ground. It is OK to lose ground during retirement or when going to school, so long as you don't run out of money.

You will want to adjust amounts 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, 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? Or are you able 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

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) Rename your current year's Annual Plan tab to include the year, e.g., "2025 Plan". Then <u>copy</u> it to a new tab with a new name, e.g., "2026 Plan". Do <u>not</u> delete your old Annual Plan because if you do your Lifelong Plan will break due to broken links.
2) Edit your new Annual Plan changing last year's actual amounts to new year planned amounts. Starting with last year's 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.

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: ='2025 Plan'!AB23 This means this cell copies the contents from cell AB23 in the tab 2025 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 ='2026 Plan'!AB23 Yours may be different but now you understand the method and syntax. (Important - 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.