AODA Compliant

Your name:

MANAGE YOUR MONEY

Workbook vol.01

MANAGE YOUR MONEY

Participant Workbook

Edited and compiled by:
Enactus
St. Lawrence College

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Introduction

Financial literacy is the ability to understand and interpret financial matters. Financial literacy often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving (especially for college), tax planning and retirement. It also involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, the value of money, etc. You can read more about the definition of financial literacy at **www.investopedia.ca**

Financial literacy is an imperative life skill to aid you in your ongoing success as you move from youth to adulthood.

Navigating through the transitional years can be an exciting, yet challenging stage, and being aware of your learning style can be very beneficial.

Another key to a successful transition into your adult years is having established goals in terms of financial matters. Working from a strong financial foundation can alleviate stressors in the long run, whether it is planning/paying for post-secondary, moving out on your own, or saving for that first car you've always wanted.

With the right supports in place and the knowledge behind you, it's possible to make and achieve all your financial goals.

You! Past, Present and Future

Chapter Objectives:

- Describe your personality and attitudes and their influence on your ability to manage money.
- Identify individual personality traits and values.
- State the difference between self-image and self-esteem, projection.
- Define the locus of control.
- Identify your primary and secondary learning styles.
- Set a SMART goal.

Key Terms

Key Term	Definition
Auditory Learner	Someone who learns best by listening
Belief	A strong opinion or something that a person holds to be true
Goal	A target, or an aim that one is striving to achieve.
Kinesthetic Learner	Someone who learns best by doing
Learning Style	The method of how you best learn and interpret information.
Locus of Control	Who you believe controls your future
Self Esteem	How you view yourself
Self Image	Your belief of how others view you
Personality	A stable set of traits that assist in explaining and predicting an individual's behaviours.
Personality Traits	A distinguishing quality or characteristic
Projection	The way you feel about yourself, your environment and how you treat others
SMART Goal	A method for setting goals that are specific, measurable, achievable, realistic and timely.
Values	Ideas that are important to you as an individual.
Visual Learner	Someone who learns best by seeing

All About You!

If you were to look in a mirror and say the first three words that immediately come to your mind, what would they be?

____

____

____

These three words are your "**mirror words**". **Mirror words** describe the foundation of how you view yourself.

Self-Esteem, Self-Image, and Projection

What did you notice about your "**mirror words**"? Were those words positive, negative or both? Whatever you are feeling is a result of your self-esteem. **Self-esteem** is how you view __________. Thoughts regarding your intelligence, attractiveness or ability to achieve a dream are examples of self-esteem. **Self-image**, however, is your belief of how ____________ view you. If your self-esteem is positive and strong, you will reflect confidence and not worry about how others view your actions. If you are insecure you will rely heavily on what others think of you; hence, you will rely heavily on creating a favourable self-image. While it is important to show concern for what others think of you, it is more important to have a positive self-concept; not conceited, but self-confident. People are drawn to individuals who display a good attitude, are confident and consistently positive. If you believe in yourself, a positive self-image will follow without effort. It is easy to see the tremendous impact both personality and attitude have in the development of your self-esteem and self-image. The way you feel about yourself and your environment is reflected in how you treat others as well, this is called projection.

Personality, Values and Beliefs

Your behaviour is a reflection of your personality. ____________ is a stable set of traits that assist in explaining and predicting an individual's behaviours. For example, if you are typically organized at work or school and suddenly become disorganized, others may believe something is wrong.

Personality

Personality traits are defined as "a distinguishing quality or characteristic". In other words, this means that personality traits are the distinguishing _______________ that make you "you." Personality traits are the unique set of characteristics and qualities that only you possess. While a lot of people might have similar personality traits, each person combines these traits in a different way making each person an individual.

Values

___________ are ideas that are important to you as an individual. Your personal experiences throughout your life and the influences of those in your life (positive or negative) shape your values. These influences include religion, family and friends. They influence social issues such as marriage, wealth, addictions issues, political views and materialism. For example, one individual may not value money because he or she has been told "money is the root of all evil". Contrast this with an individual who values money because he or she has been taught that it is a valuable resource used to ensure a safe and secure future. Since values are ideas that are important to you, these will directly affect your personality. For example, if you have been taught that money is a valuable resource, you may be very careful in your spending. Your personality trait will be that of a diligent, hard working person that spends cautiously. If you have been told that you can get by in life drawing from social assistance, such as Ontario Works, you're likely to settle for a lifestyle set below the poverty line. These types of social assistance programs are meant to be utilized in times of need as a stepping stone to getting back on your feet, not meant to be utilized as a long term solution to an otherwise avoidable problem.

Beliefs

A **belief** is a strong opinion or something that a person holds to be true. Faith in God is an example of a belief. Attitude takes shape in your behaviours as a result of your ______________ toward people, things, and situations. For example, you can either be caring or uncaring about how your classmates feel about you. Your past success and failures affect your attitude. Your attitude is related to your________________, ___________ and ______________. Using the previous money example, if you value money then your attitude will be positive toward work because you value

what you get in return; a paycheck. Attitude affects ____________. An individual's performance significantly influences a group's performance. A group's performance in turn impacts an organizations performance. Think about a barrel of juicy red apples. Place one bad apple in the barrel of good apples and over time, the entire barrel will spoil. That barrel reflects your personal goals and your workplace behaviours. Your attitude affects not only your performance but also the performance of those with whom you come in contact. This is known as a reciprocally negative situation. In the logo, each arrow leads to another arrow, creating a cycle affect. Behaviour affects behaviour. That is why it is so important to evaluate your personal influences.

Does this mean that you avoid contact with anyone you believe is a bad influence? In situations where you can, absolutely, however you can't always avoid certain individuals such as relatives, coworkers, and classmates. It's important to remain aware of the impact that others have on your life. If you continue to expose yourself to negative influences, you lose sight of your goals, which may result in a poor attitude.

Locus of Control

The reality is that you will not be 100 percent surrounded by positive influence. You cannot control everything that happens in your life. Your attitude is affected by who you believe has control over situations that occur in your life. The Locus of Control identifies who you believe controls your future.

An individual with an ______________ locus of control believes that he or she controls his or her own future. An individual with an *external* locus of control believes that others control his or her future.

Extremes on either end of the locus of control are not healthy. Realize that individual effort and a belief in the ability to perform well translate to individual success. However, external factors also influence your ability to achieve personal goals. Take responsibility for your actions and try your best. You cannot totally control the environment and future. Power, politics, and other factors discussed later in the text play an important part in the attainment of goals.

Learning Styles

Knowing you, involves also knowing your ________________. Your learning style is the method of how you best learn and interpret information. Having a clear understanding of your learning style can help you to get the best out of the world around you and benefit you in establishing your short and long term goals.

There are three primary learning styles: **visual, auditory and tactile/ kinesthetic**. To determine what your dominant learning style is, perform this common exercise: Imagine you are lost and need directions. Do you:

- Want to see a map
- Want someone to tell you the directions, or
- Need to draw or write down the directions yourself?

If you prefer answer a, you are a visual learner. You prefer learning by seeing. If you selected b, you are an auditory learner. This means you learn best be hearing. If you selected c, you are a tactile/kinesthetic learner, which means you learn best by feeling, touching or holding. No one learning style is better than the other; however it is important to recognize your primary and secondary learning styles so that you can get the most out of your world. As a visual learner you may digest best by reading and researching. Auditory learners pay close attention to course lectures and class discussions. Tactile/ kinesthetic learners will learn best by performing application exercise such as role-plays and physically writing down the course notes. As a tactile/kinesthetic learner you may learn better by "doing". Recognize what works best for you and implement that method to maximize your learning experience. Also, recognize that not everyone learns that same way you do. By being aware of your learning style you are better equipped to communicate your needs to others and achieving a higher level of success in doing so.

Goal Setting

To realize the importance of goal setting, you must first know what a goal is. A **goal** is a______________ like the reward at the top of a ladder. To reach that reward, you need to progress up each step of the ladder. The degree of your goal will determine how long it will take to get there. Each step on the ladder has to contribute to your achievement of the final reward and support your personal values.

Goals will help you become more focused; help you increase your self-esteem; and help you overcome procrastination, fear, and failure. Setting goals will help you become more successful in your career. By setting and focusing on goals your career plans will become more clear and meaningful.

Creating **S.M.A.R.T goals** can be the key to success, especially as you are transitioning from youth to adulthood. stands for specific, measurable, attainable, realistic and timely.

____________–A specific goal has a much greater chance of being accomplished than a general goal. To set a specific goal you must answer the six "W" questions:

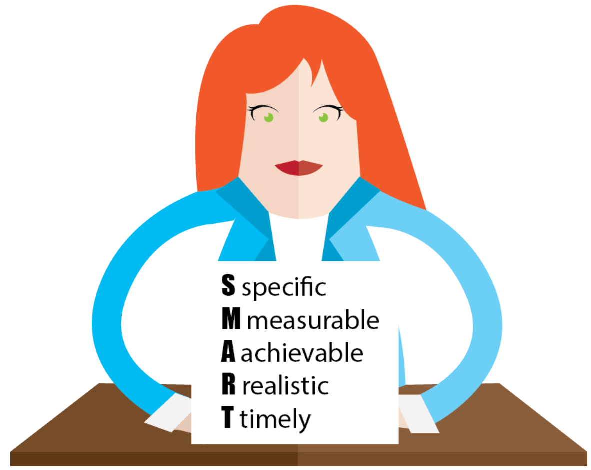
- Who: Who is involved?
- What: What do I want to accomplish?

❯ Where: Identify a location.

❯ When: Establish a time frame.

❯ Which: Identify requirements and constraints.

❯ Why: Specific reasons, purpose or benefits of accomplishing the goal.



EXAMPLE: A general goal would be, "Get in shape." But a specific goal would say, "Join a health club and workout 3 days a week."

____________–Establish concrete criteria for measuring progress toward the attainment of each goal you set.

When you measure your progress, you stay on track, reach your target dates, and experience the exhilaration of achievement that spurs you on to continued effort required to reach your goal.

To determine if your goal is measurable, consider the intensity, frequency and duration of your work on that specific goal. Ask yourself questions such as, how much am I going to do? How many times a week am I going to do it? How will I know when my goal is accomplished?

____________–When you identify goals that are most important to you, you begin to figure out ways you can make them come true. You develop the attitudes, abilities, skills, and financial capacity to reach them. You begin seeing previously overlooked opportunities to bring yourself closer to the achievement of your goals.

You can attain most any goal you set when you plan your steps wisely and establish a time frame that allows you to carry out those steps. Goals that may have seemed far away and out of reach eventually move closer and become attainable, not because your goals shrink, but because you grow and expand to match them. When you list your goals you build your self-image. You see yourself as worthy of these goals, and develop the traits and personality that allow you to possess them.

____________–To be realistic, a goal must represent an objective toward which you are both **willing and able** to work. A goal can be both high and realistic; you are the only one who can decide just how high your goal should be. But be sure that every goal represents substantial progress.

A high goal is frequently easier to reach than a low one because a low goal exerts low motivational force. Some of the hardest jobs you ever accomplished actually seem easy simply because they were a labor of love.

____________ – A goal should be grounded within a time frame. With no time frame tied to it there's no sense of urgency. If you want to lose 10 lbs., when do you want to lose it by? "Someday" won't work. But if you anchor it within a timeframe, "by May 1st", then you've set your unconscious mind into motion to begin working on the goal.Your goal is probably realistic if you truly believe that it can be accomplished. Additional ways to know if your goal is realistic is to determine if you have accomplished anything similar in the past or ask yourself what conditions would have to exist to accomplish this goal.

To build on our example of where goals may fail should they not be formatted in a SMART way, health and fitness clubs make the vast majority of their membership sales in the months of January – March, as this is when the big push from New Year's resolutions brings new customers through their doors. These people tend to set goals such as "I'm going to lose weight in the New Year." This unstructured goal generally has the same outcome for these people, come March, they are no longer attending the gym and have not met their goal of losing weight. Success comes to those who apply the SMART model to their goals "I am going to purchase a gym membership, attend the gym 3 times per week, joining in to the structured exercise class, to lose 10 lbs. between January 1st and March 1st. I will track my trips to the gym each time I attend and weigh myself every Monday until March 1st to see if I have achieved my goal."

Making the Connection

Now that you have read through, **You! Past, Present and Future**, lets connect the dots.

Reflecting on the information and your mirror words, how would you make the connection? List three each for the below headings.

Personality Traits	Your personal values	Your belief towards money
1.	1.	1.
2.	2.	2.
3.	3.	3.

Describe some of the major influences in your life, past as well as present, with regards to finances, the value of money etc. and how they impact you now.

Describe how your learning style is connected to financial literacy.

Describe whether you see yourself as having an internal or external locus of control. What would the ideal locus of control look like?

Have you ever created a goal previously that did not work out? What was it and why did it not work out?

Using the SMART table below, re-create the goal above or design a new goal that you would like to achieve:

Smart Goal Worksheet
Goal – Write your goal in the space provided
Specific
Measurable
Achievable
Realistic
Timely

Chapter Objectives:

- Describe the "cost of living" and how it affects you.
- Describe the importance of applying consumer knowledge to purchase decisions.
- Understand payroll deductions.
- Identify the difference between gross and net income.
- Filing your tax return.
- Define needs, wants and priorities.
- Describe the importance of setting priorities

Key Terms

Key Term	Definition
CPP	Canada Pension Plan provides a basic benefits package for retirees and disabled contributors.
Commission	A type of income that is a percentage of a selected "base" amount.
Cost of Living	The average amount of money an individual or family can expect to spend on food, clothing, housing, heat, utilities, transportation and other basic expenses
CRA	Canada Revenue Agency is Canada's federal agency responsible for income tax and trade regulations.
EFT	Electronic Funds Transfer is a system of transferring money from one bank account directly to another without any paper money changing hands.
EI	Employment Insurance that allows individuals who have recently lost a job to receive financial assistance
Emotional Purchase	A purchase made to satisfy an emotional need or desire
ESA	Employment Standards Act which regulates the minimum wage
Gross Earnings	The total of all of your cash earnings, including regular pay (i.e., your straight salary or your hourly rate times the number of hours worked in the pay period); overtime pay; and vacation pay
HST	Harmonized Sales Tax of 13% on the sale of most goods and services, though some are exempt
Impulse Purchase	A purchase made "on the spot" without much consideration
Informed Purchase	A purchase made after careful consideration of alternatives
Income Tax	Tax levied by the government directly on income
Income Tax Return	The tax form or forms used to file income taxes. Tax returns often are set up in a worksheet format
Inflation	The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling.
Minimum Wage	The lowest wage an employer can legally pay their employees
Need	Something that is essential, a necessity that is required for everyday life

Key Term	Definition
Net Pay	Total all your deductions, subtract them from your gross earnings, and you're left with your net pay. That's what you're actually taking home
Piecework	A rate of pay per unit of production
Priorities	What needs to be done and in what order
Salary	A yearly amount, divided by the number of pay periods in the year
Wage	A rate per hour worked
Want	Something that is wished for, a desire or something that is not necessarily needed for survival

The Cost of Living

The **Cost of Living** refers to the average ______________________________ an individual or family can expect to spend on food, clothing, housing, heat, utilities, transportation and other basic expenses. In Canada, the cost of living varies from one community to another and is difficult to estimate with absolute accuracy. Every family encounters unexpected expenses. The cost of food and other items also fluctuates. Visits to the dentist, prescription medicines, some school expenses and long-distance telephone calls are other expenses common to many households.

If you have a job, your take-home pay will be reduced by mandatory deductions for income tax, Canada Pension Plan (CPP, rate of 4.95% to a maximum of $2306.70) and employment insurance (EI, rate of 1.73% to a maximum of $839.97). Some workers also pay union dues, medical and dental insurance or contribute money into a retirement savings plan, which further reduce the amount of money they take home.

Canadians are required to pay taxes on their purchases. The federal government collects a Harmonized Sales Tax (HST) of 13% on the sale of most goods and services, though some are exempt. We will look into this more later in this chapter.

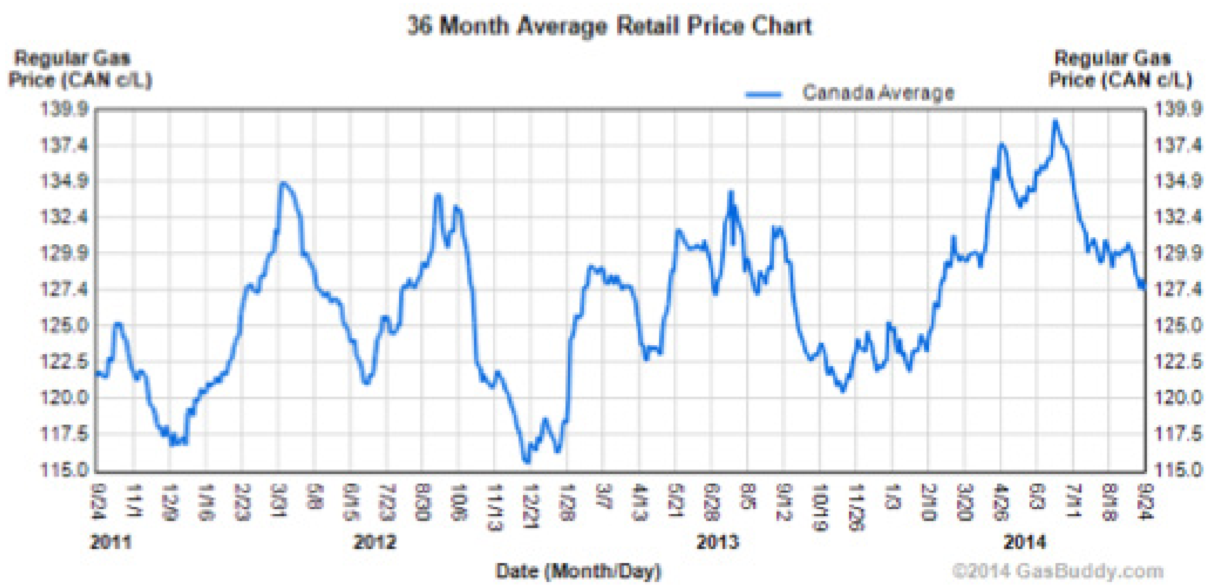
C.O.L.A.

The government has also begun a protective program called COLA, cost of living adjustment, which is in place to offer protection to citizens with regards to the ___________________________________. For example, those who are living on their social security would be protected as the cost of living increases; adjustments can be made to their income to maintain their living.

This is a result of what happened during the 1970s, inflation was really high, and as a result compensation related contracts, real estate contracts and government benefits, led to the popularized usage of COLAs to protect against inflation. As the cost of living may change, types of income or wages can increase to reflect the changes, for example minimum wage. Minimum wage is the lowest wage an employer can legally pay their employees. The Employment Standards Act (ESA) regulates this wage. The following table(page 18) shows the changes to minimum wage in Ontario from 2007-2014. The Ontario minimum wage had remained constant since March 2010 but was increased as of June 1, 2014.

Minimum Wage Rate	February 1, 2007	March 31, 2008	March 31, 2009	March 31, 2010	June 1, 2014
General Minimum Wage	$8.00 per hour	$8.75 per hour	$9.50 per hour	$10.25 per hour	$11.00 per hour
Student Minimum Wage	$7.50 per hour	$8.20 per hour	$8.90 per hour	$9.60 per hour	$10.30 per hour
Liquor Servers Minimum Wage	$6.95 per hour	$7.60 per hour	$8.25 per hour	$8.90 per hour	$9.55 per hour

Another major influence to the cost of living is gas prices, as when gas prices rise, a noticeable change to everyday expenses can occur as well. For example, when gas prices rise, its costs transportation companies more to ship goods and in turn they may charge more for their products in order to compensate their travel expenses. Below is a look at the changes in gas prices beginning in 2005 to present day.



The following is related to youth participants of the Family and Children's Services.

The cost of living also affects the rates for CCSY (Continued Care Supports for Youth). For example, under the previous ECM (Extended Care and Maintenance) program from April 200-July 2007 the average monthly rate was $663.00. It then rose in July of 2007 to $765.00.

For the 2010-2011 year, the average monthly rate for ECM youth that were living on independence was $824.00 and $849.00 for the caregiver contract (youth that had remained in their foster placement's past the age of 18).

With the new CCSY program, a youth can receive financial support of $850.00 per month. This can be provided directly to the youth, a caregiver or landlord on their behalf, or a combination of both. The support is intended to address basic needs like food and shelter. CAS's may provide additional support for things like transportation, moving, etc.

TYPES OF INCOME AND THE WORKING WORLD

Once you begin working, there are a few different ways that you will get your money in hand, so to speak. Your basic earnings can be paid in four major ways:

- **Salary**: A yearly amount, divided by the number of pay periods in the year. For example, $26,000 divided by 26 pay periods equals a gross biweekly salary of $1,000.

- **Wages**: A rate per hour worked, ex, $10.25 per hour x's the number of hours worked.

- **Piecework**: A rate of pay per unit of production, ex, $1.00 per box of peaches picked.

- **Commissions**: A percentage of a selected "base" amount, ex, a real estate agent's commission on the price of a house is on average 3.5%-5% split between two agents, selling and listing.

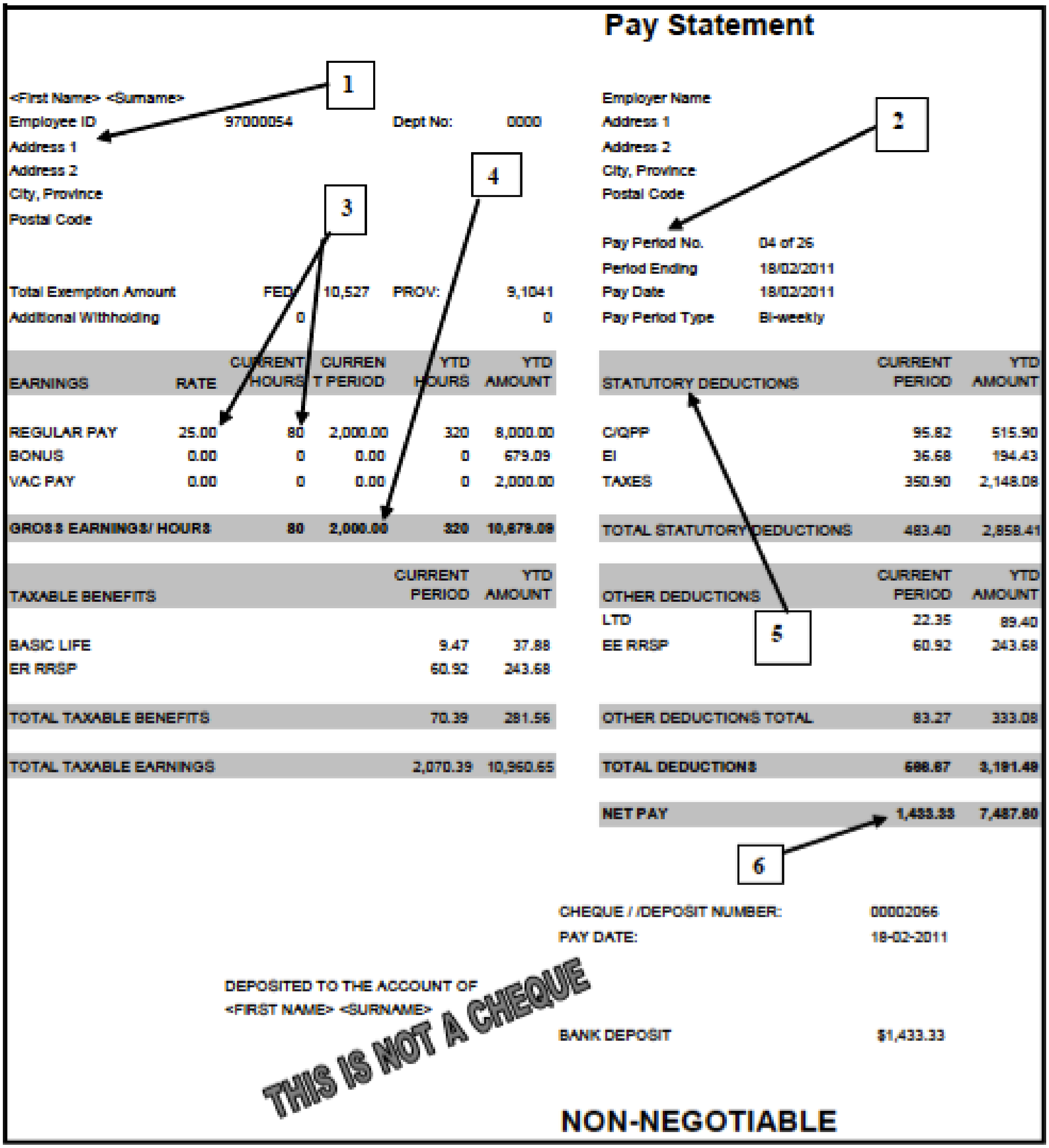
Pay periods vary but the most common are biweekly (60% of us are paid 26 times a year), followed by semimonthly (24 times a year), and weekly (52 times a year, common in construction and the restaurant industry). About 95% of people are paid on Thursday or Friday.

In addition to being required to pay employees on a regular payday, employers must pay any other amounts owed—such as overtime pay, general holiday pay, or severance pay—within a specified time, which varies by jurisdiction.

Employees are usually paid by electronic funds transfer (EFT), this means that the money is deposited directly into your bank account, or the old-fashioned payroll cheque. Though it has connotations of an "under-the-table" transaction, an employer may choose to pay an employee in cash. However, the employer still has to withhold and remit the required source deductions, report to and maintain records for the government, and provide a pay statement.

The Anatomy of a Paycheque

Anyone who has ever cashed a paycheque knows that there's a big difference between what you make and your actual take-home pay. Let's review a typical paycheque and decipher what each component means



EARNINGS	RATE	CURRENT HOURS	CURRENT PERIOD	YTD HOURS	YTD AMOUNT
REGULAR PAY	25.00	80	2,000.00	320	8,000.00
BONUS	0.00	0	0.00	0	679.09
VAC PAY	0.00	0	0.00	0	2,000.00
GROSS EARNINGS/ HOURS		80	2,000.00	320	10,679.09

TAXABLE BENEFITS	CURRENT PERIOD	YTD AMOUNT
BASIC LIFE	9.47	37.88
ER RRSP	60.92	243.68
TOTAL TAXABLE BENEFITS	70.39	281.56
TOTAL TAXABLE EARNINGS	2,070.39	10,960.65

STATUTORY DEDUCTIONS	CURRENT PERIOD	YTD AMOUNT
C/QPP	95.82	515.90
EI	36.68	194.43
TAXES	350.90	2,148.08
TOTAL STATUTORY DEDUCTIONS	483.40	2,858.41

OTHER DEDUCTIONS	CURRENT PERIOD	YTD AMOUNT
LTD	22.35	89.40
EE RRSP	60.92	243.68
OTHER DEDUCTIONS TOTAL	83.27	333.08
TOTAL DEDUCTIONS	566.67	3,191.49
NET PAY	1,433.33	7,487.60

Name & Address (#1): This is your name and address. Be sure to check that your employer has all the correct information.

Pay Period Information (#2): This identifies what period of work you are being paid for.

Rate & Hours Information (#3): This shows how many hours you are being paid for and at what rate. Be sure that this is accurate for the pay period.

Gross earnings (#4): The total of all of your cash earnings, including regular pay (i.e., your straight salary or your hourly rate times the number of hours worked in the pay period); overtime pay; and vacation pay.

Statutory deductions (#5): An employer has a legal obligation to withhold statutory deductions, which, in order of priority, are: CPP or QPP (Quebec only) contributions, EI and QPIP (Quebec only) premiums, and federal and provincial income tax. Everywhere except in Quebec, provincial tax is collected as part of the federal income tax deduction. Quebec has separate deductions for federal and provincial taxes.

Net pay (#6): Total all your deductions, subtract them from your gross earnings, and you're left with your net pay. That's what you're actually taking home.

What else appears on the paycheque?

All jurisdictions require at the very least, that the following be noted on an employee's pay stub or statement of wages: the employee's name, the date of the pay period, the rate of pay and hours worked at each rate, gross earnings, itemized deductions, and net pay. Different jurisdictions might have their own additional requirements of what has to be documented.

INCOME TAXES AND FILING RETURNS

Now that you have begun working and earning, you also have responsibilities to fulfill. Each year, the Government of Canada requires you to file a ________________ to the Canada Revenue Agency. Let's explore this a little further.

Income Taxes are levied by the government of Canada for a variety of reasons.. Every person or organization that has an income is expected to pay ______________________. In Canada, violating the terms of payment or even absenting yourself from paying the income taxes might invite harsh penalties from the Canadian Government.

Not all people have to pay the income tax and not all people need to pay the same amount of tax. The department of income tax of the Government of Canada has made provisions for certain persons exempting them from paying their taxes. For those who have to pay the taxes, there are tax tables which specify for what amount of income how much of tax will be required to be filed.

What are the income tax rates in Canada for 2014?

These are the rates that an individual would use when completing their 2014 income tax and benefit return. The information may change during the year to reflect updates to the law.

Federal tax rates for 2014

- 15% on the first $43,561 of taxable income,
- 22% on the next $43,562 of taxable income (on the portion of taxable income over $43,562 up to $87,123),
- 26% on the next $87,142 of taxable income (on the portion of taxable income over $87,124 up to $135,054),
- 29% of taxable income over $135,054.

Provincial tax rates for 2014

- 5.05% on the first $39,723 of taxable income,
- 9.15% on $39,724 to $79, 448,
- 11.16% on $79,449 to $509,000
- 13.16% on taxable income of $509,001 and above.

The **income tax return** forms an integral part of your income tax. ____________ your income tax return is as important as filing your taxes itself. The reason you need to file your return is simple. It is an easy way of estimating your credit worthiness. It might help you secure a loan or two from banks and even from certain other financial institutions. The income tax return is a form that contains a certain number of particulars. The form is an inquiry about your personal data and financial data. It asks about the amount of taxes that you have paid on your ________________. There are various forms and applications available for different categories of incomes and methods of incomes.

Most countries and particularly Canada do not tolerate tax violations. Even absenting yourself from filing of your income tax returns will attract certain stringent measures from the income tax personnel. For those who have filed their income tax returns, the government offers certain deductions that might in turn be a blessing for most of the people.

Filing of the ____________ is a constitutional duty of every individual who earns a taxable income. Likewise, filing of the income tax returns is also mandatory for every person. The taxes paid help the development of the country and hence it is required that every person pays their taxes and files their income tax returns.

Do you have to file an income tax return?

You must file a return if any of the following situations apply:

- You have to pay tax.
- The government sent you a request to file a return.
- You and your spouse or common-law partner elected to split pension income for 2014. You received Working Income Tax Benefit (WITB) advance payments in 2014.
- You disposed of capital property (for example, if you sold real estate or shares) or you realized a taxable capital gain.
- You have to repay any of your Old Age Security or Employment Insurance benefits.
- You have not repaid all amounts withdrawn from your registered retirement savings plan (RRSP) under the Home Buyers' Plan or the Lifelong Learning Plan.
- You have to contribute to the Canada Pension Plan (CPP).
- You are paying Employment Insurance premiums on self-employment and other eligible earnings.

Even if none of these requirements apply, you may still want to file a return if any of the following situations apply:

- You want to claim a refund.
- You want to claim the WITB.
- You want to apply for the GST/HST credit (including any related provincial credit).
- You or your spouse or common-law partner want to begin or continue receiving Canada Child Tax Benefit payments.
- You have incurred a non-capital loss that you want to be able to apply in other years.
- You want to carry forward or transfer the unused part of your tuition, education, and textbook amounts.
- You want to report income for which you could contribute to an RRSP in order to keep your RRSP deduction limit for future years up to date.
- You want to carry forward the unused investment tax credit on expenditures you incurred during the current year.
- You receive the Guaranteed Income Supplement or Allowance benefits under the Old Age Security program. You can usually renew your benefit simply by filing your return by April 30. If you choose not to file a return, you will have to complete a renewal form.

NEEDS WANTS AND PRIORITIES

Whether you are contemplating which type of gum to buy at the corner store or getting that new pair of jeans, it is important to understand what is motivating you to spend your money. This will help you to determine whether or not your purchase is necessary. A ____________ is defined as something that is essential, a necessity that is required for everyday life. Some examples would include food, shelter and clothing. When thinking in terms of purchasing, items that fall into the category of need rank higher in terms of your priority list.

__________________ determine what needs to be done and in what order. Juggling priorities is the key to reaching goals. You may need to adjust priorities to reach certain goals. Before priorities can be put in order, you need to determine what they are. Sometimes your first priority is not necessarily what's most important in life; it is just that a particular activity demands the most attention at a specific point in time.

Be prepared to be flexible in all areas of your life plan. When working towards goals flexibility is important. Times change, technology changes, opportunities change and your priorities may change as well. Reevaluate your goals often and at times you may need to update or revise them; do not give up on them.

Some purchases are not ranked as high in terms of priorities and are more of a want versus a need. A ______________ is defined as something that is wished for, a desire or something that is not necessarily needed for survival. Examples of a want may include buying a new CD, going to the movies or planning a vacation or holiday.

What motivates us to make the purchases that we do? Sometimes after weighing the pros and cons and considering all the needs, wants and prioritizing we are still inclined to make a purchase based on *emotions*. Other times, we are motivated by that *impulsive* need to spend our money. It is important to be able to reflect on the type of spender you are and knowing your triggers in terms of risky purchase decisions.

An ____________________ can be made when you are waiting in the check-out line and the As Seen on TV stand of goodies catches your eye. You make a quick decision given your physical environment and being pressed for time.

An ____________________ could be that CD you buy yourself to sooth your sorrows after a bad break up, despite not having the funds to cover your other expenses.

An ____________________ could be that new lap top that you have been saving up for, and researched a number of hours about to ensure it suited your needs best and compared its cost to several different stores to get the best deal.

Over time, technology evolves and new products hit the market on a daily basis in our day and age. This is a great area to find examples of applying consumer knowledge to purchase decisions. We've all seen or heard of the lines of people at BestBuy or FutureShop at mid-night, itching to get their hands on the latest gaming system or computer innovation. Whatever motivates these people to make that must have purchase can be a learning opportunity for us all. We have seen over the year's technology such as the VCR come out with a bang, and fade out in popularity as well as practicality. Rushing out to buy the newest microwave at one time cost consumers upwards of $600, and now, $100 for a new one or $10 at a yard sale and you're all set! Delaying the gratification of having the newest and said to be best of something, can save you a lot of money in the long run, if you exhibit patience, consider your needs, wants and prioritize your spending.

Making the Connection

Now that you have read through the **Cost of Living** chapter, let's connect the dots!

If the cost of living adjustment (COLA) did not exist how could that affect you?

____

____

____

____

____

Describe the difference between a need and a want in terms of purchasing decisions.

Give an example of something that you convinced yourself was a need and went ahead to purchase. Were your self-esteem or self-image a factor in making this purchase?

Considering the following 5 items, check off if it is a need, a want, and then rank them in terms of priority on a scale of 1-3 (1 being high priority and 3 being low priority).

Item	Need	Want	Rank in terms of priority
Lunch in the school cafeteria			
Gas money to a friend who is giving you a ride to work			
Movie on cheap night at the theatre			
New pair of jeans			
New bike			

Did you struggle with identifying any of the previous items as a need versus a want? Explain which ones and why.

Describe how you may have control over what your pay stub "looks like"? Can you control the information that is on it?

The table below outlines a simple tracking chart for your expenses and income. This example shows an account that began the day at $100.00, and after three purchases was reduced to $6.77.

Date	Description	Need or want?	Priority	Purchase or Income?	Balance ($)
01/01/14	X-Box game	Want	1	$62.09 purchase	$37.91
01/01/14	Lunch at A&W, mall food court	Need	2	$6.14 purchase	$31.77
01/01/14	Cell Phone Card	Need	1	$25.00 purchase	$6.77

When you are looking at the expenses that have been tracked, you can also consider how long it may have taken to earn the amount needed to cover the purchases that were made in one day. For example, if you are working a part time job, for minimum wage at $10.25 per hour, how long would you have to work to have the $93.23 in expenses that were accrued that day? What other variables to your paycheque would you have to consider?

In answering the previous question, have any of your rankings in terms of priorities and establishing if this purchase was a need or a want changed? Explain.

Using the table below, compare an item between three different stores to get the most bang for your buck.

	Store 1 -	Store 2 -	Store 3 -
Brand name			
Store specific brand option, example no frills no name			

	Store 1 -	Store 2 -	Store 3 -
Price			
Return/refund policy			
Special features			
Other notes			

Chapter objectives

- Describe the importance of personal financial management/budgeting.
- Explain and create a working budget.
- Find the most appropriate account for your needs.
- Describe compound interest.
- Identify wise use of credit.
- Explore the difference between banks and credit unions.
- Identify the difference between "good" and "bad" debt.
- Describe the consequences of acquiring "bad debt".

Key Terms

Key Term	Definition
Budget	A detailed financial plan used to allocate money for a specific time period
Chequing Account	A deposit account offered by financial institutions for managing day-to-day financial transactions, such as paying bills, making purchases with a debit card, depositing your paycheque, and sending or receiving email money transfers. A chequing account is a good way for most people to manage their day-to-day banking needs.
Credit Card	Issued by a financial company giving the holder an option to borrow funds, usually at point of sale.
Debt Management Plan	A service provided by the Ontario Association of Credit Counsellors. These are non-profit agencies created to help individuals experiencing financial distress. it is a voluntary agreement between you and your creditors.
Expense	This is money being spent. Examples of some expenses associated with being a student include tuition, textbooks, school supplies, transportation etc. Expenses you have because of life needs include food, shelter, clothes etc.
GIC	Guaranteed Investment Certificate is an investment option that is generally considered low risk.
Income	The money coming in. This money may come from your parents/ caregivers, grants, student loans, and/or employment
Payday Loan	A type of short-term borrowing where an individual borrows a small amount at a very high rate of interest.
Personal Financial Management	The process of controlling your income and your expenses.
RRSP	Registered Retirement Savings Plan is a legal trust registered with the Canada Revenue Agency and used to save for retirement
Savings Account	A deposit account offered by financial institutions that pays interest on your deposits (the principal) and is a good way to save money for short-term goals.
TFSA	A Tax-Free Savings Account is a kind of savings account registered with the federal government. It allows you to earn investment income without paying taxes.

Financial Management and Budgeting

Personal financial management is the process of controlling your income and your expenses. Your _______________ is the money coming in. This money may come from your parents/caregivers, grants, student loans, and/or employment. While you are a student income may be minimal, however after finishing school, you will start your new career and your income could increase. Although you need to be careful handling your money presently, this becomes even more important later in your career.

An ______________ is money going out. This is money being spent. Examples of some expenses associated with being a student include tuition, textbooks, school supplies, transportation etc. Expenses you have because of life needs include food, shelter, clothes etc. Then there are other expenses such as for hobbies, entertainment and miscellaneous activities.

The best way to manage your money and still be able to buy some of the extras you want is to create a budget. A _________________ is a detailed financial plan used to allocate money for a specific time period. A budget reflects your goals and specifies where your money goes in order to reach these goals. The objective of a budget is to control and prioritize your spending to match these goals. Be as precise and honest as you can when you are creating and working with a budget.

There are many different types of budgets that you can create for everyday situations or a onetime need. For example you can create a budget for your everyday expenses and to maintain a healthy financial management system. You can also create specific budgets, for example for a trip you may be planning, or a wedding. is another popular specific budget that you can also find templates for online.

_______________________ is the key to good budgeting. Carry only a small amount of cash with you and keep track of what you are carrying. It is too easy to use cash and you will usually spend more cash if you have it readily available. A good cash management practice is to track every single transaction you make. Keeping a mental record of how much money you have and are spending results in inaccurate accounting. Many individuals forget how much money has been spent and where it has gone. Physically record all deposits and withdrawals made with your debit card or bank teller. Reduce your trips to the ATM as well. Budgeting may seem daunting, but it doesn't have to be complicated. It's not so much what you make but how you spend it that's most important. And in order to know how to stay in the black, you need a budget, the roadmap that tells you how much you have coming in and where it all goes.

10 steps to creating a workable budget

1. Gather the facts	It all starts here. Find your financial records for the last three months or so. This includes bank statements, credit card statements, recurring bills and bills for things such as heat, water, hydro, cable, cell phones etc. Don't forget to include all your little extras in terms of spending, for example, morning coffee, magazines, buying lunch etc. Those expenses will be crucial when you are looking for places to trim down.
2. Create a worksheet	Once you have the facts you have to organize them in a way that gives you a clear picture of what you spend and on what. It may not be pretty, but it will tell you what you need to know. The best way is to use a worksheet. The Financial Consumer Agency of Canada (FCAC), is a federal agency whose job is to protect and inform consumers about financial services. The FCAC online resources include a number of tip sheets and workable spreadsheets to help you to plug your own expenses into a budgeting format.
3. Fixed vs. discretionary spending	You can now break your spending into fixed and discretionary costs. Fixed costs are such things as mortgage or rent, car payments, and insurance. You must pay them every month and the usually don't change in terms of the amount. You have more control over discretionary expenses. You have to buy groceries, but you do not need Haagen-Dazs super premium ice cream. Other areas to take a look at include gasoline, dining out, movies, clothes and that latte every morning. Small things can add up quickly.
4. Rules of thumb	Your housing costs should be less than about one-third of your gross income, financial planning experts say. That includes heat, hydro and property taxes. The Canada Home Mortgage Corp. has a mortgage affordability calculator to help crunch the numbers. Another rule of thumb is that your monthly debt payments should not exceed 40 percent of your gross monthly income. This includes housing, and such things as car loans and credit payments.
5. Pay yourself first	You've heard this one before. That's because it's the best way to save money. Try to put away 10 percent of each pay cheque, preferably using an automatic debit on payday. If you can't manage 10 percent, try 5 percent. Anything is better than nothing and you'll be surprised at how easy it is. Build that into Step 2 when you are creating your budget.
6. Cut out non-essentials	Do you really need to buy lunch five days a week? Can you live without that $5 skinny mochaccino? Make it a treat rather than a fixture. You might be able to eat out less often, or dine at a less expensive restaurant. Try leaving your debit or credit card at home to avoid impulse purchases.
7. Pay more than the minimum	When it comes to your debt, interest rates are everything. Pay bills on time to avoid service charges and sky-high rates on credit cards. Pay more than the minimum balance. For instance, if you owe $1,000 on a MasterCard that charges 18% interest and the minimum payment is $40 per month, it will take you nearly two and a half years to pay off the debt – and you'll wind up paying close to $1,263! Industry Canada has a calculator that can help you compare VISA and MasterCard against store specific credit cards, lines of credit, and rent to own programs. You can also change the minimum payment and interest rate information.
8. Save for a rainy day	For safety, your best bets are a high interest savings account. You'll be lucky to get an annual rate of 2 or 3 percent, but it's better than the fraction of a cent you're getting, if at all, in your savings account. Find an account with minimal fees or consider a Tax-Free Savings Account.
9. Review and adjust	Review your budget regularly to make sure that you are staying on track. Compare actual spending to the budget and look closely at instances when you've spent more than you planned. Was your plan realistic? Should you adjust by cutting in one place and adding in another? Your spending patterns will change some from month to month, but by keeping track of your income and expenses carefully, you know exactly where your money goes.
10. Build in a reward	You endured the pain, so build something in to reward yourself for sound financial management. Don't be afraid to splurge (a little) when you meet your goals to save money or trim the budget – fancy dinner, new shoes, a shiny new gadget, and then, back to the plan!

WHERE SHOULD I KEEP MY MONEY?

Now that you have begun working, and started to create a budget for your income and expenses, dealing with a financial institution is another major step involved in personal financial management. If you have not already done so, you will need to open an account with either a **bank branch** or **credit union**.

There are a few differences between a bank and a credit union:

- ________________: The most important difference between the two institutions is the ownership. All banks are owned by a person, persons or stockholders. They are largely for-profit entities, which strive to continually make money for anyone invested in the bank itself. A credit union, however, is usually a nonprofit organization that is owned by the membership of the union, namely the people who hold accounts. This places the individual account holders of a credit union at a huge advantage as they have a direct say in how the operation is run. Also, this can mean lower interest rates on loans as there isn't a giant push to increase equity.

- ________________: Banks and credit unions provide many of the same services, but their overall focus is usually different. A bank is mostly interested in business and consumer accounts. This includes all business and credit loans and can include mortgage loans as well. A bank makes the most of its money from these accounts from interest and fees, so it is within its best interest to keep these types of accounts at the forefront of its business. Because a credit union is smaller in scope, its focus tends to be on individual accounts, consumer deposits and small loans. While not having the type of capital a business owner might be looking for, credit unions are great for individual consumers and personal loans.

WHAT EXACTLY IS A CREDIT UNION?

________________ are co-operative financial institutions, owned and controlled by their members. One of the fundamental principles of a credit union is democratic control. As shareholders, all credit union members have a voice in setting their credit union's direction at the local level. Each credit union member has one vote, regardless of the amount of deposits or shares they have in their credit union. Members also elect their credit union's board of directors, which is responsible for governing their credit union.

While each credit union is an independent, democratic and locally-controlled financial institution, all credit unions share a common bond: their dedication to the people and communities they serve. In addition, all credit unions are guided by the seven Co-operative Principles, which shape credit union business decisions and governance, setting them apart from other financial institutions.

Currently, about one out of every three Canadians belongs to a credit union.

TYPES OF ACCOUNTS

There are two main types of accounts, at either a bank or credit union that you will likely be using, a savings and a chequing account. A ________________ is a deposit account offered by financial institutions that pays interest on your deposits (the principal) and is a good way to save money for short-term goals. A savings account can also build an emergency fund for unexpected expenses. Savings accounts often include only a limited number of transactions and may have higher transaction fees than a chequing account. Certain savings accounts require a minimum deposit to set up the account.

A ____________________ is a deposit account offered by financial institutions for managing day-to-day financial transactions, such as paying bills, making purchases with a debit card, depositing your paycheque, and sending or receiving email money transfers. A chequing account is a good way for most people to manage their day-to-day banking needs. Some chequing accounts pay interest on your deposits. However, when a chequing account pays interest, it usually pays a lower interest rate than a savings account does.

Once you've identified the services you need, find out how much it will cost to get those services. Start by looking at no-fee accounts to see if they meet your needs. It is important to be aware of the terms the financial institution requires in order to be able to access an account that literally has no fees attached to it.

Additional services

Consider other features that may be of value to you. For example, you may be willing to pay a little more for an account that offers an online spending tracker, email alerts when money is withdrawn from your account, or waives the annual fee of a credit card.

Note how many of your transactions are done at an ABM, online or by phone and how many are done at tellers. Some financial institutions charge higher fees for transactions done at tellers: **Shop around**

Special packages

If you are a student, youth, senior or newcomer to Canada, you may be able to choose from banking packages especially designed for you. These packages usually cost less than similar accounts for other consumers, offer added benefits, or may have no monthly fees for a limited time.

You may need both a chequing and a savings account to suit your financial needs, once you have established the type of account you need, you will also have to decide the features that will be helpful for you to have associated with your accounts. Knowing this will help you to choose the right financial institution, whether it be a bank or credit union, ask yourself...

How do you bank?

- If you sometimes make transactions in a bank branch, look for a financial institution that has a branch in your area and that has business hours that fit your schedule.
- If you use automated banking machines (ABMs) to get cash or make other transactions, look for a financial institution that gives you access to ABMs in places you would use them regularly.
- If you want to use online or mobile banking, find out what options are available through the financial institutions you are considering.

Service fees

Most financial institutions do not charge monthly fees for maintaining an account. However, you may still have to pay fees for transactions such as withdrawals or transfers.

Some financial institutions offer a limited number of free transactions; others require you to maintain a minimum monthly balance if you want to avoid paying fees; and some offer an unlimited number of free transactions. Find the financial institution that has not only the services that you want, but also good interest rates and few or no fees. Be cautious and read the fine print when you see the term "no fees" as this may come with certain stipulations to qualify for this type of service perk.

Your financial institution must provide you with a copy of the account agreement, which lists the terms, conditions and fees of the account. Keep a copy for your records and be sure you understand all the terms, conditions and fees before signing up for the account. Ask questions about anything that is not clear or that you don't understand and always read through and know clearly what you are signing!

If you use your account mainly to save money, you will likely need to make only occasional transactions, such as withdrawals. Still, if you do need to withdraw money from your account, ask your financial institution the following questions:

- Is there a fee for withdrawals; at the teller, ABM from your bank or an opposing bank?
- Can you access your money from a conveniently located ABM; how many are within your area?
- Do you have to transfer money from your savings to a chequing account before you can withdraw the money? If so, you may need an extra day to transfer the money before withdrawing it.
- Can you transfer funds to another account over the Internet or by telephone?
- What type of online or over the phone banking does your account have; paying bills, transfers etc?

Specifics about Savings Accounts

Shop around when choosing a savings account and compare these features:

Interest rates

Financial institutions pay interest on the money you ___________ into your account. Each month, the financial institution deposits the interest owed to you directly into your account. The higher the interest rate, the more money you will earn.

Financial institutions sometimes offer high-interest introductory rates which run for a certain length of time, after which the rate may be lower. Make sure that you will still earn a competitive rate after the introductory period ends and that you understand the terms of any introductory offers.

Most savings accounts will pay you interest regardless of how much money you have in your account; however, some institutions require that you keep a minimum balance in order to earn interest. For example, you might need to keep a minimum balance of $1,000 before the financial institution pays interest on your account.

What is compound interest?

With compound interest, the money you __________ in interest is added to the principal, and also starts to earn interest. The more often your interest is compounded, the more your account will grow.

When a financial institution advertises a savings account interest rate that usually means a compound interest rate. Most accounts compound interest monthly, but some compound interest daily.

For example, if a bank advertises a savings account with a 2% annual interest rate compounded monthly, after a year you will have earned 2% interest (plus compounding) on your deposits. You will *not* be earning 2% interest on your deposits every month.

Ask your financial institution how often it compounds the interest in your account.

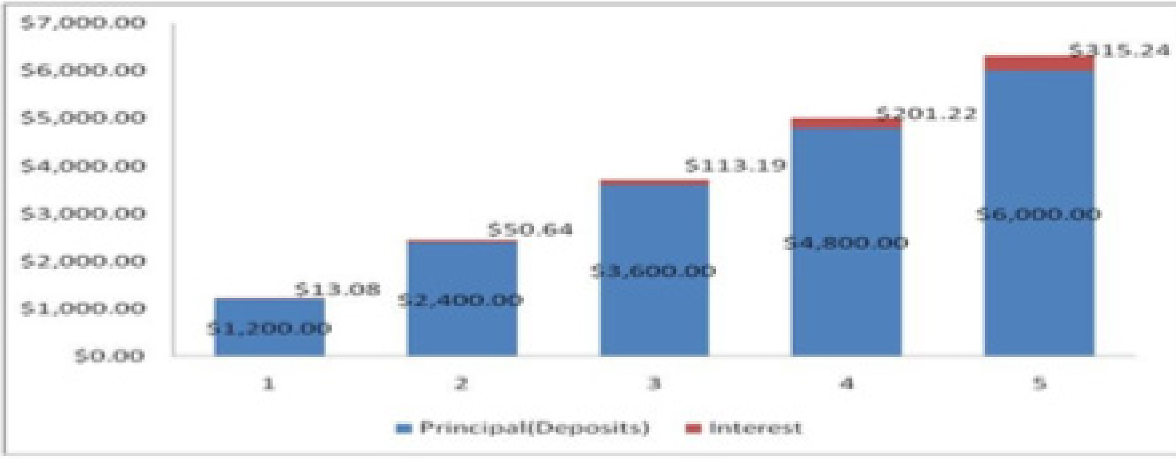
Example

Anne deposits $100 into her savings account every month, and her money starts to earn interest as soon as she deposits it. Her account has an annual interest rate of 2%, compounded monthly. This means that each month, she will earn approximately 0.167% (2% divided by 12 months) on her balance, including any interest paid in the previous months.

After one month, Anne has $100 in her account and will earn only $0.17 interest on that balance ($100 x 0.167%). After the second month, her interest will be calculated based on her $200 of deposits, plus the $0.17 interest earned in the first month.

On a balance of $200.17, she will earn $0.33 in interest ($200.17 x0.167%).

Each month, the amount of interest Anne earns will increase. By the end of the first year, she will earn a total of $13.08 in interest. The longer she continues to save and earn compound interest, the faster her savings will grow, as shown in the chart below.



Figures used in this example are approximate. Actual results will depend on the how the financial institution calculates interest. For example, the formula may depend on the number of days in the month and this would result in slightly more interest being paid in the longest months.

You will usually have to pay income taxes on any interest that you receive. If your goal is long-term savings, consider a Tax Free Savings Account, which offers more benefits than a traditional savings account. See the information below as well as the FCAC's tip sheet, "*Thinking of Opening a Tax-Free Savings Account (TFSA)?*" in the resource appendix for more information.

TAX FREE SAVINGS ACCOUNTS (TFSA)

A Tax-Free Savings Account (__________) is a kind of savings account registered with the federal government. It allows you to earn investment income without paying ________________.

Canadian residents aged 18 or older who have a valid Social Insurance Number (SIN) can contribute up to a set limit of $5,000 each year to a TFSA. The key benefit is that you do not have to pay taxes on earnings within the account (including interest, dividends or capital gains) or on money you withdraw from the TFSA. Other features to note are contributions to the account are not tax-deductible, you can carry forward the unused contribution room, and increasing the allowable limit in future years. As a TFSA is not tax-deductible an RRSP is, however may not have as many features. It is important to make the best informed decision. You can have more than one TFSA open, but you cannot contribute more than $5,000 annually in total. For example, you could contribute $2,000 to a TFSA with bank A and $3,000 to a TFSA with bank B, but if you were to contribute any more to either of them within the same calendar year, you would exceed your contribution limit and would have to pay a penalty.

Your TFSA can contain the following types of investments:

- cash
- guaranteed investment certificates (GICs)

- government and corporate bonds
- mutual funds
- publicly traded securities or stocks.

Caution: If you have already reached your contribution limit of $5,000 for the calendar year, and you withdraw money from your TFSA, you cannot re-contribute to your TFSA in the same calendar year without paying an over-contribution penalty charge. However, your annual contribution limit **for the following calendar year** increases by the amount you withdrew.

For example, you contributed $5,000 to your TFSA in April this year, and then withdrew $1,000 in October of the same year. To avoid an over-contribution penalty, you must wait until at least January of next year to re-contribute the $1,000. Your contribution limit for next year will increase from $5,000 to $6,000, taking into account the $1,000 you withdrew.

If your financial institution is a member of the Canada Deposit Insurance Corporation (CDIC) and goes bankrupt, up to $100,000 of your eligible savings in Canadian dollars will be insured.

Most banks and federally regulated trust companies in Canada are members of CDIC. Deposits in credit unions are covered to a similar or greater level by provincial deposit insurance plans, which vary by province. Most financial institutions are members of the CDIC and your deposits are insured.

Specifics about Chequing Accounts

The ____________________ you have in a month can be a large factor in terms of the type of chequing account you should be using. Look over your records, and count how many times you make each of the following transactions:

- cash withdrawals
- bill payments (online, by cheque, over the phone, or in person at a branch)
- debit card purchases
- email money transfers
- pre-authorized debits, ex. Rent coming out automatically
- pre-authorized transfers to a savings account, Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP).

Adding up the number of transactions of each type that you do can help you determine how many monthly transactions you need to have included with your banking package. For example, if you make only a few transactions each month, you may not need to pay more for a package that offers unlimited transactions.

Also, look at how often you often you need services for which you may have to pay additional fees, such as:

- personalized cheques
- overdraft protection
- safety deposit box
- money orders
- drafts

Paying ________________ for a service you use regularly can be ____________ . If there are certain products or services that you use often, such as email money transfers, look for a chequing account that includes those products or services as part of the monthly fee, or offers them to you at a discount. Your bank account is much like a cell phone plan, if you are a person who texts often, you would need a plan that includes unlimited texting at a reasonable rate. The same type of logic should be applied when choosing an appropriate banking package to suit your needs.

Make sure you understand what is included and how much you will pay by asking:

- What is the monthly fee?
- How many transactions of each type are included in the monthly fee?
- Are there extra fees for certain types of transactions, such as transactions made at a teller?
- What fees apply to transactions over the monthly transaction limit?
- What are the fees if you go into overdraft? What are the interest rates?
- Will the financial institution reduce or waive fees if you keep a certain balance in the account?
- Are you able to get a discount on the fees if you have other products with a single financial institution?
- What are the extra fees if you use another institution's ABMs?

Tips to minimize fees

Use electronic and self-serve transactions (online, telephone, ABMs) whenever possible. These usually cost less than in-branch transactions.

Use the ABMs of your own financial institution, instead of those from other institutions. Many financial institutions charge a fee for withdrawals made at another financial institution's ABM.

Minimize the number of transactions you make. If you are charged a fee for each withdrawal or have limited transactions, try withdrawing one large amount instead of several smaller ones.

Ask for cash back from your account when making a debit card purchase in stores that allow cash back free of charge.

Make a choice based on the services that are important to you, cost, customer service and convenience.

Be sure you understand all the terms, conditions and fees of the account before signing up for it. Keep a copy for your records and ask questions about anything that you don't understand.

From time to time, re-evaluate your needs and preferences. Find out if your financial institution, or another one, offers a chequing account with similar features to your own, but with no monthly fees, or a monthly fee that is less than what you are paying now.

This is a large chapter with lots of different information. Feel free to use this space to create some notes for yourself, or jot down some questions that you may want to have clarified later in the chapter.

BORROWING

Now that we have looked at managing money that you have earned, let's talk a little about managing money that you may have borrowed. There are types of loans, or borrowed funds that you can obtain from a number of different sources. Diving into the world of credit cards and loans, we are going to look at the difference between acquiring good versus bad debt as well.

Lines of Credit

A line of credit is a type of ____________ that lets you borrow money up to a ____________. You can use the funds as needed, up to a specified maximum and pay the loan back at any time. You are charged interest from the day you withdraw money, until you pay the loan back in full.

Advantages

Interest rates for lines of credit are __________ than they are for credit cards, personal loans or other short-term loans. There are usually no set-up fees, annual fees or penalty charges for paying off your line of credit at any time, depending on the product and the financial institution. If you have a bank account with the same financial institution that you use for your line of credit, you can set it up so that any overdraft on your regular bank account is transferred to your line of credit, which can help avoid unnecessary fees. You are only charged interest on the amount used. For example, on a credit line of $25, 000 available, but you have only used $5, 000 you are charged interest on the $5, 000 only.

Disadvantages

With easy access to money from a line of credit, some people can get into serious financial trouble because they don't _________ their spending. The interest rate on a line of credit could go up, depending on whether you have a fixed or variable rate, and market conditions. If interest rates increase, you may have difficulty paying back your loan. Usually, you are required to pay the interest every month, but you may not have to make regular payments on the amount you borrowed (principal). This may mean you will pay a lot of interest and take a long time to pay off the loan.

Credit Cards

A **credit card** is issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge __________________ and are primarily used for _________________ financing. Interest usually begins approximately one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

What is a Credit Card Agreement?

The credit card agreement or card member agreement is a contract that defines terms and conditions in using a credit card. It also explains ________________ that may apply if you miss payments or violate other terms of the agreement. Credit card companies send these agreements to customers when they first issue the credit card with instructions to keep the document in case it is needed for future reference. This procedure is carried out for the company to prove if needed at a later date if you have broken a term or condition, they will instruct you to refer to your terms of agreement with respect to that card.

What are Terms and Conditions in the Credit Card Agreement?

Although there are many credit cardholders, few of them actually bother to read and understand the credit card agreement. These state the terms and conditions under which the credit card could be used. The cardholder agreement is a legal contract between the lender and the borrower that highlights all terms and conditions under which the credit could be used. This agreement specifies the rights and obligations of customers under the contract they sign. Do not hesitate to get in touch with a customer care official with your credit card company. You can ask him to explain all clauses of the agreement that you cannot understand. It is their job to make sure you are fully informed of the contract's terms and conditions. Once you affix your signature on the document, you automatically assume full responsibility for everything that is written in the cardholder agreement.

The Best Time For Young People To Get A Credit Card

It may not seem like it, but it is possible to go through life without using a credit card. That being said, when used responsibly, credit cards offer numerous advantages over other payment methods. They're convenient, they protect you against fraud and theft, and they offer cash back and other rewards. They can also help you build the credit history you'll need if you want to borrow money to buy a house or a car. If you think paying with plastic might be the way to go, here are some points to consider in deciding when to get that first card and why.

When you are in High School

Why you shouldn't wait:
"Credit cards are a reality," says Anisha Sekar, VP of Credit and Debit Products at the card comparison website NerdWallet.com. "By introducing the idea of a line of credit early on, parents can teach their kids responsible card use in a safe environment," she says.

A credit card shouldn't be a high school student's introduction to personal financial management, however.

"I'd recommend opening a youth checking account when the child is in middle school, so that he can get into the habit of balancing the checkbook and using plastic, and also because debit cards are safer than cash," Sekar advises. "From a checking account, a reasonably mature child could open a low-limit credit card, co-signed by a parent, when he is 16 or 17."

"Having your child use a credit card for one or two years before he leaves for college allows you to teach him responsible use while you're still available to guide him," she says.

Why you should wait:
High school students could succumb to the same tendency that adults have to spend more on a credit card than they can pay back.

"A parent can guard against this, however, by setting a low credit limit on the card and reviewing each monthly statement with the child," Sekar says.

This advice assumes that parents are responsible users of credit.

"Credit cards can quickly turn into destructive financial products when parents fail to properly teach their children how to use them," says Justine Rivero, a credit advisor at CreditKarma.com
"While parents might have the greatest intentions of giving their children a convenient way to spend, more often than not, parents won't step them through how to properly use a credit card: to spend conservatively, watch their credit use and, most importantly, pay their bill on time and in full," she says.

Rivero also points out that parents may not teach their children how credit card use affects their credit score or why their credit score matters. She says young consumers may see a credit card as an easy way to spend money, and not as a financial tool to be responsibly managed.

When you are in College

Why you shouldn't wait:
If you don't have a credit history yet, the sooner you establish one, the better.

"Having a credit card allows young people to build up their credit history and score. This will be immensely helpful when they apply for their own credit cards, student loans, mortgages, and even jobs and apartments," says Sekar. "There are a number of student credit cards, almost all of which have no annual fee," she adds.

Sekar thinks one of the best cards currently available is the Citi Forward card for college students, which has generous cash-back rewards on textbooks and other purchases, and offers incentives to encourage responsible use. She also likes the Capital One Cash card for its 1.5% rewards on all purchases. Neither card has an annual fee.

Why you should wait:
Rivero says she would recommend giving young consumers a credit card in college, when they are primed to learn how to manage their money and build credit.

A debit card linked to a parent's checking account might be a good first step, though.

"Most student cards have high interest rates, so before you hand plastic over to your child, be sure to explain the expensive consequences of charging more than they can afford to pay off at the end of the month," Rivero says. "Giving your child a credit card is an important opportunity to teach your child smart financial basics, so start it off on the right foot."

In addition to high interest rates, parents can't easily supervise their children's credit card spending habits when they're away at college, so it might be a bad place for them to experiment with credit for the first time.

Wouldn't it be worse to wait until after graduation? Maybe. But in college, expenses are constant, while income is irregular or nonexistent. College students can find it difficult to manage their irregular cash flow to pay off a credit card bill on time. Paying with cash or debit will keep them out of trouble. Starting out adult life with high-interest consumer debt puts recent grads at a major disadvantage.

If You are a Recent College Graduate

Why you shouldn't wait:
Still don't have a credit history? Getting a credit card is an easy way to establish one.

If you don't like the idea of using credit, you don't have to make the card part of your regular spending habits. You can use it to make one automatic bill payment per month and set up a second automatic payment to pay off your credit card bill. Yes, this is an unnecessarily complicated way to pay a bill, but it's an easy way to establish a credit history.

It's also a good way to build a high credit score. By making one small charge a month, you keep your credit utilization ratio low. Your credit score will benefit when the amount of credit you use is low compared to your credit limit. Using your credit card in this way also establishes you as someone who pays the bills on time, which is another important component of a high credit score.

Even if you don't have any plans to take out a mortgage, an auto loan or another form of debt for which a good credit history is essential; your plans could change one day. Think of establishing your credit history as a free insurance policy that only requires a small investment of your time.

Why you should wait:
If you know you won't be able to resist the temptation to spend yourself into debt, don't take out a credit card. Yes, it will be more difficult to lease an apartment, take out a mortgage or secure a loan to buy a car. But at least you won't have an unmanageable mountain of credit card debt. Credit card companies aren't going anywhere. You can always change your mind later and decide that you're financially responsible enough to start managing credit.

The Bottom Line

Credit cards are ubiquitous, and for many people, the benefits of using them outweigh the drawbacks. Learning how to use credit responsibly early in life can set you up for decades of convenient spending, rewards and a high credit score that will let you borrow money at the lowest available interest rates. But no convenience or reward is likely to outweigh the drawbacks of carrying around high-interest debt, so if you don't think you or your child is ready for a credit card yet, it's OK to steer clear of credit cards for as long as you need to.

BE SMART WITH YOUR CREDIT CARD; TIPS TO HELP YOU USE YOUR CREDIT CARD WISELY

Credit cards can be useful and convenient. But if you aren't careful about how you use them, you can put yourself on a path to serious financial trouble. You could build up debt that might take you years to pay off or damage your credit rating.

Know what you're getting into. When you sign up for a credit card, you are entering into a ________________, so it's important that you understand the terms and conditions.

Credit card applications from federally regulated financial institutions must have an "information box"' that outlines key features of the credit card like ________________ and _____________. But don't stop reading there. Review the complete terms and conditions so you're aware of other important details, such as:

- your PIN and your liability in case your card is lost or stolen
- who is liable if you share the card with a "joint borrower" or "secondary user"
- any restrictions and limitations on reward programs and benefits
- how to cancel the card

Know yourself and your spending habits. Before you start shopping around for a credit card, think about how you will use it and set some guidelines for yourself. A credit card doesn't increase the amount of money you have available to spend. Continue to live within your means and your budget.

Limit the number of credit cards you apply for. Every time you apply for a credit card, it's recorded by the credit reporting agencies. Applying for too much credit can damage your credit rating by creating the impression that you may be relying too heavily on credit.

Avoid impulse buys, especially if you don't have the money available in your bank account to pay for the item. Ask yourself if you really need to make that purchase right away (or at all), or if it can wait until you have the money to pay for it.

Aim to pay off your balance in full by the due date every month. Carrying a balance means that everything you charge to your credit card actually costs you more than the purchase price, because you are paying interest.

For example, if you buy a new flat screen T.V. for $1,000 and pay only the minimum each month, it will take you almost 11 years to pay it off in full and it will have cost you $1,989 ($989 in interest)—almost twice the actual price of the T.V.

If you have to carry a balance, try to make payments as soon as you can to reduce your costs, because interest is charged daily. And always try to pay more than the ____.

Credit card statements for cards issued by federally regulated financial institutions have to include an estimate of how long it would take you to pay off your current balance if you were to only make the minimum payment each month and didn't charge anything else to your credit card. You may be surprised at how long it would take you to pay off a splurge.

Make regular payments to help build a good credit history. Paying the balance **in full** every month will show other lenders that you are a ______________________________. On the other hand, if you make payments late or miss them entirely, you hurt your credit score.

If your monthly balance is growing, stop using your credit card until you get your finances under control. Use ________________ instead of a credit card. Look at your budget for ways to trim your spending.

Avoid taking cash advances on your credit card. You are charged ___________________ from the day you take the advance until the day you repay the entire amount, and unlike regular credit card purchases, there is no grace period on cash advances from a credit card.

Instead, use your debit card to get cash from own financial institution's ABM, or use the "cash-back" option that some merchants offer when you pay with debit. If you don't have enough money in your account, look at your budget to see where you can trim your spending.

Every month, carefully check your credit card statement to make sure that there are no _________________. It's a good idea to keep ___________________ for all of your credit card purchases so that you can verify the amounts against your statement. If you find an error, report it to your credit card issuer right away.

If your credit card has a rewards program, **avoid increasing your spending or buying things you don't need just to get points.**

If unexpected expenses come up, talk to your financial institution about your options. There may be alternatives to using your credit card that will cost less in interest, such as a line of credit.

Keep your card, your PIN, and your security code secure. If you share your PIN or security code, you risk being held financially responsible for unauthorized transactions.

ACQUIRING DEBT

When you look at your bills each month, you may feel overwhelmed by the amount of money that you're spending on debt. Sometimes debt might seem like a trap that you only want to fight your way out of, but not all debt is bad.

When a lender looks at your _____________________ to see what kinds of accounts you have, they will look at some debts more favorably than others. If you're focusing on getting out of debt, you first need to understand which debts are considered bad and which are considered good.

Good Debt

Some of your debt might be considered an ______________. You're probably thinking, "How can anything as bad as debt be considered an investment!" If you took on the debt to purchase something that will increase in value and can contribute to your overall financial health, then it's very possible that debt is a good one.

For example, a home purchase can be considered to be a good debt. Since homes usually appreciate in value, the mortgage loan you take out to pay for the home is an investment. Another example of a good debt is a student loan taken out to finance a college education. Earning a college degree or diploma usually means that you'll make more money over your lifetime.

Good debt is obtained through making _________________ about your future, not for the sole purpose of having good debt. Let's say you're analyzing your financial picture, trying to decide how to pay off your debts. It's usually a good idea to focus on paying off your bad debts first. Since they provide no value, they're more costly than your good debts. You should pay off credit cards and auto loans before tackling mortgages or student loans.

Some people consider using good debt to pay off bad debt, like getting a mortgage for $110,000 instead of $100,000 and using the extra to pay off credit card balances. This isn't a good idea for several reasons. First, repaying debt with debt is never a good idea. Second, it ends up taking longer to pay off the mortgage than it would have otherwise. Third, the higher mortgage increases your monthly payments and the time it takes to build equity in your home. Use cash to repay debts, not more debt.

You must still be careful that you don't take on too much debt, even if it's good debt. If you're overloaded with debt, then it doesn't matter whether the debt is good or bad, it still hurts your financial health.

Bad Debt

In contrast, you must be cautious of acquiring bad debt. When you use debt to finance things that can be __________________, you aren't accumulating good debt. This is the kind of debt that creates an ____________________ financial situation. Credit card debt is often considered bad debt because of the nature of items that credit cards are used to purchase. You should never accumulate debt to purchase everyday items like clothes or food. If you use a credit card for these types of purchases, you should pay the balance in full each month.

Even debt used to finance a vacation is bad debt. Even though it might help you feel better and be more productive once you return, a vacation does not appreciate in value. Don't use debt to pay for a vacation and especially don't use it to pay for a vacation you can't afford.

DEBT MANAGEMENT PLANS

A ______________________________________ is a service provided by the Ontario Association of Credit Counsellors. These are non-profit agencies created to help individuals experiencing financial distress.

Debt management plans are designed for people who can afford to repay all of their debt over a period of time, but are unable to qualify for a debt consolidation loan, and require a period of time to make the repayments.

In a debt management plan the non-profit credit-counselling agency "pools" your unsecured debts together so that you are only required to make a single monthly payment (to the not-for-profit agency). The agency then divides your payment amongst each of your creditors, with the larger creditors getting a bigger share of payment.

Some of the advantages of a debt management plan are:

- Relief from collection agencies (no more phone calls from collection agents);
- A single monthly payment;
- Reduced and sometimes zero interest charges; and
- It's a voluntary procedure **- you** decide to start the process.

A ______________________________ is not a legal procedure - it is a voluntary agreement between you and your creditors. As such, it does not need to include all of your creditors, nor is it binding on your creditors. A *debt management plan* also does not have the ability to automatically stop a garnishment order - the creditor must agree to lift the garnishment.

To see if a debt management plan is right for you, contact a local Credit Counselling Agency where you live and book a consultation to meet with a counsellor in person. They are experts in financial education, credit counselling and debt management programs. These agencies recognize that there are people that simply prefer to sit down and discuss their options face to face and they are pleased to be able to provide this level of personal attention and service.

Even though debt management plans and the agencies that provide this service have been around for a long time, very few people in Ontario are aware of this procedure. If you have the ability to repay 100% of your debt it a debt, management program may be solution that you've been looking for.

If you think a debt management plan would work for you, go to our page on Credit Counselling for a list of the agency in your area.

If a good debt management plan is not put in place, getting into the "quick fix" mentality is a greater risk. Quick fix solutions to financial problems can include payday loans, borrowing from a friend or family member. These solutions can come with certain risks that, if not considered and researched properly, can come at a very high cost.

THE DANGERS OF PAY DAY LOANS

A ________________ is a short-term loan that you promise to pay back from your next pay cheque. A payday loan is sometimes also called a payday advance.

Normally, you have to pay back a payday loan on or before your next payday (usually in two weeks or less). The amount you can borrow is usually limited to 50 percent of the net amount of your pay cheque. The net amount of your pay cheque is your total pay, after any deductions such as income taxes. For example, if your pay cheque is $1,000 net every two weeks, your payday loan could be for a maximum of $500 ($1,000 divided by 50%).

A payday loan is a very ____________________ way to borrow money. Payday loans are offered by privately owned payday loan companies and by most cheque-cashing outlets. The federal government does not regulate these companies.

How does a payday loan work?

Before giving you a payday loan, lenders will ask for proof that you have a regular income, a permanent address and an active bank account. Some payday lenders also require that you be over the age of 18.

To make sure you pay back the loan, all payday lenders will ask you to provide a postdated cheque or to authorize a direct withdrawal from your bank account for the amount of the loan, plus all the different fees and interest charges that will be added to the original amount of the loan. The combination of multiple fees and interest charges are what make payday loans so expensive.

How does the cost of a payday loan compare with other credit products?

Payday loans are much more expensive than other types of loans, including credit cards. But how much are you really paying? How does the cost of a payday loan compare with taking a cash advance on a credit card, using overdraft protection on your bank account or borrowing on a line of credit?

Let's compare the cost of using different types of loans. We'll assume that you borrow $300, for 14 days.

	Payday loan	Cash advance on a credit card	Overdraft protection on a bank account	Borrowing from a line of credit
Interest	**—**	**$2.13**	**$2.42**	**$1.15**
	+	+	+	+
Applicable fees	**$50.00**	**$2.00**	**—2**	**—**
	=	=	=	=
Total cost of loan	**$50.00**	**$4.13**	**$2.42**	**$1.15**
Cost of the loan expressed as a percentage of the amount borrowed.3	435% per year	36% per year	21% per year	10% per year

1. The costs and fees shown in these examples are for illustration purposes only.

2. The monthly service fee you pay for your banking service package often covers any processing fees for overdraft protection. To be sure, check your account agreement or talk to your financial institution.

3. This is an estimate of the annual cost of the loan. This is calculated by adding together all of the fees, charges and interest charged after 14 days, and projecting this cost over a one-year period. Although the cost is expressed as a percentage of the amount borrowed, it does not represent the annual interest rate.Making the Connection

Making the connection

Now that you have read through the **Banking**, **Budgeting and Borrowing** chapter, let's connect the dots!

Using the website, www.fcac-acfc.gc.ca/eng/resources/toolCalculator/banking/index-eng.asp enter your profile and determine the best types of saving and chequing account for you. Explain some of the features that you have found to best suit your banking needs at this time.

Type of account	Financial Institution	Special features	Service fees

Describe the importance of personal financial management/budgeting.

Given the information in this chapter around ways of borrowing, and the comparison table with regards to payday loans, discuss what is the best option when borrowing money and why?

List three benefits to having a credit card, and give one reason as to why it would be a bad idea.

Describe three examples of “good debt” and give a rationale for one of your examples.

Describe three consequences that can occur if you accumulate “bad” credit/debt.

Using the excel templates in the lab, you have the opportunity to create your own working budget. You may also refer to the extra spreadsheets in the resource appendix of your workbook for the future.

Chapter objectives:

- Describe and identify Identity Theft and Fraud.
- Know how to protect yourself from identity theft and fraud.
- Describe investing options.
- Outline the risk and rewards of investing.

Key Terms

Key Term	Definition
Bonds	a certificate issued by a government or a public company promising to repay borrowed money at a fixed rate of interest at a specified time.
Capital Gain	An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price.
Diversification	having a mix of investments
Dividend	A distribution of a portion of a company's earnings, decided by the board of directors, to a group of its shareholders.
Dumpster Diving	going through an identity theft victim's trash, looking for bills they've discarded or anything else they've thrown away that contains personal information
Equities	Stocks or shares
Fraud	wrongful or criminal deception intended to result in financial or personal gain
Identity Theft	When a person steals any of your personal information and pretends to be you
Interest	Lenders make money from interest, borrowers pay it
Liquidity	Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.
Mutual Funds	An investment that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks
Phishing	the activity of defrauding an online account holder of financial information by posing as a legitimate company
RDSP	Registered Disability Savings Plan
Real Estate	Property such as homes, land or buildings
RESP	Registered Education Savings Plan
Return	the profit or growth that an investor makes on an investment
Risk	the level of uncertainty associated with an investment
Risk Tolerance	The level of risk you are comfortable with

What is Identity Theft?

According to the Federal Trade Commission, since 2003, more than 10 million people annually have been victims of identity theft. What is identity theft? When a person steals any of your personal information---including your name, a credit card number or your Social Insurance Number---and pretends to be you, that person is an identity thief. Once an identity thief has your personal information, they can use it to do a number of things, including opening a credit card in your name and going on a spending spree without ever paying the bill; opening a bank account and writing bad checks; withdrawing funds from your bank account; or giving your information to police officers during an arrest, which will lead to a warrant for your arrest when that person fails to appear in court. Because the possibilities for an identity thief are endless, it could take you years to reclaim your identity and repair the damage done.

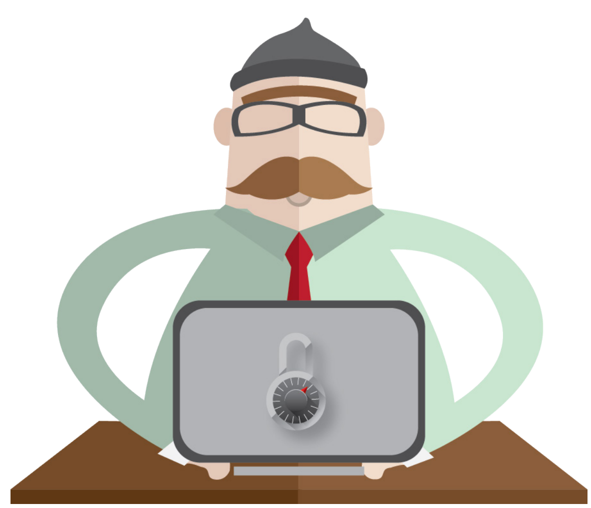
The History

There is a common misconception that identity theft began with the Internet. However, while the Internet has made identity theft much more widespread, identity thieves started out getting information from telephone scams and from going through people's garbage looking for personal information on bills and other documents containing important financial information.

Telephone scams are the easiest way for identity thieves to gain access to your personal information because the victim is willingly, though unknowingly, giving out his or her personal information. A thief places a call to the victim, informing the victim that he or she has won a contest or prize. This, of course, is not true. However, the victim, unaware of the scam, becomes willing to give the identity thief any kind of personal information the thief requests, in order to claim the prize. This information is usually a birthday, Social Insurance Number or sometimes even bank account information.

Another way identity thieves gain access to a victim's personal information is a technique commonly known as "dumpster diving." A thief will go through a victim's trash, looking for bills they've discarded or anything else they've thrown away that contains personal information. In addition to dumpster diving, thieves will also steal mail right out of a mailbox. They can take bills, credit card or bank statements, or even offers to open new credit card accounts, which the thief would take to open an account in the victim's name.

In addition to those seemingly basic ways of gaining access to your personal information, identity thieves are now also using technology to steal identities. Thieves use a device that has the ability to scan and store debit or credit card numbers when you swipe them. This technique is called "skimming." Also, the Internet has made identity theft much more widespread. There are a large number of email scams, much like the telephone scams, where thieves trick victims into revealing their personal information under the false pretense of claiming a prize. "Phishing" is extremely common. In this case, thieves, posing as a bank or another company (like your credit card company), send emails or use pop-up advertisements, hoping to lure a victim into revealing some kind of personal information. While many people have become more aware and delete spam or junk emails, or get rid of pop-up advertisements, if even one person reveals his or her personal information, the thief can do a lot of damage with that stolen identity.



How does it happen?

You may unknowingly provide your ________________________ to a fraudster over the phone, via an email or on a fake website that is made to look like a real business.

Your computer may also be infected with a ________________________ called malware, that tracks every time you press a key on your computer keyboard, then stores that information and sends it to fraudsters.

Fraudsters may also take or copy personal identification like your birth certificate or Social Insurance Number (SIN) card in an attempt to steal your identity.

Preventing Identity Theft

While ______________________ have discovered many different ways to attempt to steal identities, there are still many opportunities for potential victims to protect themselves. Obviously, paper shredders have become an important factor in hindering dumpster divers, because shredders destroy any personal information before documents are thrown in the trash. Also, never give out personal information over the phone when you receive a phone call. You should ask for the company's phone number and call them back. If they refuse, or if the number does not belong to the company they claim to be from, it is most likely a scam. On the other hand, if you are the one who placed the phone call to your bank or credit card company, it is OK to give them your information. Just make sure that you are in a private place and cannot be overheard.

As far as protecting yourself from identity theft on the Internet, never click on a pop-up or link you are not familiar with. Make sure your computer is protected with antivirus software to prevent hackers from gaining access to your information, and use an email filter to limit the number of junk or spam emails you receive. The less spam you receive, the less likely you are to become a victim of identity theft.

You should take precautions to protect your personal information at home, in public places, on the phone and online.

- Never provide your personal information unless you have initiated the communication and trust whom you are communicating with.
- Keep your personal information in a secure and safe place.
- Never email your personal information.
- When online, only use secure websites before transmitting personal information. Look for websites with addresses starting with "https" or a padlock image on the page. This will indicate that the information entered on these pages is secure.
- Keep your computer antivirus software up to date.
- Regularly check your accounts and statements for any suspicious or incorrect activity and report it immediately.

Warning Signs

Even taking all those steps, it is still possible that you could be a victim of ______________________. The earlier you discover that you may be a victim, the more likely it is that you can minimize the damage. Monitoring is the key to preventing identity theft or catching it early on if you have been victimized.

Keep track of your mail. If you notice mail is missing or you are receiving bills from companies you are unfamiliar with, someone has probably stolen your identity. Also, if you receive denial notices from credit cards you haven't applied for, your identity may not have been stolen yet, but it is likely that someone tried to open a card in your name.

Repairing the Damage

If you notice any of the above signs, it is likely that your identity was compromised and you now have to take the steps to fix it. Contact the _________________ and _____________ and ___________________. Immediately close all of your accounts to prevent any further damage.

File a ________________________ and provide as much information as you can. The police track identity thieves, and if there is a pattern to the theft, the thief could be easier to catch.

While it can take many hours and be emotionally draining to regain your identity, you can eventually return your credit rating to good standing, and if a thief used your identity during an arrest, any issues with criminal records against you will be eliminated. You should not have to file for bankruptcy, and none of the damage done is permanent. As bad as it may feel when you discover that you've become a victim of identity theft, just remember there are people who will help you and that it can all be fixed.

Credit Card Fraud

When your credit card, credit card information or your personal identification number (PIN) is stolen and used to make unauthorized purchases or transactions, you become a victim of credit card fraud.

How does it happen?

Thieves use a variety of tricks such as:

- retrieving financial information out of your mailbox or garbage
- skimming your card through a secondary reader that copies the magnetic stripe information
- hacking into merchant databases and stealing credit card information
- implanting small devices on gas pumps that record your credit card number
- “phishing” for your credit card information with a fraudulent email that looks legitimate.

Chip technology is now replacing the current magnetic stripe to make credit card transactions more ________________. In these cards, there is an embedded microchip that is encrypted and virtually impossible to replicate. However, fraud can still occur if someone has your actual credit card and PIN.

How to prevent it

Prevention begins with protecting your personal and financial information.

- Do not share your credit card or credit card PIN with anyone.
- Cover the keypad when entering the PIN at a retailer or a bank machine.
- Keep your credit card in sight when you make purchases to prevent skimming or double swiping.
- Record your credit card number, card details and whom to contact in case of theft or loss. Keep this information in a secure place.
- Check your statements every month and report any errors or unauthorized transactions.
- Keep your credit card statements in a safe place, and shred them when you no longer need them.
- Get written confirmation when you cancel your credit card.

Only use your credit card online on ____________________ and ensure that your online transaction is encrypted. Look for websites with addresses starting with "https" or a padlock image on the page. This will indicate that the information entered on these pages and the transmission of the information is secure.

What to do if you are a victim of credit card fraud?

If you become a victim of credit card fraud, you may be protected by one of the consumer protection policies set in place by American Express, MasterCard and Visa. Some conditions may apply.

If you think you have been a victim of fraud, take the following steps:

- Start a written log: record when you noticed the fraud and the actions you took, including names of people you spoke to and dates of communications.
- File a report with your local police.
- Contact your financial institutions and any other companies (e.g. phone company, cable provider, etc) where your accounts were tampered with, or are at risk of being tampered with.
- Advise Canada's two credit rating agencies, TransUnion and Equifax.
- Contact the Canadian Anti-Fraud Centre, a national anti-fraud call center, at 1-888-495-8501 or info@antifraudcentre.ca.

Debit Card Fraud

When your debit card, debit card information or your personal identification number (PIN) is stolen and used to make unauthorized purchases or transactions, you become a victim of ______________________.

How does it happen?

In order for debit card fraud to occur, a thief needs both your __________ and the debit card itself or the information stored on it. If your card is stolen or duplicated, the thief has to find some way to get your PIN in order to use it for unauthorized purchases or transactions.

Many financial institutions are now issuing client cards with chip technology. New cards with chip technology are virtually impossible to duplicate and are considered more secure than the older cards that store your information on a magnetic stripe.

How to prevent it

- Take precautions to protect your PIN whenever using your debit card. Cover the keypad when entering the PIN at a retailer or a bank machine.
- Never lend your debit card and PIN to anyone.
- When setting your PIN, do not use an easily guessed PIN. You may be responsible for any loss if you use your name, address, telephone number, date of birth or Social Insurance Number for your PIN.
- When using your card, keep it in sight at all times.

Check your bank account records regularly for any errors or irregularities and report them immediately.

INVESTING; UNDERSTANDING THE BASICS

Before making investment decisions, it is important to understand basic concepts.

Risk

Risk is the level of uncertainty associated with an ____________________ —that is, the possibility that the investment will not grow or that you may even lose part or all of it. Every type of investment involves some risk. Generally, the higher the potential return, the higher the risk will be.

Return

Return is the ___________ or ________ that an investor makes on an investment. The return can vary greatly, and for many types of investments it cannot be predicted with certainty. An investment's return can come in two forms:

Income—including interest or dividends, or

Increased Value (also called capital gain), enabling you to sell your investment for a profit.

You can have a negative return if your investment loses value (also called capital loss).

Risk tolerance

Risk tolerance is the ________________ with which you are ___________ ___________. If you are willing to take the chance of losing some or all of your investment in exchange for the potential of earning a larger return, you have a high risk tolerance. If you prefer little or no risk, your tolerance is low.

Liquidity

Liquidity is the ability to _____________ or ____________________ quickly to gain access to the funds without significant _________________. Liquidity can be important if you are planning to use your savings or investments in the short term.

Diversification

Diversification involves having a ______________________. It is a way to _____ _________________. By holding a variety of investments, you reduce the likelihood that all of them will not increase in value or lose money at the same time.

Taxes and investments

Taxes will affect the ____________________________, but taxes affect different investments in different ways. For example, you have to report interest income yearly and pay tax on it, but you may be eligible for a tax credit on income that you receive from dividends. With capital gains, you don't have to pay tax until you sell or transfer an investment and receive some income, and then you pay tax only on half of the increase in value. Visit the Canada Revenue Agency (CRA) website for more information on capital gains.

_________________ is a complex area with many specialized rules. Unless your investments are very simple, it is helpful to get advice on tax planning from a professional with expertise in this area. For more information on taxes visit the CRA website. CRA offers an online course on taxes called Learning About Taxes.

The Government of Canada has created a variety of registered savings plans that offer ______________________ to investors. They let you avoid or delay some of the taxes you pay.

Common Types of Investments

There are many types of investment options, some more complex and risky than others. Before choosing an investment, it is important to understand and be comfortable with its risk level. The most common categories of investments include:

- **Savings-like investments** such as guaranteed investment certificates (GICs) and treasury bills. Savings-like investments are generally considered to be low-risk investments.
- **Fixed-income securities** such as government and corporate bonds. These types of investments are considered low-risk.
- **Equities**, also called stocks or shares. These types of investments are generally considered high-risk.
- **Real estate.**

_________________ **and** ________________________ are also common investment options. It is important to know what types of investments are included in a fund before you invest in it, because that mix will have an impact on your risk level.

It is also important to look at the fees that apply to your investments because they will have an impact on your return.

GOVERNMENT SAVINGS AND INVESTMENT PLANS

Once you establish your saving and investing goals, the next step is to work toward achieving them.

The Government of Canada encourages saving and investment toward specific goals, such as retirement and education. Several government plans offer tax benefits to Canadians. They let you avoid or delay some of the taxes you would otherwise pay. These include:

- **Registered Education Savings Plan (RESP)**
  An RESP is an account registered with the federal government to help you save for a child's ______________________.

- **Registered Retirement Savings Plan (RRSP)**
  An RRSP helps you save for ________________. Contributions to your RRSP are tax-deductible. Your savings can grow tax-free until you withdraw the money.

- **Tax-Free Savings Account (TFSA)**
  A TFSA is a savings account registered with the federal government. Contributions are not tax-deductible but anything you earn on money in the account will not be _______________.

- **Registered Disability Savings Plan (RDSP)**
  RDSPs helps families save for long-term care of relatives with disabilities.

These government-sponsored plans can hold a variety of savings and investment types. To find out more, speak to a financial planner or advisor.

Investment Fees and Costs

The investment fees and costs you pay will depend on the ________________ you make and how you purchase them. The costs will have some impact on your ____ _______________, so it is important to understand how much you are paying and what for. You can then decide whether the service is worth the cost.

Most fees and costs relating to investments fall into five categories:

- Costs to buy an investment
- Costs when you sell an investment
- Investment management fees
- Financial advisor fees
- Administration fees for registered plans

Not all types of costs apply to all investments. In some cases, costs such as sales commissions are included in the price you are quoted to buy the investment. This is generally the case for ______________.

Costs to buy an investment

If you buy investments such as _____________ and ___________________, you will usually pay a trading fee every time you make a purchase. For this reason, it is better to limit the frequency of your purchases. Brokerages and investment firms set their own fees, so the amount will depend on the company you use.

For "___________________" mutual funds, there is no fee to purchase units.

Other mutual funds charge "___________________________" fees when you buy them. The fees are generally a percentage of your purchase price.

Costs when you sell an investment

With some mutual funds, instead of paying a fee when you buy the investment ("front-end load" fee), you pay a fee when you __________. This is known as a "________________" fee.

The fee is generally a percentage of your selling price. It is normally highest in the first year after purchase and gradually decreases for every year you hold the investment. If you hold the investment long enough (often for several years), the fund dealer might agree to waive the fee. Think carefully before agreeing to buy funds with back-end load fees because the fees come out of the selling price of the investment and can be as much as 7 percent if you want to sell in the first year.

Investment management fees

Investment funds, including _____________________ and segregated funds, charge a fee for managing the fund. The fees are called the Management Expense Ratio (MER) and may include an ongoing commission paid to advisors who sell the fund to their clients. The MER is paid regardless of whether the fund makes money. It is deducted before calculating the investor's return.

Advisor fees (how advisors are paid)

__________________ are paid in different ways, depending on the type of service they provide. For example, an advisor helping you put together a financial plan might be paid an hourly fee, whereas an advisor making trades on your behalf might be paid per trade.

If you plan on using an advisor it's important to know exactly what kind of services the advisor provides and the cost, as well as how the advisor is paid.

While most advisors strive to give good advice, advisors who are paid by commission have an incentive to encourage you to invest where they will earn the highest commission. Those who are on salary, on the other hand, may have an incentive to promote what their employers offer. Ask for information on your investing options and fees before you purchase any investment product.

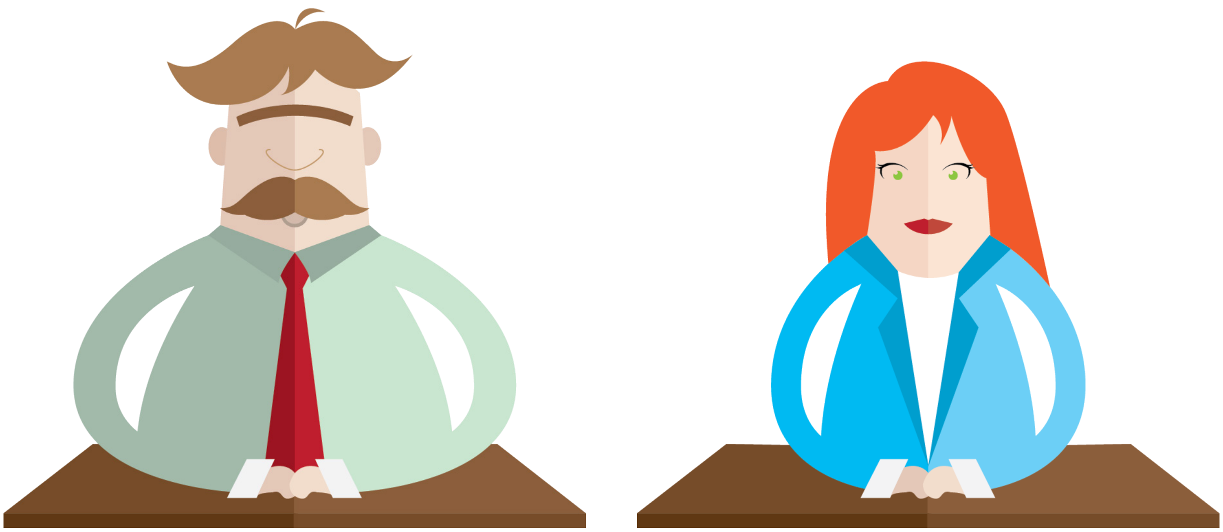
Administration fees for registered plans

When a bank, brokerage firm or other financial institution sells a registered product such as a Registered Retirement Savings Plan or a Tax-Free Savings Account, the *Income Tax Act* requires the product to have a trustee.

Investors generally have to pay an administration fee (also known as a "trustee fee") for the services the _______________ provides—for example, filing the necessary documents with the Canada Revenue Agency. In certain cases, if the overall value of a portfolio is above a certain amount, the company that holds your plan may waive the fee.

WORKING WITH A FINANCIAL PLANNER OR ADVISOR

Investing can be complicated, and many people simply do not have the time to acquire the knowledge and confidence needed to invest effectively on their own. A financial planner or advisor can help them.



How do you choose a financial planner or advisor?

The terms "financial planner" and "financial advisor" are used broadly; in fact, anyone can call themselves a "financial planner" or "advisor." What sets some apart are their education and training, and the qualifications that they hold. For ease of reading, the pages in this section use the term "advisor" to mean a financial professional with training and expertise that is recognized within the financial sector.

Choosing the right advisor depends on the kind of help you are looking for. Different advisors offer different products and services, and their professional designations can provide an indication of their qualifications and expertise. Ultimately, what's important is that you're confident that your advisor has the experience and expertise necessary to help you reach your financial goals.

Don't be afraid to meet with several potential advisors before choosing one. To make the most of your meeting, draw up a list of questions you want to ask. Be sure to take detailed notes.

Factors to consider

- Is the advisor registered?
By law, sellers of mutual funds, stocks and bonds must complete training and be registered with a provincial or territorial regulator. You can check that the advisor or firm you are considering is registered, and you can find out what kind of registration they hold. Simply visit the Canadian Securities Administrators (CSA) website and use the National Registrant Search. It includes the names of all individuals and firms registered in Canada, with the exception of those registered with the Ontario Securities Commission (OSC). To find out whether an individual or firm is registered in Ontario, use the OSC's Check registration resource.

- Past disciplinary action
You can check whether an advisor or firm has been subject to disciplinary action in the past by visiting the following websites:

- Investment Industry Regulatory Organization of Canada (IIROC)
Research the background, qualifications and disciplinary information on advisors at IIROC-regulated firms by generating an IIROC Advisor Report.

- Mutual Fund Dealers Association of Canada (MFDA)
If an advisor is licensed primarily to sell mutual funds, the MFDA is the self-regulating body. You can search for current and past disciplinary hearings.

Where to look

Advisors belong to professional groups in their industry. The following industry groups can be good places to start searching.

Group name and website	Role
Financial Planning Standards Council (FPSC)	Develops, enforces and promotes standards for financial planning in Canada.
Advocis (Financial Advisors Association of Canada)	Information on designations of financial advisors.
Investment Industry Regulatory Organization of Canada (IIROC)	National self-regulatory organization that oversees all investment dealers in Canada. List of IIROC-regulated firms.
Mutual Fund Dealers Association of Canada (MFDA)	National self-regulatory organization and representative of firms that sell mutual funds in Canada.
Portfolio Management Association of Canada (PMAC) (formerly the Investment Counsel Association of Canada)	Representative of investment counsellors and portfolio managers in Canada.

Investing on your own

Investing on your own may be an option if you are confident about your investing knowledge and have the time to follow developments in the financial market. If you are new to investing, it is probably better to work with an advisor.

Making the Connection

Now that you have read through the **Staying on the Safe Side** chapter, let's connect the dots!

Describe how identity theft can impact you?

What are some of the best ways to protect yourself against identity theft?

Describe some of the basic concepts of investing

Using the table below, list some of the pros and cons with regards to investing.

Pros of investing	Cons of investing

Enactus SLC

Our mission is to reduce poverty by creating comprehensive solutions to issues within our greater community.

Established in 2009, the Enactus SLC team consists of a group of students from St. Lawrence College Kingston who create and deliver projects that help to reduce hunger and promote entrepreneurship, financial literacy and environmental sustainability. This handbook represents the evolution of efforts since the team began to bring financial literacy to youth. It is available for free download at **www.enactusslc.ca**

The Manage Your Money Participant Handbook helps youth learn the skills they need to take control of their finances as they enter adulthood. Navigating personal finance requires confidence and knowledge. With the help of the Manage Your Money Facilitation Guide and supplementary videos, **participants learn about practical topics such as budgeting, understanding pay stubs, taxes, insurance, banking options, and more.** As of 2014, 116 youth from Family and Children's Services have graduated from the Manage Your Money program. Facilitation guides and videos are available to help you run a Manage Your Money program in your community. For more information please contact us through our web page.

Many thanks to the team members and faculty advisors who have played a vital role in the growth and development of Manage Your Money. A special thanks to team members Kate Armstrong, Jim McCartney, Victoria Stinson, Andrew Oosterman, Merina Johnston, Thiago Santarém, and Nick Blunt for their dedication to this project, as well as to faculty advisors and professors Pam Bovey Armstrong, John Pirrie, John Conrad, Terri McDade, Gary Peacock, Colin Slade, Ricardo Giuliani and Brian Wilcock. Enactus St. Lawrence College would also like to express acknowledgement and gratitude to Shannon Youell and the Family and Children's Services of Frontenac, Lennox and Addington.

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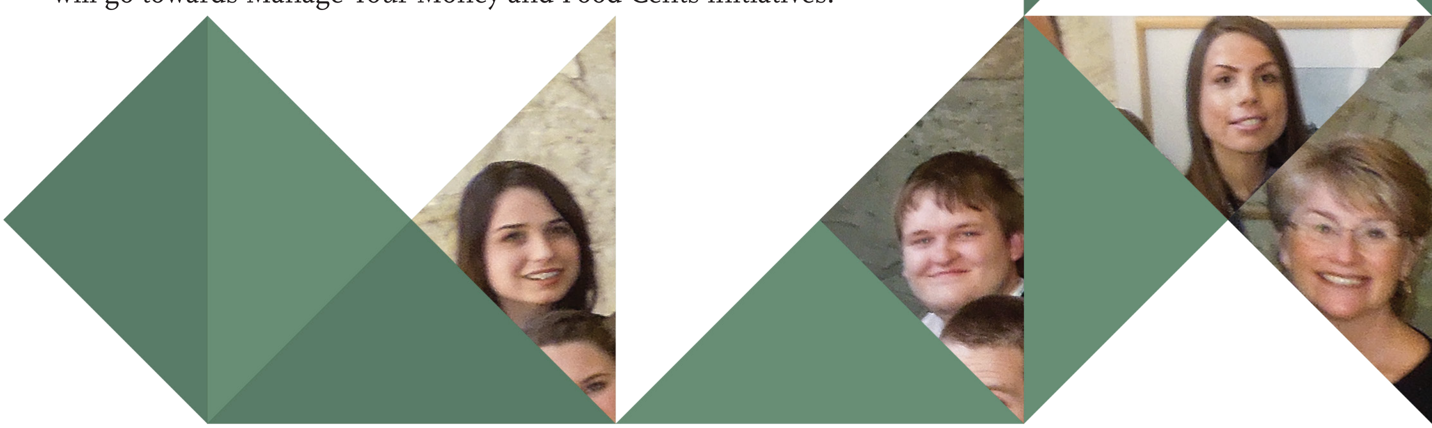
www.GiveToSLC.ca/FoodCents
You will receive a tax receipt for your donation. 100% of all proceeds will go towards Manage Your Money and Food Cents initiatives.



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Alumni St. Lawrence College

Family and Children's Services of Frontenac, Lennox and Addington — Safety. Comfort. Hope. Together.

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Student Association of St. Lawrence College

St. Lawrence College