

Financial Literacy Part Two

1. Banks and Credit Unions

Credit Unions

- Credit unions do not make a profit.
- They are owned and run by their members.
- The members have something in common: religious interest, ethnic interest, social interest, type of job, where they work or where they live.
- To open an account, you must first buy a share and become a member.
- Once you are a member, you can vote. You can also help make decisions about how the credit union is run.
- There is unlimited deposit insurance in B.C. by the CUDIC. This means that the money you deposit is safe.
- The provincial government has rules about how it can be run.



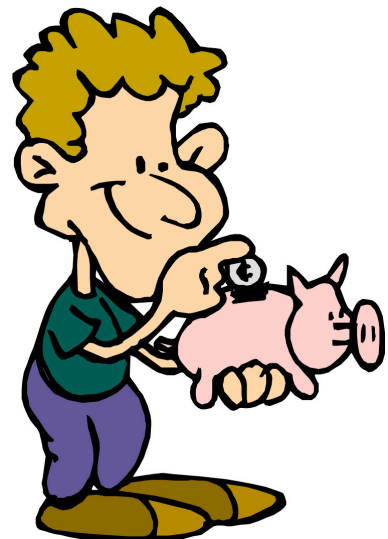
Banks

- Banks make a profit
- Banks are owned by shareholders. They buy shares on the stock market.
- You don't become a member to open an account.
- The deposit insurance covers up to \$100,000 through the CDIC.
- The federal government has rules about how it can be run through the Bank Act.
- There are 20 Canadian banks and 24 foreign banks in Canada.

2. Types of Accounts:

Savings

- This account is used to save money, mostly for short term needs.
- There are limits to the number of transactions in a month. Transactions are things like taking out money or paying bills. If you go over that limit, you have to pay a fee.



- The credit union or bank pays you interest on the amount you have saved in the account
- Different credit unions and banks pay a different amount of interest. Shop around for the best rate!
- Look for a high interest savings account with no minimum amount. Make sure they also have few or no fees.

Chequing

- This account often allows you to do many transactions.

Transactions are things like taking out money or paying bills. You can do this often. The cost is lower than a savings account.



- This account is meant to help you pay bills, write cheques and transfer money.
- You may or may not earn interest on the money in your account.
- Make sure you understand how the

interest charges work. Know how much it will cost you to use this account.

- With some credit unions or banks, you must have a minimum amount in your account each month. They will charge a fee if the amount goes below that amount. They will charge this even if the low balance is only for a day.

3. Interest

- Interest is the fee you pay to the credit union or bank if you borrow money. This is called “interest charged.”
- When you leave money in your account, the credit union or bank pays you interest. This is called “interest earned.”
- When you leave money in your account, the credit union or bank lends the money to other borrowers. That’s how they make a profit. They charge them a higher interest rate than they pay you.

Daily Interest

- Some accounts pay daily interest. This means they figure out the interest on the balance in your account every day. They pay it to you at the end of the month.
- Do you deposit and withdraw larger sums of money from your account each month? Then this account might be good for you. This way you earn a little more interest than a monthly interest account.

Monthly Interest

- Monthly interest is figured out on the last day of each month. They figure it out using only the lowest amount that was in the account that month.
- This is called your lowest monthly balance.
- This means if you took out most of the money during the month to pay bills, you would not earn much interest.



Annual Interest

- Annual interest is figured out and paid only once a year.
- It is common for term deposits.

4. Service Fees

Service fees are what you pay the credit union and banks to use a service they give you.

The kind of service fees a bank charges on accounts are:

- Account package fee. This means they charge you a set fee for that account. There may be a limited number of transactions. This means taking out money, paying bills and moving money to a different account.
- A transaction fee is charged for taking out money. It is also charged for paying bills or moving money to a different account.
- Non-sufficient funds (NSF) fee. This is charged if you don't have enough money in the account to cover the money you took out or the cheque you wrote.
- Overdraft fee. An overdraft lets you take out more money than you have in the account and pay it back later. You can also write a check for money than you have. This way your cheque will not be returned NSF. This fee is charged to protect you. It is also charged if you use the overdraft.
- There is a fee for printing another copy of your statement.

- There is a fee for ordering cheques.

Some banks offer no-fee banking as well. In some cases these are cases they are virtual banks. This means they don't have a building that you can go to. Everything is done over the phone or by the internet. If you don't mind banking with a virtual bank, this can be a way to keep your banking costs down.

If you have a regular bank account you may be able to keep your costs down. You can use an ATM (Automated Teller Machine), the telephone or the internet to pay your bills. You can do this instead of going to the branch. This helps the banks keep their staff costs down.

Many banks and credit unions give special discounts or free bank accounts to youth, students, seniors and the disabled.

Check your bank statement each month. Make sure there are no mistakes. Add up how much you are paying in fees. Even small fees can add up to a lot of money each month. It depends on how you use your account. If you decide that you are paying too much in fees, ask your bank how you can make the costs lower. You may also want to check out other banks and the fees they charge.

Compare Service Fees

You can check out the service fees before you decide which type of account or which bank you want. Go to Industry Canada's Financial Service Charges Calculator. You can find it at www.consumer.ic.gc.ca/bankfees. It will help you to put in your monthly transactions and figure out the fees. Then you can compare them to other banks and credit unions.

Government Cheques

You can cash a federal or provincial government cheque up to \$1,500 at any bank or credit union. They won't charge you to do this, even if you do not have an account there. You will need two pieces of ID to prove who you are.

5. Opening an Account

There are a lot of good reasons to have a bank account.

With a bank account you can have access to services. You can:

- Cash cheques for free
- Pay bills
- Have your paycheque or government payments deposited directly into your account
- Use the ATM (Automatic Banking Machine)
- Make a payment with a debit card
- Save money in a safe place while it earns interest

You can open a bank account in Canada even if you do not have a job. You don't have to have money to deposit. You can have a bad credit history because of bills that were not paid.

To open a bank account at a bank or credit union you will need two pieces of personal ID (identification).

You can use the following types of ID:

- A valid driver's license issued in Canada
- A valid Canadian passport

- A Certificate of Canadian Citizenship or a Certificate of Naturalization
- A Permanent Resident card or Citizenship and Immigration Canada Form
- A provincial health insurance card
- A Social Insurance Number card issued by the Government of Canada
- An Old Age Security card issued by the Government of Canada
- A certificate of Indian Status issued by the Government of Canada
- A birth certificate issued in Canada
- Other forms of ID may be accepted. Talk to the bank to find out.

A bank cannot refuse to open a basic savings account unless:

- They have reason to believe that the account will be used to do something illegal or to commit fraud. Fraud means that you are trying to cheat or trick others.
- You have a history of doing something illegal or committing fraud with a bank or credit union. This has to be within the seven years before you ask to open the account.

- The bank has good reason to believe that what you put on your application was not true.
- The bank believes that you are a risk to them or other customers.

If a bank will not open a basic account for you, ask them to put it in writing. If you think they have been unfair, you can make a complaint to the Financial Consumer Agency of Canada. You can call them toll free at 1-866-461-3222.



Opening an Account

Before you open an account decide what your needs are. Compare a number of different banks and credit unions. Think about the following when you choose an account:

- Where are the branches?
- How many branches do they have?
- What hours are they open?
- What are the service fees for both chequing and savings accounts?

- What are the interest rates on the savings account?
- Do you need a minimum balance to lower the fees or get more interest on the savings account?
- Are there hidden service charges?
- What does it cost for overdraft protection?

Use the chart below to compare two different banks or credit unions.

Compare their account options to decide what is best for you.

Chequing Account

Name of Bank		
Name of Account		
Minimum Balance		
Interest Rate %		
Monthly Service Fee		
# of Free Transactions		
Cost of More Transactions		
Additional Features?		

Savings Account

Name of Bank		
Name of Account		
Minimum Balance		
Interest Rate %		
Monthly Service Fee		
# of Free Transactions		
Cost of More Transactions		
Additional Features?		

6. Terms To Know

Hold

When you deposit a cheque into your account, you may have to wait until you can take out or use the money. This is called a “hold” on your cheque. This is to give the bank enough time to make sure the cheque is good. A bank often won’t have a “hold” period if you are a regular customer. They also won’t put a hold on a federal or provincial government cheque. Before you write a cheque, make sure there is enough money in the account. That way you won’t be charged the Non Sufficient Funds (NSF) fees.

Cheque Safety

Never sign a blank cheque. **Never** make a signed cheque payable to “cash” before you are ready to deposit it. If such a cheque is lost or stolen, the person who finds it will be able to cash it. **Never** lend anyone a cheque or deposit slip from your cheque book. **Never** sign the back of a cheque until you give it to the teller. If the cheque is lost or stolen, anyone could cash it. If a cheque is lost or stolen, let the bank know right away. You may want to put a stop payment on it. There is a fee for this service.

Account Statement

Your account statement is a record of all the money you put in or take out of your bank account. It is important to go over the statement as soon as you get it in the mail. Make sure that all the items are correct. Look at how much you are paying in service fees. If you find a mistake, let the bank know right away. The bank gives you about 30 days to report a mistake. After that time it is much harder to have a mistake corrected. They may charge you a fee to look for the records.

Balance Your Cheque Book

This is a great way to keep track of your money. Write your balance amount in your cheque book at the beginning of each month. Then write down the money you take out, the cheques you write and the amounts you pay with your debit card. Each time you write something down, subtract the amount from your balance. This way you will always know how much you have in the account. You will know how much you have to spend. This also makes it easier to compare what you have with the statement you get.



Direct Deposit and Pre-Authorized Payment

A direct deposit is a payment made to you that is put into your account for you. You do not have to take the cheque to the bank to deposit. This might be your pay cheque, government cheque, etc. You can use this money right away.

A pre-authorized payment plan means that you allow a certain amount of money to come out of your account on a certain date. This could be to pay bills like your car insurance, mortgage, loans, etc. This way you don't have to remember to pay them. You must make sure that you have enough money in your account to cover these payments. If not, you could end up with an NSF fee.

Debit Cards and ATMs (Automated Teller Machines)

Your debit card lets you use ATMs 24 hours a day. It lets you pay for things from your account. You do not need to have cash or a cheque.



Check with your bank or credit union for the maximum amount you can spend or take out of your account using your debit card. Never let anyone else use your

debit card! Never tell anyone your PIN number! Be creative when you choose your pin. Don't use your birth date, anniversary or address.

These are too easy for someone else to figure out.

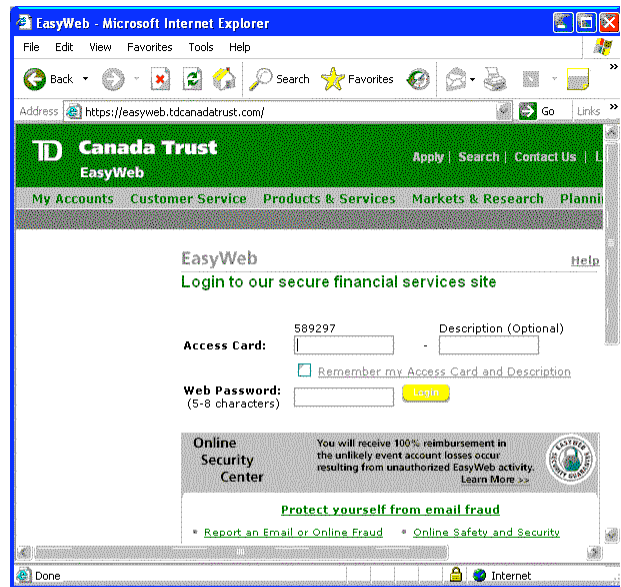
Telephone and Internet Banking

If you use telephone or internet banking, you can do it anytime.

You can do your banking from the comfort of your home. This may be a good way to save money on service fees. You can also keep close track of the money in your account. Stay safe while baking online. Always make sure you are on a secure site. The address of the site should start with

https:

Never answer an email that says it is from a bank. Banks don't send emails. Never link to a bank website through an email. This is a kind of online fraud. It is called "Phishing". They are trying to get your personal banking information. If you are worried about your account, call the bank yourself to ask.



Smart Electronic Banking

Electronic banking can be easy. It can help save you money. You must protect your information.

If you use another bank's ATM, you will be charged a service fee. This can be \$3.00 or more. If you belong to a credit union, you can take out money at any other credit union without paying a fee. Make sure that you feel safe using the ATM at night.

If you bank on the internet, always be sure that the address line has **https://**. The "s" means that you are on a secure line.

7. Complaints

Know your rights and complain so that you get what you need.

You can call or write to your bank or credit union if you have a problem. First make sure that you have all the papers you need. Tell them clearly what the problem is and what you want done. Have paper to keep notes. Write down the name of the person you talked to. Also write down the dates and times and what was said.

You will have a better chance to get what you want if you:

- Know the problem

- Are reasonable in what you are asking for
- Keep notes. Write down the name of the person you talked to.

Write the dates and time, and what was said.

- Are polite and stay calm
- Have your questions ready

Steps:

Bank Complaints

1. Speak to a customer service rep (representative)
2. Speak to the branch manager or area manager
3. Call or write to your bank's Ombudsman
4. Write to the Ombudsman for Banking Services and Investments
(OBSI)

Credit Union Complaints

1. Speak to a customer service rep (representative)
2. Speak to the branch manager
3. Call or write to the CEO

All banks have an ombudsman. An ombudsman is a person is a person who looks into complaints. They try to get a fair settlement. In this case it is between the bank and the customer.

- Ombudsman services are given free to bank customer
- You can contact your bank's ombudsman if you are not happy with a financial product or service
- If you are still not happy, then you can contact the Canadian Banking Ombudsman. This is the ombudsman for all member banks in Canada.

8. Investment Options

Guaranteed Investment Certificate (GIC)

This is a savings product sold by banks and credit unions. It is a safe way to invest your money. It is covered by deposit insurance.

- You have a guarantee about the rate of return.
- You must invest a minimum of \$100 – \$500.
- It has a time frame called a **term**. This is the amount of time you must leave the money in. This may be from 30 days to five years. So it is also called a term deposit.

- You may not get the money out until the term is over – it is locked in.
- Cashable GICs have more flexible terms. But they also have a lower interest rate. This means they pay less interest.
- The longer the term, most often the higher the interest rate.
- You can buy them at the bank or credit union.
- Suppose you have more than \$500 to save. You want to save it for more than a few months. A GIC may earn you more interest. Figure that out before investing.
- **Note:** The interest rates may change over time.

Example: \$500 balance

Type of account	Interest Rate per year	Interest Earned	Total per year (principal + interest)
Chequing account	0.05%	\$2.50	\$502.50
Savings account	1.0%	\$5.00	\$505.00
GIC	2.5%	\$12.50	\$512.50
High Interest Savings	3.75%	\$18.75	\$518.75

Bonds

A bond is an “IOU.” It is given to you by a company or a government that you loan money to. You do this in exchange for an interest rate that you agree upon.

- The bank or company borrows your money. They agree a set interest rate by a set date. You both agree to this.
- Usually the higher the interest rate, the riskier the bond.
- The interest may be paid monthly or annually. It may also be paid when the bond matures. This is when they pay back the loan.

Canada Savings Bonds

These are a Government of Canada product. You are lending money to the Canadian government.

- It is a safe and secure way to invest money.
- They give a guarantee for minimum interest rates.
- A Canada Savings Bond (CSB) can be cashed at any time. The interest rate is lower and it can vary.
- No interest is paid for the regular bond if it is cashed within the first three months after buying it.

- A Canada Premium Bond (CPB) can be cashed only once a year. It has a higher interest rate that is fixed.
- These can be in both regular and compound interest form (you earn interest on the interest already paid).
- There are no fees to buy these bonds. The bonds can be as low as \$100.
- You can buy them at a bank or credit union. You can also buy them online or by phone. You can buy them between April and October each year.
- For more information, see the Government of Canada website <http://www.csb.gc.ca/eng/bonds.html>

Stocks

This can be a more risky form of investing. When you buy stocks you become a part owner of a business. You have the right to vote for members of the board of directors.

- If the price for each share goes up, the value of your stock goes up.
- If the price of the share goes down, the value of your stock goes down.

	High	Low	Last	Ch
3	26	24 ¹³ / ₁₆	25 ¹ / ₄	+
0	25	23 ¹ / ₈	24 ³ / ₈	-
4	50 ³ / ₄	45 ³ / ₄	46 ³ / ₈	-
1	15 ¹¹ / ₁₆	14 ³ / ₄	15 ³ / ₁₆	+
1	139 ³ / ₄	127 ¹ / ₁₆	136 ¹ / ₈	+
6	21 ³ / ₄	21 ¹ / ₁₆	21 ¹ / ₄	+
7	26 ¹ / ₈	23	23 ¹¹ / ₁₆	-
5	109	102 ³ / ₄	103 ³ / ₁₆	-5
7	22 ⁷ / ₁₆	21 ³ / ₈	21 ¹ / ₁₆	+
3	42	40 ³ / ₈	40 ³ / ₄	-1
2	92 ⁹ / ₁₆	89 ³ / ₈	89 ¹³ / ₁₆	-1
9	49 ¹ / ₁₆	46 ³ / ₄	48 ¹ / ₂	+
4	50 ³ / ₄	48 ¹ / ₁₆	50 ³ / ₈	+

- You could lose all the money you invested. You could also lose any fees that you paid to buy the stocks.
- To make money buy when the value of the stock is low. Sell when the stock value is high.
- You may also get a share of the profits from the company.
- You can buy and sell most stocks daily on the stock market. You can buy and sell through brokers, investment house, banks and credit unions.
- Stocks can be very risky. You must know what you are doing. If you want to invest in stocks, find out more about your options. Educate yourself and get good advice.

Mutual Funds

If you invest in a mutual fund, you are handing over your money to a fund manager. He/She will combine with other people's money.

Then she/he will invest it in a variety of stocks and bonds.

- Mutual funds can be a better option if you do not feel you can choose stocks and bonds on your own.
- Funds have different levels of risk. They have different levels of return (profit). They are also different in how they pay investors.

- There are many different levels of fees for mutual funds. Find out about these before you invest. They may lower your profit.

Registered Retirement Savings Plan (RRSPs)

This is a special type of account. You can invest your money in it. It is registered with the Canadian Government. It can help you save for your retirement. The RRSP is not one kind of investment. It is an account that holds the kinds of investments you choose. These can be savings accounts, GICs or stocks and bonds.

- There is a tax credit. What you put in an RRSP can be taken off the taxes you pay. You may not have to pay any taxes. It depends on how much you put in.
- Your income tax rate may be 15%. Then every \$100 you put in an RRSP will save you about \$15 in taxes.
- The money you earn in interest is not taxed until you take it out. This helps your savings to grow faster.
- You will pay taxes on the money in your RRSP when you take it out. But you may be making less money. Then you won't have to pay as much in taxes.

- You can put money in your RRSP until you turn 71. You can put up to 18% of you earned income into an RRSP. The maximum amount each year is \$18,000.
- After you do your taxes, Revenue Canada will send you a Notice of Assessment. Among other things, this will tell you how much you can put into your RRSP each year.
- The banks have ads for RRSPs around tax time. But you can out money into an RRSP all year long.
- If you are on a low income then you may not pay much tax, if any. Then an RRSP may not be for you.
- Get advice from someone at your bank or credit union before you open an RRSP account.

Registered Educational Savings Plan

The government of Canada tries to help people save for a child's education. They can out money into an RESP. The money is held in the account for the child. Parents and grandparents are the ones that usually put money into an RESP.



There are three basic kinds of plans, individual, family and group plans.

Individual plans are for one person. The money is for them. The amounts of money that can be put in are flexible. The person who puts the money in gets to choose how the money is invested.

Family plans are just like an individual plan. The only difference is that they are for more than one child in a family. They can be related by blood or adopted. One or more of the children may not go on to higher education. Then the money can be used for the other children.

Group plans are mostly sold through RESP plan dealers and private advisors. The money is put together with that of other people you are not related to. You do not choose how the money is invested. Your child may not qualify for the funds when they get older. Then the money goes to others in the plan. When you start this plan it is a contract. You can not stop putting money in until the child is 17 years old. This is a contract. Be clear about what you are agreeing to before you sign.

To set up an RESP you will need to have a birth certificate and a Social Insurance Number (SIN) for your child. You can contact your local Service Canada office to get a SIN for your child.

There is no tax break for money you put into an RESP. It is not like an RRSP. It is only the interest that will be taxed when the child takes out the money from the plan. They don't pay taxes on the amount that was put into it. Chances are they won't have to pay much if any taxes. They will be students and their income will be low.

Get advice to set up the RESP. It is a good idea to shop around. Speak to two or three RESP providers before you decide what is best for your family. You can start at your bank or credit union.

Canada Learning Bond (CLB)

Children born after December 31, 2003 can get a grant. The grant is for \$500. To get this grant, you must open an RESP. If your family income is low, you might be getting the National Child Tax Benefit. Then your child's RESP will get an extra \$100 each year. This would be for a maximum of 15 years. This adds up to \$2000 plus interest. Over 15 years, it could grow into over \$3000. Ask your RESP provider to apply for this grant for you.

Canada Education Savings Grant (CESG)

If you are able to put money into your child's RESP the Canadian Government will add to that. They will match 20% on the first \$2000 you put in, The maximum is \$500 a year. The maximum in a lifetime is \$7200. If your family has a low income and you get the National Child Tax Benefit, they will match another 30-40% on the first \$500. This means they would add another \$150-\$200. Ask your RESP provider to apply for this grant for you.

Tax Free Savings Account (TFSA)

This is a brand new kind of savings tool in 2009!

- For Canadians 18 or older.
- Save a maximum of \$5000 per year into a TFSA.
- You can invest in a savings account, mutual funds, etc. It depends what your bank or credit union is offering.
- You do not save on your taxes up front.
- Your investment income will not be taxed. This means you will not be taxed on the interest you make. The money will be able to grow tax free. When you take it out, you will not pay taxes.
- You can take the money out any time for any purpose.

- What you don't put in one year can be carried forward to the next year. You can put the money in at that time. That means if you only put in \$4000 one year, the next year you can put in \$6000.
- If you take out some money, you can put it back. You will still have the same room to put money in.
- It does not affect your other tax benefits.
- For more information, please see

<http://www.budget.gc.ca/2008/pdf/pamphlet-depliant2-eng.pdf>

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