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Uncover hidden money for your RRSP

Applying Zero-Based Budgeting can be beneficial

Those who lament, "I can't create a proper budget because I'm not good with numbers" unfortunately often follow it with, "I just can't find more money to invest in my RRSP".

Finding money to invest in your RRSP begins with rejecting the notion that you "aren't good with numbers". The numbers are just for keeping track, and plenty of software programs are available to do the math.

The most critical aspect of budget preparation is determining what the numbers should be, and that begins with thinking carefully about how you and your family spend. When you do, the savings are likely to surprise you. To get started, take a page from business.

Well-managed businesses watch expenses closely and those who do it best use a system called Zero-Based Budgeting (ZBB). There isn't room here to explain all its technical aspects, but the essential philosophy and approach of ZBB can be adopted by anyone.

A major advantage of ZBB is that it focuses thinking about expenses line-by-line going forward. The budget is built from zero according to what needs to be spent, not by what has been spent. It's an important distinction.

You begin by carefully examining expenditures in detail. This will reveal previously hidden waste

and give you a budget figure to keep it from recurring. For example, you might not realize how much your family spends weekly for coffees, lunches and snacks because it's money that dribbles away, a little bit at a time.

However, when you analyze the expenses, you realize that the small amounts add up to \$150 per week. Then you are pleased that, through your analysis, you also discovered how to cut \$50 of waste from that figure.

That \$50 per week is \$2,600 annually. Even earning as little as 3.5 %, compounded annually over 30 years it would increase your RRSP savings by more than \$138,000. A few more \$50 dollar increments today can make a huge difference to future happiness.

Another advantage of Zero-Based Budgeting is its assumption that the budget in any year will be different than the last because conditions change. If a child moves away from home this year, what happens to your food expenses next year? If your car needs tires in the coming year won't your automobile budget require an increase?

This focus on forward thinking provides the important advantage of reducing unpleasant surprises. When you plan ahead for unavoidable cost increases you gain time to think about ways to reduce their size or to see how other planned expenses can be adjusted to redirect funds.

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When CEOs and CFOs implement ZBB they sometimes meet with resistance to the change but they press on because they know that the process is superior and everyone will eventually wonder, "Why didn't we always do this?" You will too. And you are most likely to find that you really can generate surpluses to be invested in your RRSP.

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