



Managing Your Finances - Part 2

Topics

- **Credit and Debt Management**
- **Saving and Investing**
- **Protecting Yourself from Fraud and Identity Theft**

CREDIT AND DEBT MANAGEMENT

Money always has a cost

- If you borrow money, you pay interest on the money borrowed and the cost is obvious
- If you have cash on hand and decide to spend it, you are forgoing the interest revenue you could have earned by investing that money say, in a savings account.
 - The interest revenue you give up is a “cost” of money





CREDIT AND DEBT MANAGEMENT

Paying your credit card bill just a couple of days after the due date won't affect your credit report.

True or false?

Answer: **False.** Whether your credit card bill payments are late by a couple of days or several weeks, it will damage your credit history and could affect your credit report. A poor credit history could make it hard for you to get credit in the future. And if you do manage to get a loan, you might end up paying a higher interest rate because the bank considers you to be a higher risk.



CREDIT AND DEBT MANAGEMENT

All credit cards have the same grace period (also known as an interest-free period).

True or false?

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Answer: False. The grace period is the time between the statement date and the payment due date, and is provided by the credit card issuer. For federally regulated financial institutions, the grace period on new purchases has to be a minimum of 21 days but can be longer. The 21-day grace period on new purchases applies even if an outstanding balance has been carried forward from the previous month.



CREDIT AND DEBT MANAGEMENT

Last month, your credit card balance was zero. This month, your statement shows that you made a \$500 purchase. If you pay off \$400 by the due date, you will be charged interest only on the \$100 left to pay.

True or false?

Answer: **False**. If you don't pay in full by the due date shown on your credit card statement, *you will be charged interest on the \$400 you paid off, from the transaction date until the day you made the payment, and you will be charged interest on the \$100 outstanding, from the transaction date until the date you pay this amount in full.*



CREDIT AND DEBT MANAGEMENT

If you use your credit card to take money out as a “cash advance”, you don’t have to pay interest on the amount you’ve withdrawn as long as you pay your credit card bill in full by the due date on your statement.

True or false?

Answer: **False**. Banks and credit card companies treat cash advances differently from purchases made with a credit card. With a cash advance, *you are charged interest from the day you get the cash advance until the day you pay it off in full.*



CREDIT AND DEBT MANAGEMENT

Which of the following are true?

Without a good credit history...

- a) Your bank may charge you higher interest rates on a personal loan for a car, house, etc.
- b) Your bank may refuse to give you a loan.
- c) You might not be able to get a lease on an apartment.
- d) A and B only.
- e) All of the above.

Answer: All of the above. A poor credit rating can affect your life in many ways. That's why it's very important to have a good credit history!



CREDIT AND MANAGEMENT

How to avoid trouble

- Pay the balance in full each month.
- If you can't pay it in full, pay as much as you can.
- Don't make only the minimum payment.
- If you always carry a balance, get a low-rate card.
- Transfer the balance to a line of credit with a lower rate.
- Pay a few days *before* the due date.



CREDIT AND MANAGEMENT

If you don't pay your credit card charges in full and on time...

- **Best option:** Pay a fixed amount.
- **Second best option:** Pay the minimum amount plus an additional amount.

Minimum vs. fixed payments

- Initial balance: \$3,000
- Interest rate: 18%

	Make minimum payments of 2.5%/month	Make fixed payments of \$100/month	Difference
Time to pay off balance	263 months	41 months	222 months
Total interest paid	\$4,115.41	\$1,015.49	\$3,099.92



CREDIT AND DEBT MANAGEMENT

Tips for managing debt

1. Shop around

- Compare interest rates. Don't accept your first offer.
- Use credit card calculators

FCAC Credit Card Payment Calculator:

www.fcac.gc.ca under For consumers and Resources, click Tools and calculators and select Credit Card Tools

IEF Pay off credit cards and debt calculator:

www.GetSmarterAboutMoney.ca under Tools & Calculators, click Calculators, under Credit Cards and Debt



CREDIT AND DEBT MANAGEMENT

Tips for managing debt

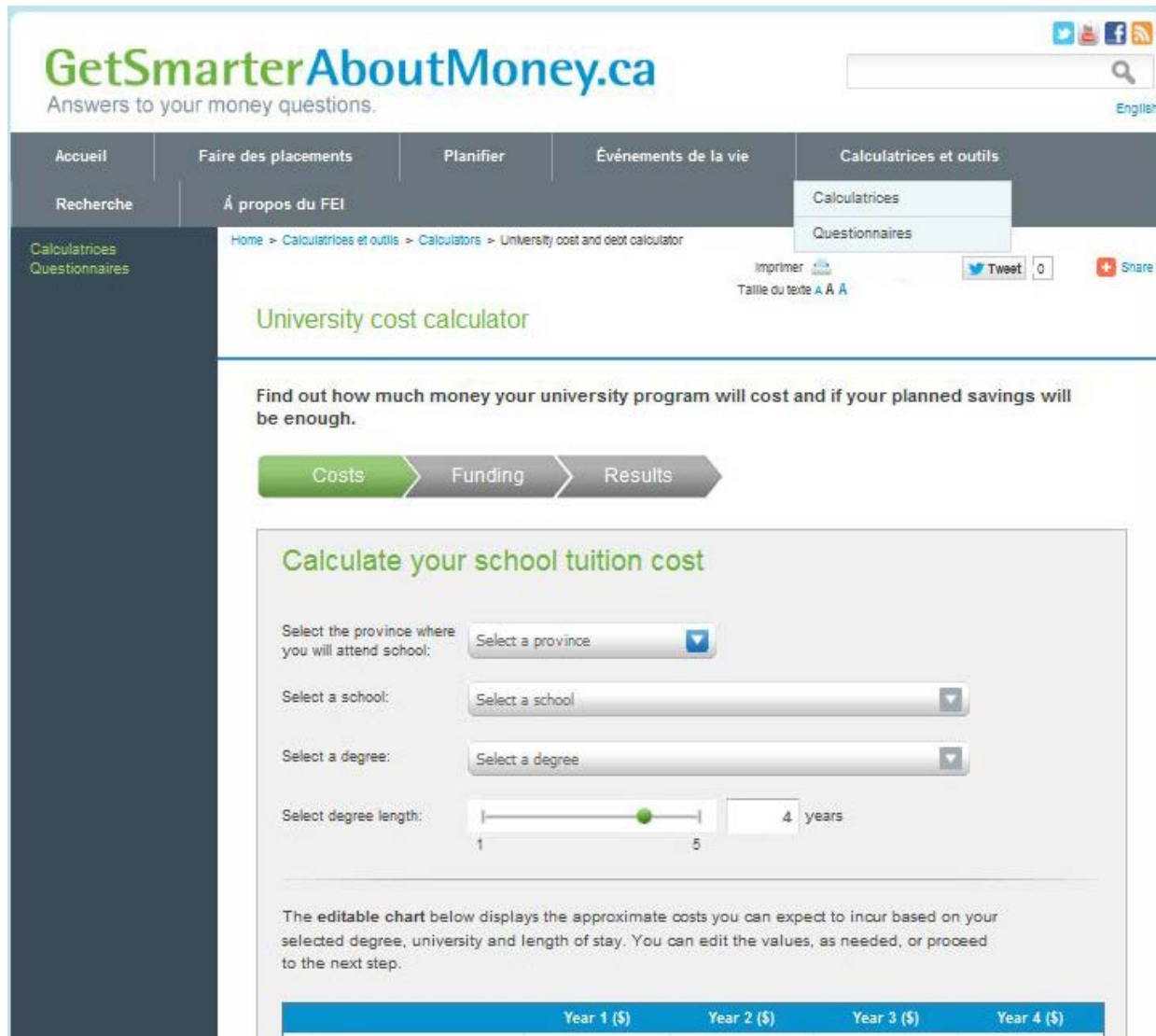
2. Keep within your budget.

Borrow only what you can afford to pay back regularly and on time.

3. Pay back more and pay more often.

Additional payments mean you'll pay it off sooner and pay less interest.

Student Debt Calculator



GetSmarterAboutMoney.ca
Answers to your money questions.

Accueil | Faire des placements | Planifier | Événements de la vie | Calculatrices et outils

Recherche | À propos du FEI

Home > Calculatrices et outils > Calculators > University cost and debt calculator

Calculatrices
Questionnaires

Imprimer | Taille du texte A A A | Tweet 0 | Share

University cost calculator

Find out how much money your university program will cost and if your planned savings will be enough.

Costs > Funding > Results

Calculate your school tuition cost

Select the province where you will attend school:

Select a school:

Select a degree:

Select degree length: 4 years

The **editable chart** below displays the approximate costs you can expect to incur based on your selected degree, university and length of stay. You can edit the values, as needed, or proceed to the next step.

Year 1 (\$)	Year 2 (\$)	Year 3 (\$)	Year 4 (\$)
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CREDIT AND DEBT MANAGEMENT

A **Credit Report** indicates how much credit you have taken out and how consistently you pay your bills.

A **Credit Score** is a rating of your financial health at a specific point in time. It indicates the risk you represent for lenders, compared with other consumers. The higher your score, the lower the risk.

You can get a copy of your credit report and correct any mistakes through Canada's two credit bureaus, **TransUnion** (www.transunion.ca/) and **Equifax** (www.consumer.equifax.ca/)



CREDIT AND DEBT MANAGEMENT

Credit Report and Credit Score

Getting a copy of your credit report is:

- a) A good way to check for identity theft
- b) The only way to know if your report is accurate
- c) Free of charge, if you request the report be sent to you by mail
- d) All of the above

Answer: d) Checking your credit report is not only a good way to check for identity theft; it is also the only way you can be



CREDIT AND DEBT MANAGEMENT

If you have applied for several credit cards or other forms of credit within a short period of time, this could have a negative impact on your credit score.

True or false?

Answer: True. According to one credit reporting agency, research shows that consumers who are seeking new credit accounts are more of a risk than consumers who aren't trying to obtain credit.



CREDIT AND DEBT MANAGEMENT

Which of the following does **not** affect your credit score?

- a) Your payment history – whether you have ever missed a debt payment
- b) Any collection of bankruptcy that has been recorded against you
- c) Your history of repaying informal loans from family or friends
- d) Any outstanding debts you have
- e) Your account history – how long you have had credit, and the type of credit you have

Answer: c). Informal loans do not affect your credit report



CREDIT AND DEBT MANAGEMENT

Recognize the danger signals

- You use your credit cards as a necessity instead of a convenience.
- You use credit or cash advances for your daily living expenses.
- You miss payments or due dates.
- You're near the credit limit on most of your cards.
- You borrow from one card to pay another.
- You transfer balances every few months just before the introductory offer expires.



CREDIT AND DEBT MANAGEMENT

How to take control of your debt

- Use **savings** to pay off balances.
 - Pay down your highest interest rate debts first.
- Switch to less expensive credit cards.
 - Call creditors to negotiate lower rates.
- Start automatic/online bill payment to stay on schedule.
- Leave your credit card at home and avoid all “buy now, pay later” offers.
- Ask your bank to **consolidate your credit card and other debt into a single loan** so that you make a single fixed payment each month at a much lower rate of interest.



SAVING AND INVESTING



SAVING AND INVESTING

Why save for the future?

- To feel more secure and in control.
- To be prepared for emergencies.
- To reduce stress and conflict.
- To spend with less guilt or fear.
- To be able to afford major purchases.
- To pay off debt and avoid new debt.
- To be able to retire comfortably.

The aim is not to become rich but rather to avoid being an unnecessary burden to others



SAVING AND INVESTING

- Canadians are saving on average less than 5% of their income.
- Often, this is because they don't have specific goals.
 - Without goals they are not motivated to put aside savings
- It is important to set specific goals
 - Set a dollar amount and deadline.
 - Break your goal into smaller goals.
 - Write down your goal and post it where you can see it every day.



Examples of Savings Goals

- A **vague, not very useful goal**: “Get rid of debt and save some money for a rainy day.”
- **An achievable goal**: “Eliminate credit card debt of \$1,600 and build an emergency fund of \$2,000 by saving at least \$3,600 by one year from now.”
- **A specific goal broken down into smaller pieces**: Save \$200 a month, or \$100 every two weeks, rather than saving \$2,600 in a year.



SAVING AND INVESTING

Four Steps to Savings

1. Set up an emergency fund.

- Save 3 to 6 months' worth of take-home pay in the event that you lose your job, get sick or have unexpected expenses.
- Keep the money in a separate savings account or in an easily cashable investment, such as a Canada Savings Bond.

1. Pay yourself first.
2. Make savings automatic.
3. Grow your savings.



SAVING AND INVESTING

Four Steps to Savings

2. “Pay yourself first”---What does this mean?

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- It means to set aside your savings before you spend on other things.
- Treat savings like any other recurring bill that you must pay each month (can be built into the budget as a monthly expenditure).
- Put a set amount of money away from every paycheque without thinking about it.



SAVING AND INVESTING

3. Make your savings automatic

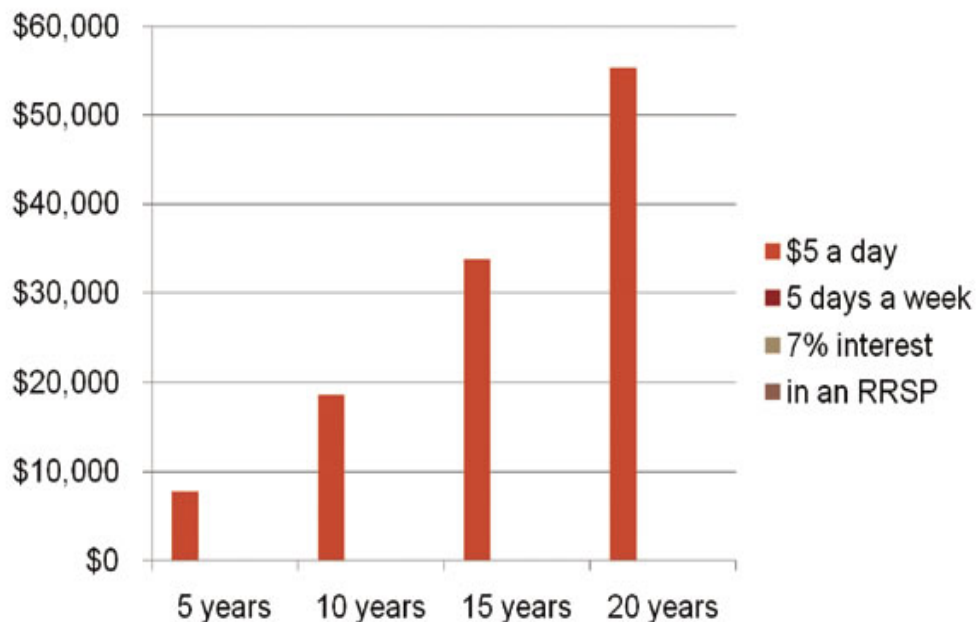
- Set up direct debits from your bank account or paycheque (**into another strictly savings bank account if possible**).
- Save 5% to 10% of your take-home pay.
 - If you earn \$3,000 a month after tax:
 - Saving 5 percent = \$150 a month = \$1,800 a year.
 - Saving 10 percent = \$300 a month = \$3,600 a year.
- If you receive extra money (from gifts, tax refunds, etc.) or a raise-----Save it!



SAVING AND INVESTING

4. Make your savings grow via compound of interest

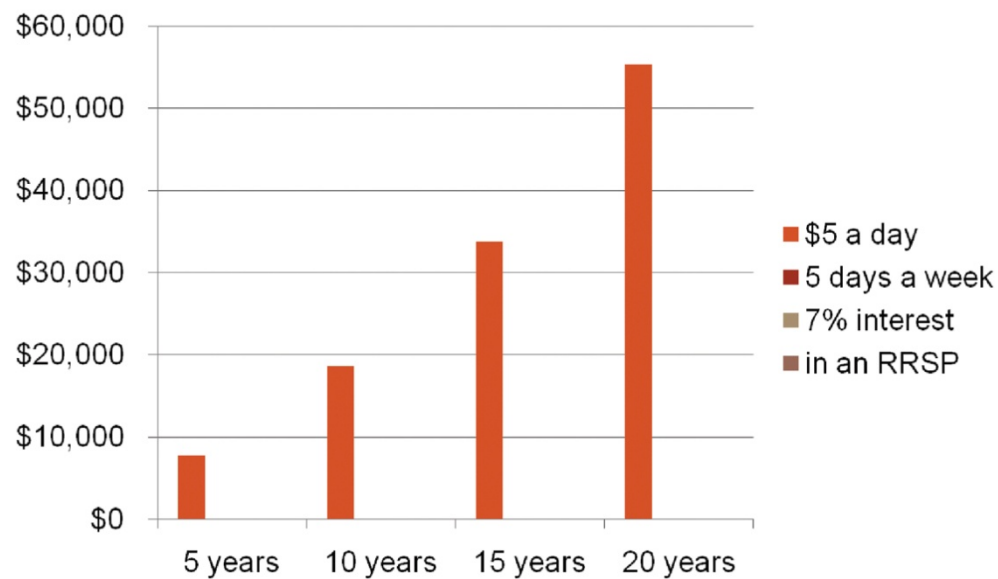
Compound interest is interest that's paid on the initial deposit plus on any interest that's been earned in previous periods and accumulated in the account.





SAVING AND INVESTING

**Compounding
makes your
money grow**





SAVING AND INVESTING



Actions	Amy	Amanda
Starts saving at:	20	30
Puts \$1,000 a year into her RRSP to age:	34	64
Total she saved:	\$15,000	\$35,000



SAVING AND INVESTING



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Actions	Amy	Amanda
Total she earns at age 65:	\$141,700	\$116,100

Conclusion:

- Start saving as soon as possible (the sooner the better)
- Save as long as you can (for a long period of time)



SAVING AND INVESTING

Rule of 72

To determine the time in years it takes to double your money divide the number 72 by the interest rate e.g. $72 / 2\% = 36$ years

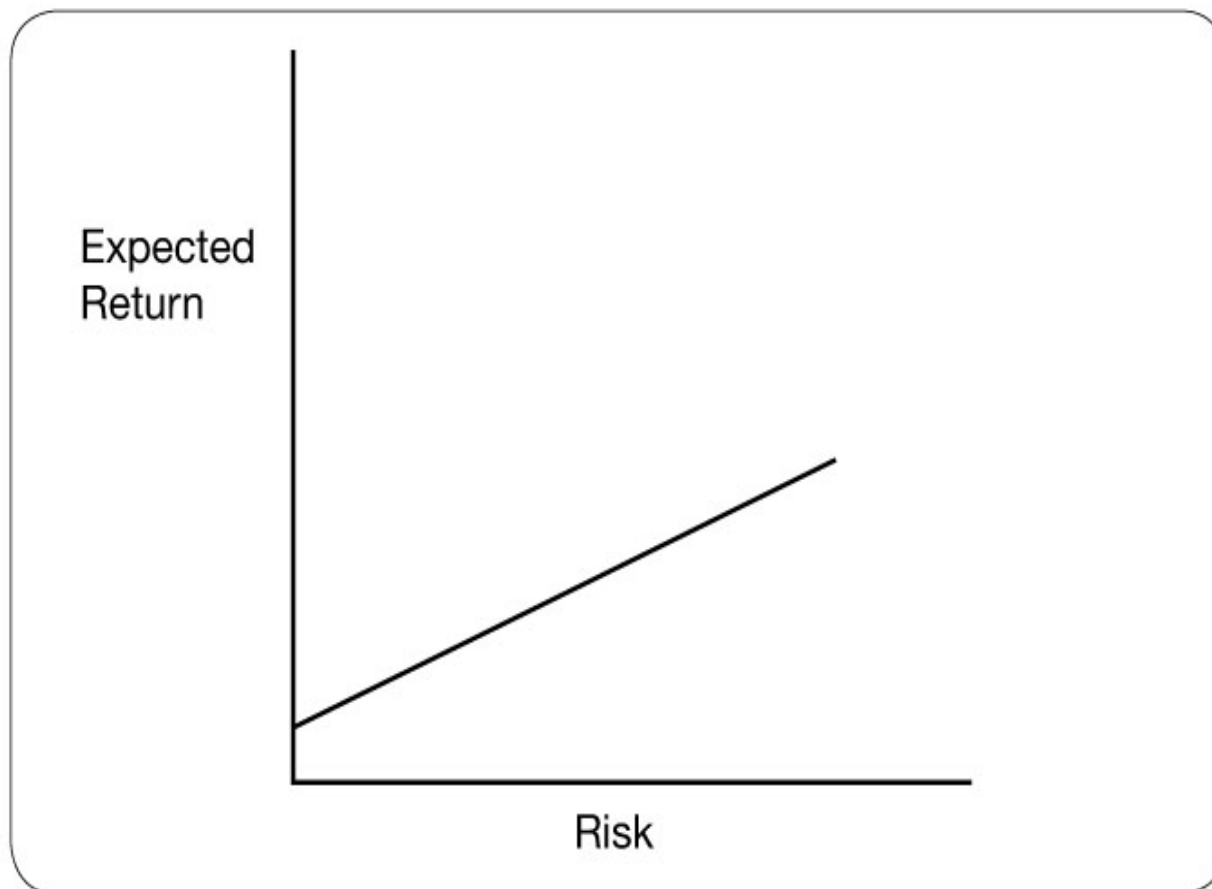
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Interest rate	Your money doubles in:
2%	36 years
4%	18 years
6%	12 years
8%	9 years
10%	7.2 years
12%	6 years



SAVING AND INVESTING

Risk and Expected Rate of Return-----there is always a trade-off between these two





SAVING AND INVESTING

Four types of investments

- Investments that pay interest (savings accounts, CSBs, GICs, etc.)
- Shares in a company (stocks, mutual funds that invest in stocks, etc.)
- Property (real estate, art, precious metals, etc.)
- Direct investment in a business



SAVING AND INVESTING

Canada Savings Bonds

- Available from early October to December each year.
- Opt for regular or compound interest.
- Buy online, where you bank or invest, or at your workplace through payroll deduction.
- Canada Savings Bonds:
 - Cashable any time, but no interest paid if cashed within first 3 months.
- Canada Premium Bonds:
 - Cashable only once a year but pay more.



SAVING AND INVESTING

- GICs**
- Your money is locked up for a period of time, ranging from less than 1 month to 10 years.
 - Generally, the longer the term, the higher the rate of interest.
 - Traditional GICs: principal and return are guaranteed.
 - “Market-linked” GICs: principal is guaranteed, but returns are linked to a stock market index, so they fluctuate.
 - You can also get cashable GICs; more flexible but with lower rates.



SAVING AND INVESTING

- Stocks**
- Shares in a company; you are partial owner of the company.
 - Share prices and returns can be positive or negative.
 - No guarantee of income: you could lose your whole investment.
 - Traded on stock exchanges or over-the-counter markets.
 - Stocks have outperformed other investment options by a wide margin over periods of 10 years or more.



SAVING AND INVESTING

Why invest in mutual funds?

- Professional management
- Diversification: your money is spread over several investments
- Ease of access: you can generally sell any time
- Readily available through most financial institutions
- But.....***fees paid are not tax deductible***



SAVING AND INVESTING

Registered tax plans

- Tax-Free Savings Accounts (TFSA):
earn income from investments without
paying taxes on the income
- Registered Retirement Savings Plans (RRSPs):
defer paying income tax until retirement
- Registered Education Savings Plans (RESPs):
shift the tax to a student
- Registered Disability Savings Plans (RDSPs):
shift the tax to someone with a disability



SAVING AND INVESTING

Questions to ask a prospective financial advisor

- What is your background, experience and track record? Do you have the Canadian Securities course designation?
- Is your firm registered with a securities commission or other formal body?
- What can you do for me? Provide advice only, sell products, help me build a financial plan?
- What products do you sell----only mutual funds, GIC's or specific stocks and bonds?
- How do you get paid? Are your fees deductible for income tax purposes?
- How do you work with your clients?
- Can you provide references?



SAVING AND INVESTING

The three knows

- Know yourself: your investment goals and timeline, your risk tolerance.
- Know your investment: is it right for you?
- Know your advisor.



FINANCIAL PLANNING



Budget versus a Financial Plan



FINANCIAL PLANNING

How can a financial plan help you?

- Minimize your taxes.
- Provide for life insurance, incapacitation, elder care, and other insurance needs.
- Buy a home and pay off the mortgage quickly.
- Fund your children's post-secondary education.
- Save and plan for retirement.
- Fund long-term health issues.
- Manage estate planning and how to transfer wealth in families to minimize taxes.



PROTECT YOURSELF



PROTECTING YOURSELF

Identity theft statistics

In 2006:

- 4 million North Americans fell victim to identity fraud
- Average loss to identity fraud: \$1,086
- Average loss per phishing attack : \$1,244
- Scholarship and loan scams: more than \$100 million
- Average loss from a scholarship or loan scam: \$263



PROTECTING YOURSELF

Transfer of fund scam

THE SOURCE OF THIS FUND IS AS FOLLOWS; DURING THE LAST MILITARY REGIME HERE IN NIGERIA, THE GOVERNMENT OFFICIALS SET UP COMPANIES AND AWARDED THEMSELVES CONTRACTS WHICH WERE GROSSLY OVER-INVOICED IN VARIOUS MINISTRIES. THE PRESENT CIVILIAN GOVERNMENT SET UP A CONTRACT REVIEW PANEL AND WE HAVE IDENTIFIED A LOT OF INFLATED CONTRACT FUNDS WHICH ARE PRESENTLY FLOATING IN THE CENTRAL BANK OF NIGERIA READY FOR PAYMENT.

HOWEVER, BY VIRTUE OF OUR POSITION AS CIVIL SERVANTS AND MEMBERS OF THIS PANEL, WE CANNOT ACQUIRE THIS MONEY IN OUR NAMES. I HAVE THEREFORE, BEEN DELEGATED AS A MATTER OF TRUST BY MY COLLEAGES OF THE PANEL TO LOOK FOR AN OVERSEAS PARTNER INTO WHOSE ACCOUNT WE WOULD TRANSFER THE SUM OF US\$21,320,000.00(TWENTY ON MILLION, THREE HUNDRED AND TWENTY THOUSAND U.S. DOLLARS). HENCE WE ARE WRITING YOU THIS LETTER. WE HAVE AGREED TO SHARE THE MONEY THUS; 1. 20% FOR THE ACCOUNT OWNER. 2. 70% FOR US (THE OFFICIALS) 3. 10% TO BE USED IN SETTLING TAXATION AND ALL LOCAL AND FOREIGN EXPENSES. IT IS FROM THE 70% THAT WE WISH TO COMMENCE THE IMPORTATION BUSINESS.

PLEASE, NOTE THAT THIS TRANSACTION IS 100% SAFE AND WE HOPE TO COMMENCE THE TRANSFER LATEST SEVEN (7) BANKING DAYS FROM THE DATE OF THE RECEIPT OF THE FOLLOWING INFORMATION BY TEL/FAX; 234-1-7740449, YOUR COMPANY'S SIGNED, AND STAMPED LETTERHEAD PAPER THE ABOVE INFORMATION WILL ENABLE US WRITE LETTERS OF CLAIM AND JOB DESCRIPTION RESPECTIVELY. THIS WAY WE WILL USE YOUR COMPANY'S NAME TO APPLY FOR PAYMENT AND RE-AWARD THE CONTRACT IN YOUR COMPANY'S NAME.



PROTECTING YOURSELF

Lottery scams

UK-LOTTO Headquarters:

Customer Service
580 N. Tenth Street, CA 85914
Arena Complex Km 18 Route de Rufisque
I.P.P. Award Dept.
Johannesburg, South Africa.
Ref: UK/9420X2/68
Batch: 074/05/ZY369

WINNING NOTIFICATION:

We happily announce to you the draw of the UK-LOTTO Sweepstake Lottery International programs held on the 27th of February, 2004 in Johannesburg, South Africa. Your e-mail address attached to ticket number: 564 75600545 188 with serial number 5368/02 drew the lucky numbers: 19-6-26-17-35-7, which subsequently won you the lottery in the 2nd category.

You have therefore been approved to claim a total sum of US\$2,500,000.00 (Two Million, Five Hundred Thousand United States Dollars) in



PROTECTING YOURSELF

Phishing emails and phony Web pages

ABC BANK

1-800-ABC-BANK

To: John Dorman
From: ABC Bank <info@abcbank.com>
Subject: ABC Bank Security Breach – Immediate action required

Dear Client,

Due to a recent security breach in the ABC Bank computer systems, we are asking all customers to immediately update their client profile using the link below and immediately report any unnoticed information changes, unexplained funds depletion or the likewise. Rest assured that we have the safety and privacy of our customers as our top priority but please help us by following the instructions below:

Update and verify your information by clicking the link below:
<https://update.abcbank.com>

If your account information is not updated within 48 hours, then any complaints will be dealt with as a separate incident from this security breach. Please update your profile as soon as possible.

The ABC Bank Team
This is an automatic message. Please do not reply.



PROTECTING YOURSELF

Signs of bogus job ads

- Offer considerable pay with few to no duties
- Promise payment of wages in cash
- Contain no physical address or contact person
- Require you to open a new bank account or accept company cheques to “test” a wire transfer service



PROTECTING YOURSELF

- Protect yourself**
- Don't share personal information freely.
 - Destroy documents with personal information.
 - Keep your wallet or purse safe.
 - Don't carry ID you don't need (such as SIN).
 - Lock your household mailbox if possible.



PROTECTING YOURSELF

Protect yourself, cont.

- Limit the number of credit cards you hold.
- Check your credit report once a year.
- Make sure websites are secure before transmitting personal information.
- Delete emails that ask for personal information.
- Keep computer firewalls and spyware up-to-date.



PROTECTING YOURSELF

- Protect yourself, cont.**
- Keep your computer passwords safe.
 - Don't give telemarketers personal information.
 - Destroy old documents that contain identity information.
 - Be skeptical – if an offer sounds too good to be true, it is!
 - Save paper bank records for at least a year.



PROTECTING YOURSELF

- What to do**
- Contact your financial institution immediately.
 - Notify Canada's credit bureaus (Equifax Canada at www.equifax.ca and TransUnion Canada at www.transunion.ca).
 - Contact the Canadian Anti-Fraud Centre
 - Notify your local police as soon as you are aware of it.



SUMMARY AND WRAP-UP



SUMMARY AND WRAP-UP

What have we learned?

- Keep track of your income and your expenses in a budget.
- Save money by questioning your bills and reducing your “latte factor.”
- Pay yourself first with automatic savings.
- Start an emergency fund.
- Shop around for the best banking accounts, credit cards and service plans.
- Pay all debts on time and in full, if possible.
- Set clear savings goals.
- Find a licensed financial advisor for long-term investment guidance.
- Use RRSPs and TFSAs to let your savings grow tax-free.
- Secure your identity and avoid identity theft.