Introduction to Financial Literacy
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Introduction to Financial Literacy

Financial literacy means having the knowledge, confidence and skills to make responsible financial decisions. In today’s complex world, young people need a wide range of skills and knowledge to make informed choices.

Most of us spend a lot of our time making, saving, spending, or worrying about, money. In this Guidebook, you will find information about:

1. Basic money management;
2. Saving and investing your money; and
3. Understanding the impact of your financial decisions.

The first topic, “Basic Money Management,” is about getting the most out of the money that you have. Money management involves:

- making money;
- setting clear financial goals about what you want to do with your money;
- developing a plan for reaching those goals; and
- making sure that you stick to the plan.

The second topic, “Saving and Investing Your Money,” is about what to do (and what not to do) with the money that you have. In this section, you will learn about the importance of saving and the harmful effects of having too much debt.

Finally, the third topic, “Understanding the Impact of Your Financial Decisions” covers how the choices you make affect your future. In this section, you will learn how making good financial decisions can positively affect you down the road.
Chapter 1
Basic Money Management

Making Money

Money management is the process of budgeting, saving, investing, and spending money.

The first step in managing your money is making money. Possible sources of income could include:

- An allowance;
- A part-time job or summer job; or
- A gift from relatives (birthdays, graduations, or holidays).

Mia’s Summer Jams...

Mia wants to surprise her sister with tickets to a concert this summer. There is only one problem: The tickets cost $90, the concert is coming up soon, and Mia does not have any money saved!

Mia has a part-time job at her local corner store. Unfortunately, she already uses all of the money that she makes at her job every week, and so has nothing left over. She really wants to buy her sister a special gift, but does not know how she will afford it!

In this section, we will consider how Mia can improve her money management skills, so that she can afford to take her sister to the concert.

Mia’s Summer Jams...

Mia does not have any money saved, but is earning $100 per week at her part-time job, after deductions. She therefore will have some money that she could spend on the concert tickets, if she doesn’t spend it elsewhere.
Setting Financial Goals

Once you have some money, the second step is to set your financial goals. Your financial goals are what you want to do with your money. They could include anything from saving for college or university, to going to a concert. Your goals are up to you. The key is to pick goals that will make you happy in the long run.

Developing a Plan

Once you have set your financial goals, the third step is to develop a plan to reach those goals. You can do this by creating a weekly budget. A budget is a table or list that summarizes how you use your money, and how much money you make, for each week. Creating a weekly budget forces you to think about how you are using your money. It allows you to prioritize your spending, so that you can achieve your financial goals. Here are three simple steps to creating a weekly budget:

1. Figure out how much money you use in an average week, including how much you spend and how much you save. You can do this by tracking how you use your money for three to five weeks and then dividing the total by the number of weeks (the longer you track your usage, the more accurate your calculation is likely to be). When you track your usage, be sure to divide the money you use into categories such as:
   - savings (e.g. saving for college tuition);
   - entertainment (e.g. going to the movies);
   - extracurricular activities (e.g. sport equipment);
   - school (e.g. pencils and pens); and
   - food (e.g. going out for lunch).

Mia’s Summer Jams...

Mia has set a clear goal: She wants to buy concert tickets for herself and her sister. Hard to argue with that!
2. Figure out your average weekly income. This includes all of the money that you expect to receive from any source during an average week, such as an allowance, paycheques, gifts, and so on. You can figure out your average income in the same way as in step 1: simply keep track of how much money you make for three to five weeks, and then divide the total by the number of weeks.

3. Once you know how much money you use and how much you make, you can start planning to achieve your financial goals! Think about whether you can reach your goals in light of how much money you make, and how you use your money. If you are not on track to reach your goals, then think about how you can boost your income, or change your usage, so that you can achieve them.
When Mia looks at her average weekly usage ($100) and her average weekly income ($100), she is disappointed to see that she has nothing left over to spend on the concert tickets. She realizes that she will have to either increase her income, or change how she uses her money, in order to buy the tickets.

On the income side, Mia considers whether she could take another shift at her part-time job, in order to make some more money. However, between her job, school, and extra-curricular activities, Mia is already super busy. She does not think that she has time to accept another shift.

On the usage side, Mia considers whether she can free up some money to spend on the concert tickets. After looking at her budget, Mia concludes that she cannot reduce the amounts that she is saving for her education or spending on entertainment; education is Mia’s top priority and she loves going to the movies and shopping with friends. However, Mia also decides that she is spending way too much money on lunch from the deli near her school. She does not even really like the food at the deli; she only goes there because she sometimes feels too tired to make her own lunch in the morning.

Mia concludes that, although she probably cannot increase her income, she can reduce her spending by $30 per week by making her lunch at home.

Once you have finalized a budget that allows you to achieve your financial goals, the last step is to stick to it! One way that you can stick to your budget is by setting aside the total amount of money that you want to spend during a week at the beginning of that week. Once you have set aside the money, divide it into different piles, one for each category of use (education, food, entertainment, etc.) By setting aside money at the start of each week and dividing it into categories, you can more easily keep track of your spending, and sticking to your budget will be a snap!
Mia’s Summer Jams...

Mia has decided to reduce the amount that she spends on food, and use that money to buy the concert tickets. She writes out a new budget that looks like this:

<table>
<thead>
<tr>
<th>Weekly Income</th>
<th>Weekly Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part Time Job $100</td>
<td>Education: $30</td>
</tr>
<tr>
<td></td>
<td>Entertainment: $40</td>
</tr>
<tr>
<td></td>
<td>-Food Concert Tickets: $30</td>
</tr>
</tbody>
</table>

At the beginning of each week, Mia withdraws $100 from her bank account. She divides the $100 into amounts for Education, Entertainment, and Concert Tickets. She immediately gives the Education amount to her parents, and puts the Concert Tickets amount in a safe place in her room. She puts the Entertainment amount in her wallet, so that she can go out with friends. By the end of three weeks, she has saved $90, which is enough to buy the tickets! Mia has achieved her financial goal.
Chapter 2
Saving and Investing Your Money

You probably already know that it is better to save some of your money rather than spending it all at once. “But why?” you might have asked yourself. If you are going to spend your money later, then why not spend it today?

While spending your money all at once may seem like a good idea, there are many reasons why it is not. Here are three of them:

1. **Increased Financial Security**: Saving money will help you cover unexpected expenses, such as a broken phone, or a loss of income due to a reduction in your work hours. In this way, savings are like your own personal “safety net” in case things do not go as planned.

2. **Source of Income**: When you invest your savings, you can earn money on the amount that you save. The amount that you earn on your investments is called the “rate of return.” The rate of return on an investment is usually expressed as a percentage of the amount invested. For example, if you invest $100 and end up with $110 at the end of the year, then the rate of return on your investment was 10%. The rate of return on an investment can vary greatly depending on how risky that investment is. Riskier investments are less ‘certain’ meaning they could provide high returns, or they could result in little to no returns. In some cases, they may even decrease in value, causing you to lose money. Safer investments, on the other hand, are unlikely to decrease in value, but may have lower rates of return.

3. **Big Expenses**: Many people can afford to pay for small expenses, like basic groceries, without having to do too much saving. However, when it comes to paying for bigger expenses, like a car, saving is usually required.
The opposite of saving money is to borrow money, also known as going into debt. Sometimes going into debt is necessary. Very few people can afford to buy a car or house without taking on at least some debt. However, too much debt can be a big problem. Here are a few reasons why:

1. **Reduced Financial Security**: One benefit of saving is that it increases your financial security by allowing you to deal with unexpected expenses or a loss of income. The opposite is true of debt. Money that you borrow to spend today will eventually have to be paid back, reducing your ability to deal with unexpected expenses or a loss of income in the future.

2. **Interest Payments**: Another benefit of saving is that you can invest your savings and earn money on the amount that you save. Once again, the opposite is true of debt. Instead of earning money, you actually have to pay money on the amount that you owe. These are called “interest payments”. For example, if you fail to pay $100 of your smartphone bill for a year, and the rate of interest on late payments is 20% per year, then you will have to make $20 in interest payments, in addition to the $100 that you already owe. Interest payments can be dangerous because, unless you carefully keep your debts under control, you can easily get trapped in a “cycle of debt,” in which large debts lead to large interest payments, which lead to larger debts, which lead to larger interest payments, and so on.

3. **Credit Score**: Your credit score is a personal rating that measures how likely you are to pay off your debts on time and in full. Banks look at your credit score when deciding whether to lend you money, such as for a car loan or credit card account. Landlords may also look at your credit score when considering your application to rent an apartment. If you take on too much debt and are unable to pay it off on time, this could damage your credit score, making it more difficult for you to get a car, home, or apartment in the future.
Some **TIPS** for saving and investing…

- It is possible to begin investing only if you have money to save. If you are in debt (especially student debt), it may make more sense to prioritize paying off the debt before starting to invest. Try to always have an emergency fund to help with unexpected expenses.

- Certain loans (eg. credit card debt) should be paid off as soon as possible since the interest you are being charged is usually much higher than what you can earn through investing.

- Start saving as soon as you can! The earlier you start saving and investing, the greater your returns will be over the long run.

- When deciding which kinds of investments are right for you, carefully consider your current financial situation. Ask yourself how much you are able to save and how willing you are to take risks.

- Consider a high interest savings account. A high interest savings account pays higher interest than a standard savings account or a chequing account. While chequing accounts are meant for everyday transactions, high interest savings accounts are used to save money for a longer period of time. You can open a high interest savings account with any bank or credit union, even if you do your everyday banking somewhere else. Many options for online banking can also help reduce or eliminate your day to day banking fees.

- Take a look at your current bank account transaction details and see where you can save money on fees. While it is convenient to use your bank card to make a withdrawal at the closest bank machine, look out for convenience fees on each of those withdrawals that can quickly add up! You can save money during the month by making your withdrawals at a bank machine from your own bank. Also, consider using cash back on a purchase to get money out of your bank account at no cost.

- Don’t forget to ask your financial institution what fees they charge your account. They may have a different account available that’s right for you, and that will provide the services you need at less cost.
Seek out additional information about the saving and investment options available to students. Talk to your parents or your bank to learn more about how you can make the most of your money.

Once you have enough savings to comfortably put away, you may want to look at a locked in product, like a GIC. A GIC is a “Guaranteed Investment Certificate”, and it locks in your money for a period of time – anywhere from three, six or nine months, or yearly such as one, two, three or five years. Unlike a savings account, you are committing to keeping your money locked in with your bank for the full term, but in exchange, you can generally make a higher rate of interest than with a savings account.
In the previous chapter we learned what a credit score is. Why is it important to maintain a healthy credit score?

At first, we may think that only lenders, such as banks, want to know how you have handled credit in the past, to determine how well you are likely to handle it in the future. But there are other reasons to maintain a healthy credit score, which will help you in your day-to-day future.

Landlords, insurance companies, and employers may also look at your credit report to see how financially responsible you are before issuing an insurance policy, renting out an apartment or giving you a job.

If you have a poor credit rating or credit score:
- you may be denied credit or you may need to obtain a co-signer to be approved for credit
- you may have to pay a higher interest rate
- you may not be able to rent the apartment or get the job you want.

When you take out a loan, it is a promise to your bank that you will repay the funds on time. Failure to keep your promise, may cause other people to think twice before entering into any contract with you – not just a loan contract!
We also cannot forget that people will usually need loans when they haven’t saved enough money for the item they want to buy. This is why saving is so important! The more that you can save today, the less you will need to borrow. It will give you more freedom to make the purchases you want in the future without needing to ask someone else for help. Saving money is a habit and a discipline. It only takes small amounts on a daily or weekly basis to help you reach your goals.

If you saved $1 per day, in a month you would have about $30. The chart below shows how just saving $30 per month at even a low 1% interest rate can build you a healthy savings nest!

If you save $30 per month at a 1% annual interest rate, at the end of 3 years you will have $1,096, at the end of 5 years you will have $1,845, and in 10 years you will have $3,784!
Q: **What is a budget?**
A: A budget is an estimate of a person’s income and expenses, over a certain period of time.

Q: **What is the difference between a credit report and a credit score?**
A: **Credit reports** are reports based on your credit history. It is one of the main tools lenders use to decide whether or not to give you credit. **Your credit score** is a number that expresses your credit information at one point in time. It indicates the risk you represent for lenders, compared with other consumers. Equifax Canada provides credit scores on a scale from 300 to 900. High scores on this scale are good. The higher your score, the lower the risk for the lender (and therefore, the greater likelihood that you qualify for a loan).

Q: **Where can I learn more about credit scores and credit reporting?**
A: Industry Canada provides information on credit scores and credit reporting. You can visit their website at: [https://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02179.html](https://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02179.html)

Q: **What is overdraft?**
A: Some chequing accounts will let you go “into overdraft”. This means that the available balance in your account can be less than the amount you pay out from your account to conduct a transaction (such as a debit transaction). Your bank will allow the transaction to go through. Your account is in a negative position when it is in overdraft, and you will be required to pay interest on the overdraft amount until it has been paid back.

Q: **Where can I find more information about Financial Literacy?**
A: The Financial Consumer Agency of Canada (FCAC) helps to educate Canadians on financial literacy topics. You can go on their financial literacy website ([http://www.fcac-acfc.gc.ca/Eng/forConsumers/topics/Pages/home-accueil.aspx](http://www.fcac-acfc.gc.ca/Eng/forConsumers/topics/Pages/home-accueil.aspx)) to learn more.
**Resources**

**Canadian Federation of Students:**

**Credit Counselling Society:**
http://www.nomoredebts.org/cgi/page.cgi/article.html/Budgeting_Tips/Money_Management_Tips_for_Teens

**Financial Consumer Agency of Canada (FCAC)**
http://www.fcac-acfc.gc.ca/eng/Pages/home-accueil.aspx

**Investopedia:**

**Mortgage Calculator**

**Savings Goals Calculator**
Pro Bono Ontario

Pro Bono Ontario (PBO) develops and manages high quality programs that connect volunteer lawyers with Ontarians who cannot afford a lawyer. Wherever possible, PBO embeds our free legal services in front-line environments like courthouses, schools and hospitals – places frequented by people with legal issues who cannot afford to have their legal issues addressed.

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