

**JUST THE FACTS:
HELPING YOU TALK ABOUT MONEY**

Banking Basics



A bank is a financial institution that manages money.

- Banks accept deposits, make investments, provide loans, exchange currency and conduct other money-related transactions.

			
DEPOSITS	LOANS	INVESTMENTS	EXCHANGE CURRENCY



Banks are heavily regulated, following strict rules.

There are two basic kinds of customer bank accounts – savings and chequing.



SAVINGS ACCOUNTS

- Money is regularly put in, but rarely taken out.
- Intended to consistently increase the amount of money and keep it.



CHEQUING ACCOUNTS

- Used for day-to-day transactions, such as paying bills and buying necessities.



Bank fees and charges vary widely – it is always worth asking and negotiating when you are setting up an account.

- Banks offer a wide range of options – such as the number of free transactions, electronic transfers, free chequing, online bill payments, debit/credit cards, fee waivers and automatic deposits/debits.
- Some options are based on specific requirements, such as maintaining a set minimum balance.
- Comparing what different banks offer can save you money.

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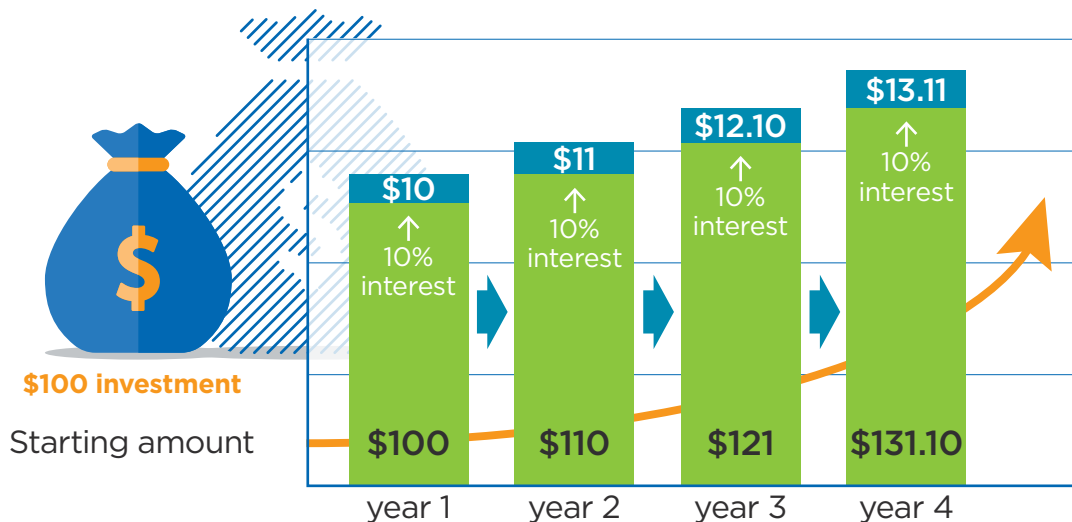
Compound Interest

Your earnings generate more earnings.

- Your investments can earn interest, which can then be added to the principal (starting) amount. In subsequent years, interest can then be earned on the new total (your original investment plus the interest).
 - For example, if you invest \$100 at 10% interest for one year, you would earn \$10 for that year. At the end of the year you have a total of \$110. This \$110 becomes your new starting amount for the next year. Compound interest would then be earned on this new amount, \$11 for a total \$121. If you earned 10% on that amount, this would then earn \$12.10 for a total of \$131.10, and so on.
- Your investment grows faster than it would if you only earned interest on the original amount (known as straight-line interest).

Your debt generates more debt.

- Just as it works in your favour when you invest, compound interest can work against you when you borrow.
- For example, if you don't pay off your credit card each month, interest is charged on the balance owing. The next month, interest will be charged on the total: the original amount + interest.
- With compound interest, you are paying interest on the interest.
- Most credit cards charge interest at 18% per year. This means your debt will double in 4 years if no payments are made.

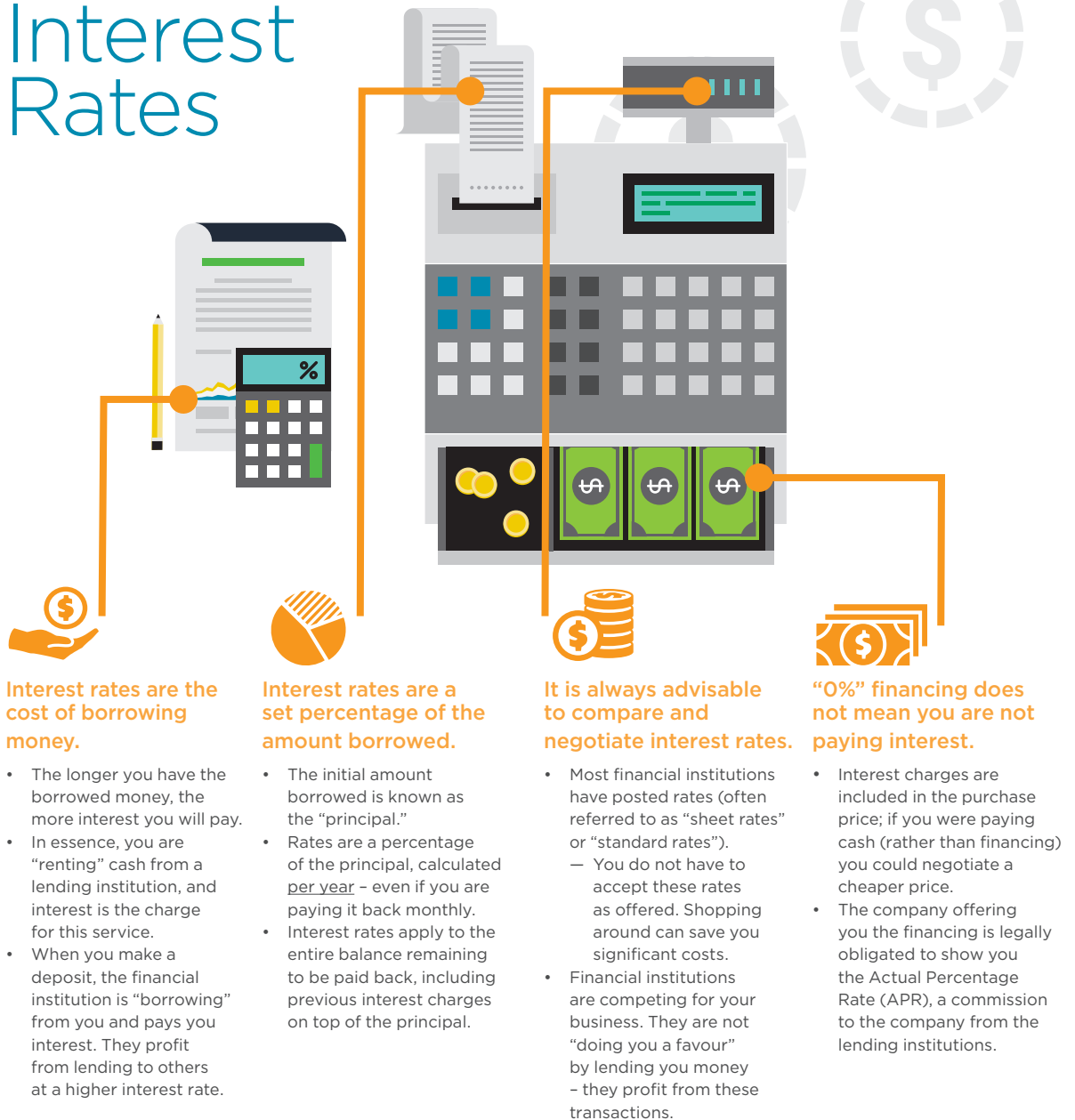


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Interest Rates



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Credit

There are two types of credit: Secured and non-secured.

- **SECURED CREDIT:**

- Physical property (such as a home or a car) or a valued asset (such as rights to music) is used as collateral for the borrowed money.
- If the money can't be paid back, the lender can take the property or asset instead, and sell it to recoup the outstanding cash.



- **NON-SECURED CREDIT:**

- There is no specific property attached to the loan.
- Money is borrowed based on general credit-worthiness, with no collateral.
- Most credit cards and lines of credit are non-secured.
- If payment is not made, the financial institution may pursue legal action to collect.

Your credit score, or credit rating, is the likelihood that you will make payments.

- Lending institutions base their decisions on whether, and how much, you can borrow based on the expectations of repayment.
- Different institutions use varying methods to calculate credit scores, including computer algorithms tracking an individual's spending and savings habits.

When considering credit options, look at the full cost – not just the monthly payments.

- When a salesperson offers a credit plan, calculate the total cost of those payments – including interest – when making your decision.
- Some sales pitches offer relatively low monthly payments, which may be enticing.
- It may be more cost effective in the long run to finance through a lending institution such as a bank; you will still be making monthly payments but at lower interest rates so the total cost will be less over time.

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Credit Cards

Every credit card transaction is in effect a loan.

- 62% of Canadians pay off their credit card balance in full each month.
- If you pay your balance every month, you're not paying interest.

**Always read the fine print.
Not all credit cards are the same.**

- Compare annual fees, interest rates, protection, rewards and other benefits.
- Many cards include insurance (car rental, travel, retail, etc.).
- Special introductory rates don't last forever.

Credit card companies can legally charge you up to 60% interest rates.

- Average credit card interest rates are 20%; department store rates are often higher.

Financial institutions are required by law to tell you how long it will take to pay off your balance.



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Student Loans



Student loans are provided by financial institutions in partnership with government programs, to enable eligible students to pay for their post-secondary education.

- Student loans often have more favourable terms than regular loans, such as lower interest rates and longer repayment schedules.

Eligibility usually depends on family income and other considerations.

- Application processes set out the qualifications and requirements.

Repayment of a student loan starts when school is finished.

- Students are not required to repay any of the loan or interest while they are at school.
- Repayment begins six months after graduation or leaving post-secondary education – when, presumably, the former student is employed and earning income.

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Payday Loans

Interest rates on payday loans are relatively high – often around 30%.

Intended to be very short-term, a “payday” loan is meant to provide you with urgent cash to tide you over until your next paycheck – when you should be able to pay it back in full.

Because of the high interest rates, financial experts consider payday loans to be very risky.

- If they aren't paid back in full the interest adds up quickly, sometimes to more than the original loan.
- This can lead to a “vicious cycle” – needing a loan to pay back the loan.

Advertising for payday loans can be misleading.

- It is always advisable to read the terms and conditions very carefully.
- Other options should be considered if money is needed urgently – such as banks and other reputable financial institutions, or even family and friends.

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Personal Budgets

A budget is a plan that starts with where you are and sets out a path toward a financial goal.

1 To calculate your budget, start by determining your expenses.

- Different types of expenses include:
 - *Fixed* – must be paid regularly (e.g. rent, mortgages, car payments).
 - *Variable* – adjusted each month (e.g. food, utilities).
 - *Discretionary* – depends on your decisions (e.g. entertainment, dining, gifts, clothing).
 - *Periodic* – come up occasionally (e.g. property taxes, car registration).
 - *Contingency* – unexpected (e.g. car repairs).
 - *Savings* – money dedicated for future use, not just what is left over after other expenses.
- Once you know what you are spending, you can determine where reductions are possible – money that can be earmarked for your goal.

2 Writing down your expenses will make them easier to follow and improve your accountability.

- Keeping receipts – even from small purchases such as coffee – will help you track your spending.
- Creating a spreadsheet (inputting credit card bills, bank account statements and other spending) will show you exactly where your money is going.
- Taking the total and averaging it out over 12 months will give you your typical monthly spending – and enable you to better control it.
- The www.canada.ca website has spreadsheet templates for personal budgeting.

3 Experts suggest following the “SMART” formula:

- **Specific** – you need to know exactly what you are aiming for, such as a major purchase or travel.
- **Measurable** – what is the total cost?
- **Attainable** – it has to be achievable within your means.
- **Realistic** – there has to be a clear path to success.
- **Timeframe** – you should determine how long it will take.

Mobile phone apps are available to enable you to track your spending in real time, updating automatically.

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Paying Off Debt

The longer you take to pay off a debt the more it will cost you in interest payments.

You will be required to pay a minimum each month – either a fixed dollar amount or a percentage of the money you have borrowed – while interest continues to be added on to the remaining balance.

Even small increments above your minimum payments can save significant time and money.

- Example: \$1,000 credit card debt at 21% interest
 - Minimum monthly payments would require 11 years and 6 months to pay off, with interest totaling \$1,104.63
 - Minimum payment plus \$5 each month would require 6 years and 8 months to pay off, with interest totaling \$665.96 (saving nearly 5 years and more than \$400).

There are different strategies for prioritizing which debt to pay off first:

Avalanche Strategy

- Pay off your highest interest debt first, helping you save on interest payments.

Snowball Strategy:

- Pay off the debt with the lowest balance, helping you eliminate this debt quickly.

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Savings Strategies



Creating a budget will help determine how much is available to save each month.

- Tracking your monthly expenses will show you where you are “leaking” money that could be used for savings instead.
- Being more aware of your discretionary spending can help you identify ways to decrease it.
 - Small expenses can add up. For example, spending \$10 per day on lunch will cost you more than \$2,500 a year, when bringing it from home would be considerably cheaper.

Certain funds can be earmarked for savings.

- You can ask your employer to put part of your pay directly into your savings account.
- If you come into money unexpectedly (for instance, receiving a bonus at work), depositing it directly into your savings account will safeguard it for future use.
- If you get a raise in pay, you could dedicate the difference, or a percentage of it, to savings.
- If you are entitled to government grants, such as a GST rebate or Canada Child Benefit, consider putting some or all of it into your savings account.

Your money should work as hard as you do.

- Interest rates vary, and you want to ensure your savings are earning as much as possible.
- Ask your bank or other financial institution what savings products are available, and compare what they offer to get the best return.
- Remind yourself to regularly check interest rates, so you can move your money to where it will earn the most.

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Income Tax Basics

Your income is the total amount of money you earn in a year.

- Some sources of income include earnings from employment, interest, dividends and rental properties.
- A percentage of your total income is collected and shared by the Government of Canada and your provincial government, to help pay for public services like health care, infrastructure and education.

The more you earn, the higher percentage of income tax you pay.

- The percentage you pay depends on your tax “bracket” (level of income).
- Taxation rates vary from province to province and year to year.
- There are 5 Federal tax brackets.
 - Income at the lower end (below \$46,000) is taxed at 15%, while at the higher end (over \$205,000) is taxed at 33%.
 - The Federal tax brackets and rates are revised annually.

You are entitled to lessen the amount of income tax you pay, through deductions and tax credits.

- **Deductions:**
 - Expenses you can subtract from your total income to enter a lower tax bracket.
 - Examples include union/professional dues, child care expenses, spousal support payments and Registered Retirement Savings Plan (RRSP) contributions.
- **Tax credits:**
 - Allowances offered by the government to reduce tax owing.
 - Everyone is entitled to a Basic Personal Amount; other credits include Employment Insurance premiums, Canada Pension Plan contributions, tuition, student loan interest, medical expenses, charitable donations and qualified moving expenses.
 - Formulas to calculate the amount of tax credits available are set by the Department of Finance and administered by the Canada Revenue Agency (CRA).

Individual tax returns for each year must be filed by April 30th of the following year.

- Once your tax return has been completed, the final total will indicate whether you have underpaid and owe taxes, or you have overpaid and will get a refund.
- If you owe money, interest and penalties will accrue if you pay after the April 30th deadline.
- You are entitled to challenge the total if you disagree with CRA.

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Pensions

A pension is a stream of income after retirement from the workforce.

All Canadians are eligible for Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits after age 65.

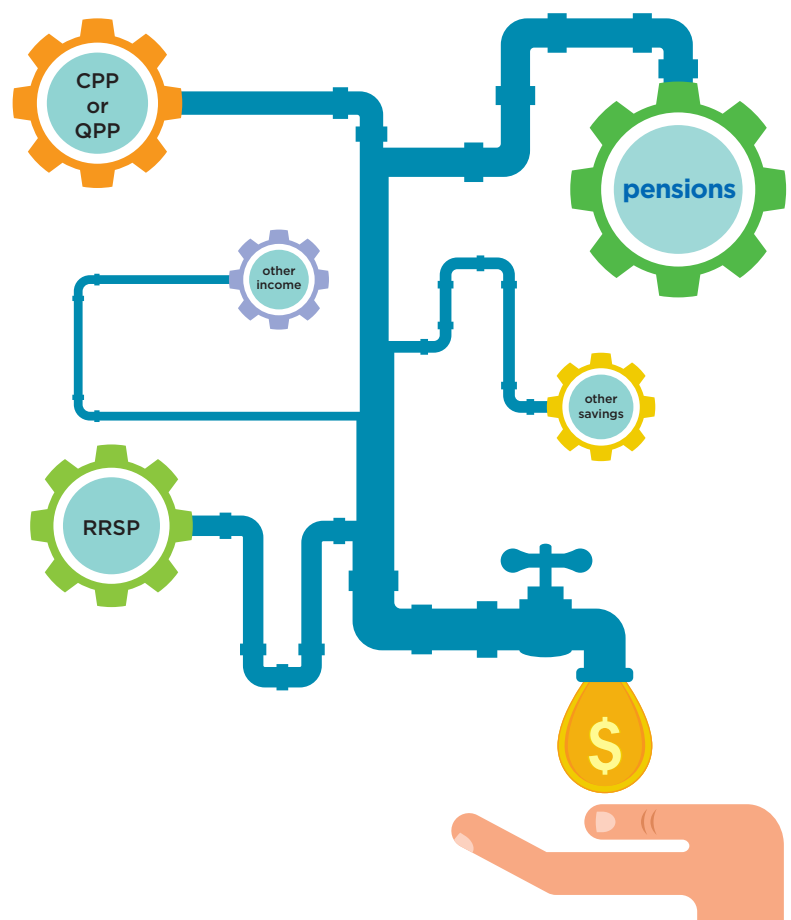
Starting at age 18, a portion of all income earned is dedicated to the CPP or QPP creating a large pool of funds.

Private pensions plans provide additional post-retirement income support.

- Some employers offer a pension plan for employees, who pay into the plan for as long as they work for the company or organization.
- Some employers also contribute on behalf of their employees, either with matching contributions (to a set limit) or through yearly payments into the plan.
- In some cases, when you change employers you can transfer the pension. If not, the money in the plan can be transferred to a Registered Retirement Savings Plan (RRSP).

There are two types of pension plans:
Defined Contribution and Defined Benefit.

- **Defined Contribution**
 - Part of your pay (either a percentage of your salary/wages or a set amount each month) is put toward your pension plan.
 - This money is pooled and invested by the pension fund manager.
 - The amount you get when you retire depends on the return on investments i.e., how much money is in the pool.
 - Pension amounts will vary, depending on when you enroll in the plan and when you start making the withdrawals.
- **Defined Benefits**
 - The amount you receive when you retire is pre-determined.
 - These pension plans are uncommon outside government workplaces.



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