First Stage Counselling

Receiving this booklet means that you've recently filed either a Bankruptcy or a Proposal under the Bankruptcy and Insolvency Act. Part of the proceedings requires you to attend two counselling sessions. This booklet will walk you through the first of these sessions.

Causes of Debt

Typically, there are two main causes of debt:

1. Circumstances over which you have little control

- Serious illness, disability, or mental illness.
- Death in the family.
- Loss of or reduction of income.
- Separation/divorce.
- Change in family dynamics such as birth of child or care of elderly parents.
- Business failure.
- Addiction/gambling.

2. Patterns of negative debt behavior

This type of debt results from personal behavior. They're negative patterns of handling finances that have developed over time.

- Overuse/misuse of credit: credit cards, lines of credit, overdrafts, loans.
- Mismanaged spending: making poor spending choices, overspending, impulse spending.
- Avoidance of making necessary payments.
- Failure to create and/or stick to a spending plan or budget.

These patterns can be changed and controlled by adopting positive debt behavior.

Often the cause of a bankruptcy or proposal is a combination of both circumstances and behaviors. It's a good idea to look back to try to analyze the cause of your financial problems and take the steps needed to prevent it from happening again in the future.

Forces that prolong negative debt behavior & disrupt positive debt behavior

- Credit that is readily available and easy to use.
- Lack of training in handling money/ Lack of discipline.
- Lack of education about the effects of carrying debt.
- Reacting to feelings: depression, anger, hurt, boredom, envy.

Money Management Skills – Setting Up a Plan for Success

To achieve financial control for the future you need to acquire, implement and perfect good money management skills. The following are some steps to help with this process:

Setting Goals

Setting goals is part of good money management. Striving to meet goals gives purpose and direction to your budget. They help motivate and encourage you, and help you understand where you are now and where you want to be in the future.

Setting goals the SMART way

Make your goals:

- S - Specific detailed enough to see clearly.
- M - Measurable stated in dollar terms and in identifiable steps.
- A - Attainable, realistic in cost, due date and plans to achieve.
- R - Relevant and meaningful to all in the household.
- T - Tentative, adaptable, can be changed with changing circumstances.

Identifying the type of goals

- Short term goals: to be met within the next year.
- Intermediate term goals: to be met within one to three years.
- Long term goals: to be achieved after three years.

Goal setting tips

- Write out your goals, the steps and a time frame of achieving them.
- Seek input and co-operation from other family members.
- Journalize or create a visual way to track the progress in attaining your goals.
- Be realistic with your goals.
- Be patient. It takes time to adjust to working with a savings plan.

Short term goals – These goals should be achieved within 12 months and should be very specific.

Priority	Goal	Cost	Time	Monthly Amount

Intermediate term goals – These goals should be achieved within 1 to 3 years and are less specific.

Priority	Goal	Cost	Time	Monthly Amount

Long-term goals – These goals are usually achieved after 3 years and are the least specific.

Priority	Goal	Cost	Time	Monthly Amount

Emergency Funds

One of your first financial goals should be to set up an emergency fund. During your bankruptcy or proposal you might not have access to credit. However, life circumstances still happen and you may need funding to face that emergency. While saving may seem impossible during this time, start small and aim for one month or even one pay in the bank, then build upwards from there. Remember, you are allowed to save during your bankruptcy or proposal period, and since credit access is limited it's important to do so.

Starting a Savings Program

It's so important to save. It's the way you can prepare for the unpredictable and achieve the things you want. Treat saving as an essential part of your budget not a luxury, and remember, it exists to meet goals not to pay bills. The following are some tips to help you start saving:

- Set up a TFSA (Tax Free Savings Account).
- Get into the habit of saving by "paying yourself first". Save the money before you see it or have a chance to spend it. Payroll deduction plans work well here.
- Save a bigger portion of your income on "extra pay" months.
- See if your work offers Employee Savings Plans.
- Save a portion of pay raises or any bonus you receive.

RRSPs are one way to save for the future, but should be left for the future. They shouldn't be depended upon for emergency funds. Cashing in RRSPs create an income tax debt for the year they're cashed.

Track Your Income and Expenses

Knowing your monthly income and expenses is the foundation to having good money management skills.

Tracking income is usually fairly easy. You get pay cheques or automatic deposits to your bank that can be followed with little effort. While tracking the amount of income coming into your household is necessary, you also need to note when the income is coming. A calendar showing when pay will be received and the expected amount is a good way to visualize your monthly income and help you plan for expenses.

Tracking expenses is a much more demanding exercise, however taking the time and energy to do so might be very revealing. Try to be accurate when tracking. Account for every dollar that comes into your house and be honest with yourself – don't leave out an expense just because you don't want to admit to spending money on that particular expense.

Methods to track your expenses:

- Receipt method: Get and save receipts for the goods and services you pay for including items purchased with a debit card (or credit card in the future). Make your own receipt if you don't get one. Store the receipts in one place until the end of your accounting period.
- Notebook method: Use a notebook or your cell phone to record your expenses as they happen. Note the date, the amount and the item purchased.
- Envelope or cash method: This method works well if you like to pay for things with cash. Put the cash you wish to spend in an envelope or, better yet, divide the cash into several envelopes, one for each individual expense. Don't spend any more on the expense than what is in the envelope. If you don't spend the total amount, keep it in the envelope. This

means you will have more to spend on that expense later! It's also a good idea to keep your receipts in the envelope(s) to help with your tracking and future budgeting.

- Try an app or online service: In this digital age we are fortunate to have access to numerous budgeting apps and software that can help us track and monitor our expenses. A free app that is great for budgeting is Mint. It is a free mobile and desktop app that shows all your expenses and spending habits in one place – making it easy to manage your finances. Many banks also offer budgeting calculators and online banking tools that can help you prepare your budget and monitor your expenses.

Examine and analyze your expenses

Once you have a sense of your expenses, examine the individual expenses and categories. Ask yourself:

- Are the amounts being spent on each expense and each category sensible?
- Should any expense be modified or even eliminated?
- Do you need to allocate your dollars in a different way?

Target the expenses that you feel need to be modified and over the next several months make an effort to make the necessary changes. Keep your totals from each month and do some comparing. Not only does this help you see the progress you're making, but tracking and comparing income and expenses over several months will also help you stay on track and plan for future expenses.

Setting up a Budget

Becoming more financially fit doesn't stop at tracking your income and expense. You need to put the information to good use and make a plan to meet your expenses by matching them to your income.

A budget will not reform you or change the person you are, but with hard work and discipline on your part it will help you meet your basic needs and plan for your wants, gain control of your finances, match your income and expenses, be more organized and efficient, and avoid negatives like late payments, overdrafts and NSF cheques.

Step 1: Determine your available monthly income

Determine the income you expect to receive for the month from all income sources and for all persons in the household. If you receive flexible income, try to estimate the amount you will receive for the month.

Whether income is fixed, flexible or both, plan to spend only what is necessary to meet your basic living expenses. Save any extra income for times when your income is lower or expenses are higher than what was expected.

Step 2: Determine your expected household expenses for the month

Make a list of your expected monthly expenses. Include the amount you wish to save for short term, intermediate term and long term goals as a fixed expense for every month. Be sure to actually set these amounts aside to accumulate as well.

Determine a yearly total for irregular expenses (i.e., dental, maintenance costs, clothing, and vacations). Divide this amount by 12 to estimate a monthly amount that needs to be set aside to cover these upcoming expenses. Include this monthly average as a fixed expense for every month. Again, be sure to actually set that amount aside monthly to accumulate over the year to cover the expense.

Step 3: Set up your budget

Using a premade budget sheet or your own, fill in your available monthly income for the month and your non-discretionary expenses. Don't forget to include the amount you need to set aside for savings and for the irregular and occasional monthly expenses.

Then subtract your non-discretionary expenses from your total monthly income. The income remaining is what is available for your flexible expenses. You might need to make some adjustments. Remember, you need to live within your means and not spend more than what is available.

Helpful hints

- Plan your spending around when and how much you will receive each pay.
- Decide which fixed expense or what portion of an expense will be paid with each pay.
- Determine how much is left over and allocate amounts for each flexible expense.
- Make the necessary adjustments so your expenses fit your income

Spending Habits

The following are several tips to help you reduce spending:

Food	Utilities
• Bring lunch and coffee to work/school. • Grocery shop when you're not hungry or tired. • Watch flyers for specials and plan meals around them. • Compare fruit and vegetable prices: is it cheaper to buy fresh, frozen or canned? • Buy produce that is in season. • Join a community garden or grow your own produce.	• Cut down on utilities – reduce water wastage, turn down thermostats, and turn off lights and electronics when you leave the room or when you're not using them. • Clean furnace filter. • Turn your hot water heater down. • Unplug electronics when you aren't using them. • Use large appliances at night when power rates are lower.
Clothing	**Transportation**
• Reduce the cost of children's clothing by exchanging clothes with friends and family. • Buy clothes on sale, but consider the quality. • Mend and repair clothing and shoes rather than replacing them. • Plan your purchases – buy items that can mix and match. • Try shopping at garage sales, thrift shops, and second-hand shops. • Always ask about the store's exchange policy. • Avoid dry clean only clothing.	• Take public transit, carpool, ride a bike, or walk instead of driving. • Plan driving trips to save gas. • Do regular vehicle maintenance.
Entertainment	**Other**
• Take advantage of free entertainment and performances (i.e., concerts, museums, city parks, bike trails). • Review cable/satellite wants. Use a streaming service like Netflix or see movies in theatres on "cheap nights". • Go to the library - many lend DVDs and CDs, as well as books, magazines and newspapers. • Consider quitting smoking.	• Make family gifts or draw names for seasonal holidays. • Buy reusable bags. • Do things yourself, as much as possible, rather than hiring someone. • Care for and maintain appliances. • Save all warranty cards. • Exchange services, share equipment, and trade skills with friends, family and neighbors.

Warning Signs of Financial Difficulty

Cash Shortfalls	Income and Expense Issues	Credit Card Misusage
• Having no money left before payday on a regular basis. • Getting cash advances before pay day. • Borrowing money from family and friends just to get through the month. • Using payday loans.	• Not knowing your actual monthly income and expenses. • Not saving money on a regular basis. • Not establishing goals. • Dragging or putting off payments / missing payments or due dates. • Using overdraft or having NSF payments. • Not knowing your bank balance.	• Using credit for your daily living expenses. • Maxing or near maxing the credit limit on most cards. • Not paying off full balances of credit cards each month. • Making only the minimum payment. • Requesting credit limits be increased. • Subscribing to unnecessary credit cards. • Borrowing from one card to pay another. • Transferring balances just before the introductory offer expires.

The list is extensive, but can be added to. One or two of these happening occasionally is not a big deal. However, if two or more are happening on a regular basis, you should review your financial habits.

Obtaining and Using Credit in the Future

After filing a bankruptcy or proposal, there will be a time where you won't have access to credit. However, it won't necessarily stay this way. There may be credit again in your future and you'll need to give the idea of credit serious thought. Now is a good time for you to think about whether you want credit and if you do, how will you go about getting and using it.

Things to consider before you apply again for credit

- Learn to live on a cash basis and within your means. Adopt this model as a way of life.
- Pay your regular monthly expenses on time and in full. Don't rely on credit to pay them.

- Don't consider getting credit until your finances are in good order and you're in control of your spending.
- Educate yourself about getting and using credit. Decide what kind and how much credit you need, and find out what getting and using this credit will cost you.
- Develop some rules around the payment of credit once you have obtained it.

Things to consider before getting and using credit cards in the future

- Know yourself and your spending habits.
- Remember one all-around bank credit card is better than several individual cards.
- Before getting a credit card, set some rules for the use of the card and payments.
- Limit the amount you charge on your credit cards. It's easy to get into the habit of using a card too freely.
- If you must carry a balance forward on your card, don't use it again until the balance has been paid in full.
- If you're hoping to rebuild credit, make sure the provider reports to the credit bureau on a regular basis.
- A credit card must be used and paid in order to build a credit history.
- Understand the cost of your credit card. Are there monthly fees? Annual fees?
- Understand how interest is charged on your credit card.

Did you know?

- If you pay your charges in full every month before the due date you won't pay interest (except for cash advances).
- Interest on unpaid balances is charged on a daily basis so if you need to carry a balance on your credit card, make your payments as soon as you can.
- Interest is charged on cash advances from the day of the advance until it is paid in full. It's best to avoid taking cash advances on your credit card.
- Paying in full indicates you're in charge of your finances and are a responsible borrower.
- Making regular payments helps to build your credit history.

Definitions – Some Concepts to Keep in Mind

Living within your means

- Pay for all normal living expenses with the income coming into the household;
- Make it a priority to pay your living expenses on time and in full;
- Don't use credit of any kind to pay for your living expenses; and
- Plan for and save for expenses that you will incur in the future.

Needs versus wants: It's important to distinguish between needs and wants. A need is something essential or necessary to living. The expense of needs cannot be avoided. A want is something nice to have. Wants make life more enjoyable, but aren't necessary to survival.

Non-discretionary income and expenses: non-discretionary income and expenses (sometimes referred to as fixed expenses) refer to income received and expenses acquired on a regular basis. The amounts are stable and don't change much from accounting period to accounting period. Salary income, pension income and income from child tax credit are all considered non-discretionary income. Examples of non-discretionary expenses are rent or mortgage, car payments, and payments for your bankruptcy or proposal.

Flexible income and expenses: Flexible income can vary from accounting period to accounting period. Hourly paid employees, shift workers and those who are self- employed have variable income. Living expenses and personal expenses such as groceries, gas and entertainment occur on a monthly basis but can vary from accounting period to accounting period. These expenses are known as flexible expenses.

Irregular and occasional income and expenses: Other income and expenses can occur on an irregular or occasional basis. Incomes from bonuses, overtime hours, or commissions are examples of irregular income. Occasional incomes from GST or an annuity are paid on a regular basis, but only occasionally. Some expenses such as major car repairs cannot be predicted in time or amount. These are irregular expenses.

Savings: Saving is putting money aside to create an emergency fund and/or meet your goals.

Income and expense statements: If you filed a bankruptcy you may be required to fill out monthly Income & Expense statements (I&E statements) and submit them to your trustee. Those who filed a proposal are not required to submit these statements, but they're a helpful tool to have when organizing your spending.

Surplus income guidelines: These guidelines name the amount of net income deemed sufficient for a household to live on comfortably if they don't carry excessive debt. Persons in households where income is greater than the guideline will be in bankruptcy for longer and will pay more into the bankruptcy. Guidelines are set by the Office of the Superintendent of Bankruptcy.