Prosper Canada

CENTRE FOR FINANCIAL LITERACY

Financial Literacy

Saving

Setting savings goals

Goal setting steps

1. Define a couple of concrete goals for the medium term (this year) or longer term (beyond a year). If you have a family, discuss your goals so that you can work together to achieve them.
2. Research options. Shop around and talk to other people who have made a similar purchase. Are there any other costs involved?
3. Decide when to achieve the goal. That is your “timeframe”.
4. Figure out how much to save each month. Use the chart below.
5. ‘Reality check’. Can you afford to save this amount? If not make adjustments. You may need to increase your savings time frame. Or, look for ways to decrease your monthly expenses or increase your income. You might also have to decide which goal is more important to you and plan to save for that first.
6. Set up system. Pay yourself first with an automatic transfer to a savings account, put all your change in a jar or round up your debit card purchases and have the bank deposit into a savings account. Find a system that works for you.
7. Write it down. Make a personal commitment toward saving for your goal.
8. Problem solving. Think about what might get in the way of saving for your goal. Use the chart to write down the possible problems and how you might solve them.

Goal	**Cost**	**Time frame**	**Monthly savings**
		Total monthly savings needed	

My personal commitment:	
I will save $__________________ a month toward my goals.	
What might get in the way of saving?	Possible solutions

Module 5 - Saving **ACTIVITY SHEET 5-2**

Needs and wants

List some of the things you have spent money on in the last two weeks.

Which items are needs and which are wants?

Item	Need	Want

Q: Was it clear which items were needs and which were wants? Did all group members agree? If not, which items were you unsure about?

Q: Has your perspective on needs and wants changed in any way? If so, how?

Module 5 - Saving

ACTIVITY SHEET 5-3

Finding money

Use this chart to list some of the things that you buy a lot. Note how often you buy them in a month. Put down how much they usually cost ("average price"). Then figure out how much you spend on them in a month.

Here are some examples of things that people often buy:

- Public transit fare or parking
- Magazines and newspapers
- Renting movies
- Long distance calls
- Junk food, snack food, meals out
- Gas
- Coffee
- Downloading songs and videos
- Clothes or personal items
- Cigarettes and alcohol

Things I buy often	How often I buy them	Average price	Cost per month
		Total	

How to convert to a monthly cost:

If amount is:	Then:
Weekly	Multiply by 4.33
Every two weeks	Multiply by 26 and then divide by 12
Twice a month	Multiply by 2
Four times a year	Divide by 3
Twice a year	Divide by 6
Once a year	Divide by 12

Module 5 - Saving **HANDOUT 5-4**

Compound interest

Interest:

- When we put our money in a savings account, we are lending our money to the bank. The bank pays us interest for the use of our money.
- Interest is a percentage of the money, usually based on a yearly rate.

Simple interest:

- The bank pays the same amount of interest every year, as a percentage of the money we put in.

Compound interest:

- The amount of interest we earn grows each year because the bank pays interest on what we put in, plus the interest we earned. Of course, it grows even faster if you keep putting more money in!
- Compound interest can make a big difference to our savings over the long term. The earlier we start saving, the more compound interest helps our money grow. A little bit can turn into a lot!

Examples:

Amount saved per month	Amount saved after 1 year	Compound interest rate	Total saved in 10 years	Total interest earned in 10 years	Total savings in 10 years (savings + interest)
$10.00	$120.00	2%	$1,200.00	$129.41	$1,339.41
$20.00	$240.00	2%	$2,400.00	$258.82	$2,678.82
$50.00	$600.00	2%	$6,000.00	$647.04	$6,697.04
$100.00	$1,200.00	2%	$12,000.00	$1,294.09	$13,394.09
$200.00	$2,400.00	2%	$24,000.00	$2,588.17	$26,788.17

*used the compound interest calculator on the Investor Education Fund website
www.getsmarteraboutmoney.ca

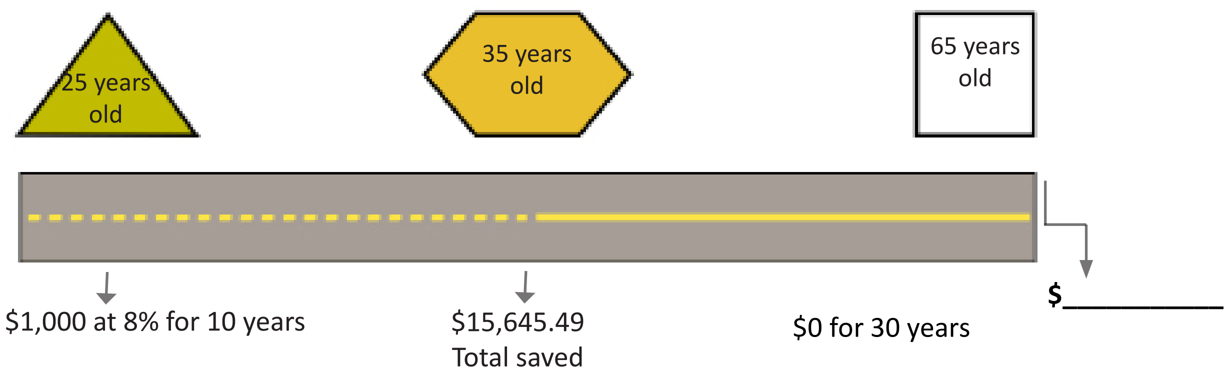
Christine and Aparna

- Christine started saving at age 25. She saved $1,000 every year for 10 years. She earned 8% compound interest. At 35, she stopped saving. But her deposit kept collecting compound interest for 30 years, until she retired at age 65.
- Aparna started saving at age 35. She saved $1,000 every year for 30 years. She earned 8% compound interest. She kept on saving until she retired at age 65.

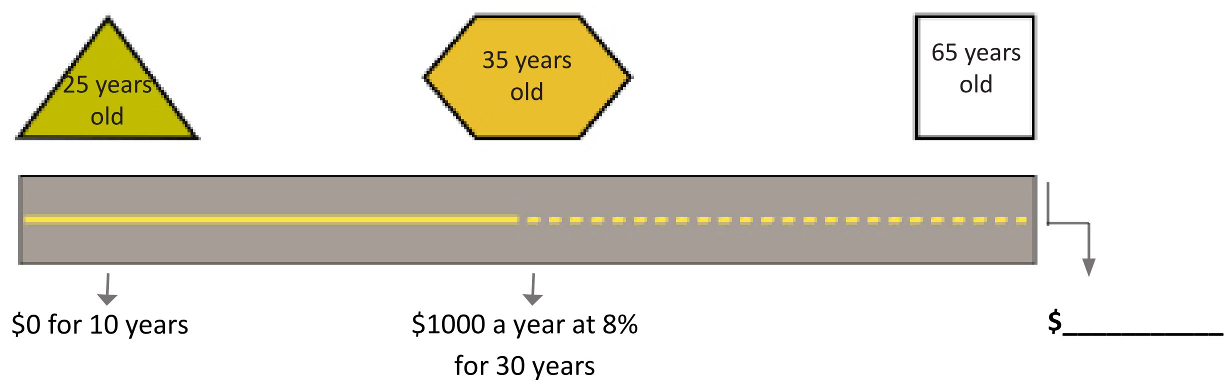
Q: Who do you think will have more money at age 65?

1. Christine
2. Aparna
3. Both Christine and Aparna have the same amount

Christine:



Aparna:



(Assumptions: Interest compunded annually; 1% inflation rate)
Calculations: www.calculator.net

Module 5 - Saving **HANDOUT 5-6**

Savings tools (basic)

High interest savings account: This is a type of deposit account. The bank pays you interest on your deposits. The rate of interest changes (variable rate interest). The interest is slightly higher than a regular savings account. This is a very safe kind of account as it is covered by deposit insurance. You could use it to save money for the short, medium or long term. You can withdraw this money whenever you like. There may be fees for withdrawing money. There may also be a required minimum deposit.

Guaranteed Investment Certificate (GIC): This is another very safe type of deposit account. Your money is 'locked in' for a length of time called a term. The term can range from 30 days to five years. The longer terms often come with higher interest rates. At the end of the term, we say the money "matures". Then you can withdraw it. You could use this to save for something medium-term or long-term. You would plan it so that the GIC matures before you need the money. GICs require a minimum deposit of $100 to $500. They are covered by deposit insurance.

Bonds: This is a type of investment. It means that you lend your money to a government or a corporation. They pay you interest on your loan over a period of time called a term. When the term is over, you get all of your money back. Government bonds in Canada are very safe. You can buy Canada Savings Bonds from a financial institution in the fall . Corporate bonds hold some risk. You could use bonds to save for medium or long-term goals. The safer the bond, the lower the rate of return.

Stocks: This is a type of investment. You buy shares in a business that is publicly traded on the stock market. This can be very risky, because you can lose all of your investment. Some people buy stocks to try to make money fast. It is less risky to hold onto stocks for medium and long-term savings goals.

Mutual fund: This is a type of investment tool. You invest your money, along with many other investors, into a "pooled" fund. The fund manager buys a range of things such as stocks and bonds. Mutual funds all have different levels of risk. They also have different rates of return -- (how much money you make from the investment). Mutual funds have fees, and these reduce your return. Mutual funds are best used for long term savings goals. You can only buy into a mutual fund through a licensed dealer, such as a bank or financial advisor. They are not covered by deposit insurance.

Registered Retirement Savings Plan (RRSP): This is a way of saving on taxes while you save for retirement. When you put money into an RRSP, you can invest it as you choose, in savings accounts, GICs, stocks, and so on. This is a very useful way to save if you are working and paying taxes. It is not as useful if you are living on a very low income or collecting social assistance. You can open an RRSP at a bank, credit union, or investment management company.

Registered Education Savings Plan (RESP): This is a way to save for your child's education after high school. The government adds money to the money you save. This is called the Canada Education Savings Grant. You can invest the money in the RESP as you choose, in savings accounts, GICs, and so on. You can open an RESP at your bank or a company that handles RESPs. Watch out for companies that want you to sign a contract requiring you to make monthly payments into an RESP.

The Canada Learning Bond: This is a government benefit for low-income families. It helps you to save for your child's education after high school. If you have a child born January 1, 2004 or later, and if you are getting the National Child Benefit Supplement, you can apply for $500 to open an RESP. You do not need to deposit any of your own money. Each year that your child qualifies for the National Child Benefit Supplement, the government will put another $100 in the RESP. The limit is $1500. It ends when your child turns 17.

Tax-Free Savings Account (TFSA): This is a way of saving and investing money without having to pay tax on the interest you earn. You can open a TFSA at your bank if you are 18 or older, a Canadian resident, and have a Social Insurance Number. There are rules about how much you can put into the account in a year. You can invest the money in the TFSA as you choose, in savings accounts, GICs, and so on.

The Registered Disability Savings Account (RDSP): is a savings plan available only to people who qualify for the Federal government disability tax credit. It is a long term savings plan to ensure savings for a disabled person later in life.

Savings Tools (detailed)

High interest savings account

This is a type of deposit account. The bank pays you interest. The rate changes with the prime rate set by the bank. This is called a variable rate of interest.

Right now, the interest rate on a basic savings account is around .02%. The interest rate on a high interest savings account can be 2%, which is 100 times larger.

There may be fees for withdrawing money. There may also be a required minimum deposit.

This is a very safe way to save, and is covered by deposit insurance. It is best used for short to medium-term investments.

Guaranteed Investment Certificate (GIC)

This is another very safe type of deposit account. Your money is 'locked in' for a length of time called a term. The term can range from 30 days to five years. The longer terms often come with higher interest rates.

The interest rate might be fixed or variable but most commonly provides a guaranteed interest rate for the life of the term.

At the end of the term, we say the money "matures". Then you can withdraw it. You could use this to save for something medium-term or long-term. You would plan it so that the GIC matures before you need the money.

GICs require a minimum deposit of $100 to $500. They are covered by deposit insurance.

Bonds

This is a type of investment. It means that you lend your money to a government or a corporation. They pay you interest on your loan over a period of time called a term. When the term is over, you get all of your money back.

Government bonds in Canada are very safe. You can buy Canada Savings Bonds from a financial institution in the fall. In some workplaces, you can buy them through a payroll deduction.

Corporate bonds hold some risk. They are only as secure as the corporation who issues them. You need to re-search them and get some advice from a financial professional. The safer the bond, the lower the rate of return.

There is a minimum investment required to buy bonds. You could use bonds to save for medium or long-term goals

Stocks

This is a type of investment. You buy shares or 'stock' in a company that is publicly traded on the stock market. You make money from stocks in two different ways:

1. The value of shares goes up and down. Their value is affected by the health of the company, and by what is going on in the stock market and the economy. You can make money by selling the shares for more than you paid for them. The money you make is called a capital gain.
2. You can receive a small portion of company's profits. This is called a dividend.

Buying stocks can be very risky, because there is a chance that you will lose all of your investment. Stocks are not covered by deposit insurance. The greater the risk, the higher the potential profit.

You pay a fee to a broker to buy and sell shares. Stocks can be used for short, medium, or long-term investments.

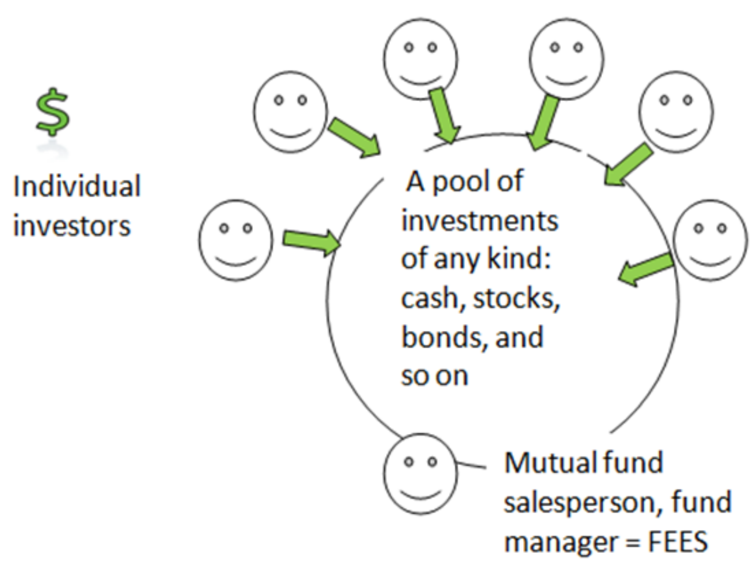
Mutual funds

A mutual fund is a type of investment tool. You invest your money, along with many other investors, into a "pooled" fund. The fund's manager buys a range of things such as stock and bonds.

Mutual funds have different levels of risk. They also have different rates of return -- how much money you make from the investment. You choose what fund you want to invest in depending on its rate of return, risk level, and fees.

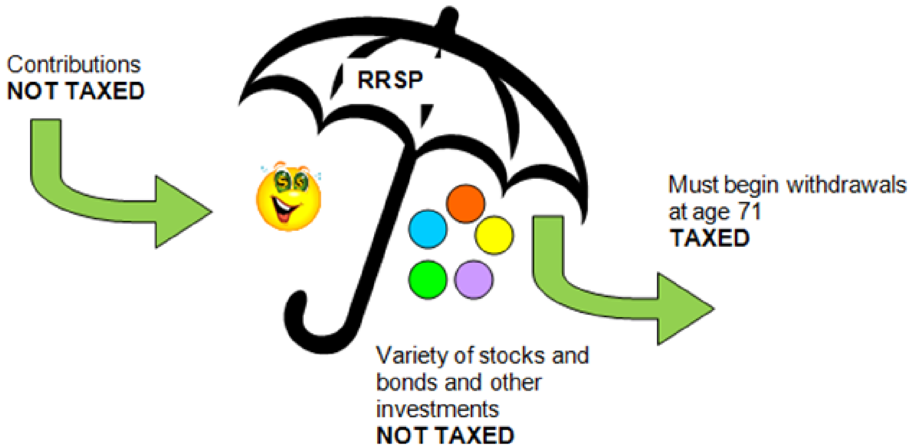
You can only buy into a mutual fund through a licensed dealer. Mutual funds have fees that can be quite complex. Fees reduce the amount of your return.

Mutual funds are not covered by deposit insurance. They are best used for long-term investments.



Registered Retirement Savings Plan (RRSP)

This is a way of saving on taxes while you save for retirement. When you put money into an RRSP, you can invest it as you choose, in savings accounts, GICs, stocks, and so on.



This is a very useful way to save if you are working and paying taxes. It is not as useful if you are living on a very low income or collecting social assistance.

You can open an RRSP at at a bank, credit union, or investment management company. You need a Social Insurance Number (SIN) and you must file a tax return.

There is a limit to how much you can contribute to your RRSP each year. The limit depends on your income. If you do not use all of your contribution room, it carries forward to future years. When you get your Notice of Assessment after you file your taxes, it will tell you how much contribution room you have.

The money you put in an RRSP and the interest you earn is not taxed until you withdraw it in the future. That means that when you file your taxes, your RRSP contribution lowers your taxable income for that year. That reduces the taxes you must pay, and you might even get a refund.

However, you must pay tax on money that you take out of the RRSP. You must begin withdrawals at age 71. You pay taxes on both the savings and the growth of the money when you withdraw it. If you take money out before you turn 71, the government takes 20% of what you withdraw right away. This is called a withholding tax. There could be other taxes as well.

You can withdraw some money from an RRSP without paying taxes right away, to either buy a home or go back to school:

- Home Buyers Plan: You can use up to $25,000 from your RRSP as a down payment on a qualified home purchase. You must put the money back into your RRSP at a certain rate each year, and replace all of it within 15 years. If you don’t, it gets taxed.
- Lifelong Learning Plan: You can use up to $10,000 a year and up to $20,000 from your RRSP to pay for your own or your spouse’s education. You must put the money back into your RRSP at a certain rate each year, and replace all of it within 10 years. If you don’t, it gets taxed.

If you are working and paying taxes, RRSPs are a good way to save for retirement. These savings add to what you receive from the Canada or Quebec Pension Plan and Old Age Security. Some jobs come with pension plans, but most people have to pay for at least some of their retirement on their own.

For most of us, our income goes down when we retire. If you put money into RRSPs during your higher earning years, you save on taxes, because you pay tax based on your lower income after you retire.

Registered Education Savings Plan (RESP)

University and college are expensive and tuition costs are going up. A four-year college or university program can cost between $30,000 and $60,000. Saving early for your child's education can make these costs easier to manage.

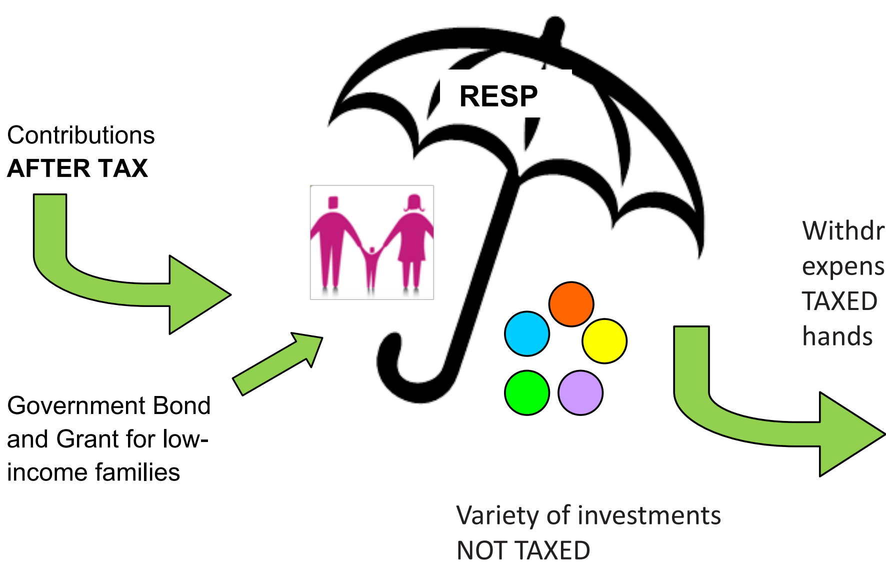
A Registered Education Savings Plan is a way to save for your child's or grandchild's education after high school. The government adds money to the money you save, so it grows faster.

You can invest the money in the RESP as you choose, in savings accounts, GICs, and so on. You can open an RESP through a bank, credit union, life insurance company, investment company, or scholarship trust company. You are called the subscriber and your child or grandchild is the beneficiary.

The beneficiary must be a Canadian citizen or permanent resident and must have a Social Insurance Number (SIN).

The money in an RESP grows tax free until it is withdrawn. Then the money is taxed in the hands of the student, who will likely pay little or no tax, because their income is low while in school.

Banks, financial institutions, and investment companies will let you make choices about how to save money in the plan. Scholarship trust companies do not offer the same range of investment choices. Also, their fees can be complex and expensive, with many extra rules and restrictions. Be careful about signing contracts that require monthly payments into an RESP.



You must use all the funds in the RESP funds or close the plan within 35 years of opening it. If you could not use the funds for education, you can keep the contributions you made. The government will tax the growth portion of the money when it is withdrawn. You must return any grant or bond amounts.

The Canada Education Savings Grant

When you open an RESP account and put in money, the government matches some of it in the form of a grant. The amount depends on your family income. It can be from 20% to 40% of what you put in, up to a yearly limit of $500. The grants end when your child turns 17. The total amount of grants you can get is $7,200.

The Canada Learning Bond

This is a government benefit for low-income families. It helps you to save for your child's education after high school. If you have a child born January 1, 2004 or later, and if you are getting the National Child Benefit Supplement, you can apply for $500 to open an RESP. You do not need to deposit any of your own money. Each year that your child qualifies for the National Child Benefit Supplement, the government will put another $100 in the RESP. The limit is $1,500. It ends when your child turns 17.

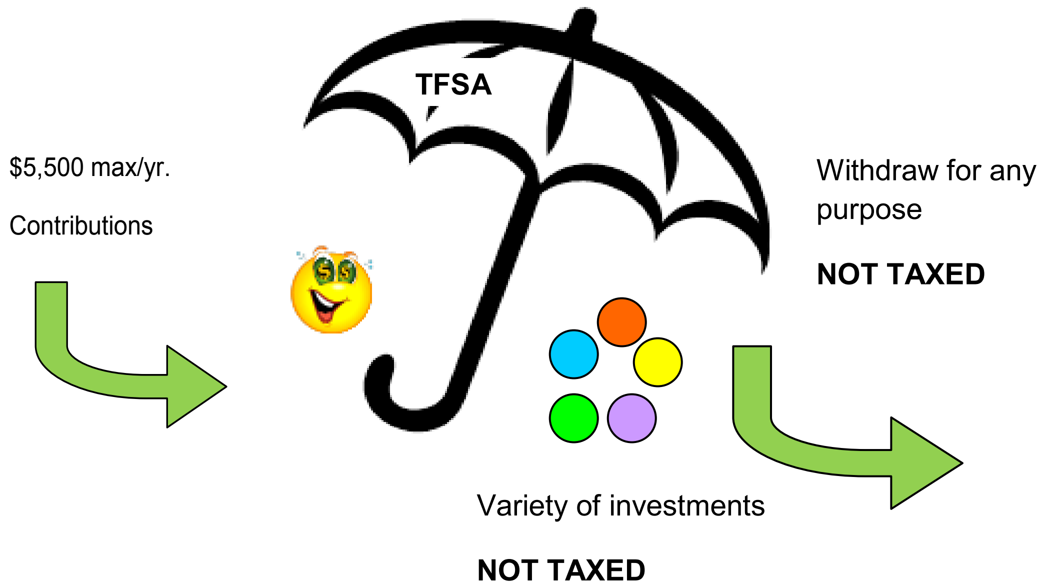
Tax-Free Savings Account (TFSA)

This is a way of saving and investing money without having to pay tax on the money you earn from interest or investing. You can open a TFSA at your bank if you are 18 or older, a Canadian resident, and have a Social Insurance Number.

There are rules about how much you can put into the account in a year. This is called contribution room. Your contribution room increases by $5,500 every year. If you do not use your contribution room, you do not lose it. Unused contribution room carries forward into the future.

When you take money out of your TFSA, you can put it back the next year. It does not affect your contribution room.

Within your TFSA, you can invest your money in a range of ways, such as GICs, stocks, and bonds.



TFSA withdrawals will not affect the amount of money lower income earners receive from federal government benefit programs, including the Canada Child Tax Benefit and the Guaranteed Income Supplement.

This is a very flexible tool for medium to long term savings goals. It can reduce taxes on our savings and investment income. It is also another way to save for retirement.

The Registered Disability Savings Account (RDSP)

This is a savings plan available only to people who qualify for the federal government disability tax credit. It is a long term savings plan to ensure savings for a disabled person later in life. It offers a bond portion for low-income individuals and a matching grant as well for contributions you chose to make.

Module 5 - Saving **ACTIVITY SHEET 5-8**

Savings tools quiz

1. My primary goal is saving for my child's education. A good savings tool for me to use is an ____________________.

2. You can withdraw money from your RRSP without being taxed for two reasons:

   a) ______________________

   b) ______________________

3. I want to save money to start my own business. A good savings tool for me to use would be a ______________________.

4. The savings tool that the Government of Canada contributes 20-40% in grants to is called an ______________________.

5. The most I can save in a TFSA each year is $__________________.

6. You can open an ______________________ and you will not be taxed on the contributions you make or the interest you earn until you withdraw the money.

Module 5 - Saving **ACTIVITY SHEET 5-9**

Goal setting

Review the activities you did early in this session to help you get ideas about savings goals. Also, think about other goals you can set, like doing more research or making an appointment with a financial advisor.

Example:

Goal: Create and use a budger system	When? December 2017
Tasks: • Research options and costs • Decide on what kind of computer and set a realistic monthly savings goal • Go to the bank to set up a high interest savings account to deposit money each month	 On Saturday Next Monday Next Wednesday

1. Goal:	
Tasks:	**When?**

2. Goal:	
Tasks:	**When?**

Resources

Canadian Foundation for Economic Education *www.cfee.org/*
This website has many resources on saving and investment tools and how to choose them.

The Investor Education Fund *www.getsmarteraboutmoney.ca*
This site is full of resources to learn more about money management and investing.

Investopedia *www.investopedia.com*
This site is a very complete source of information about investing. It has a 'stock simulator'. You can use it to pretend to play on the market without losing any money (or gaining any either).

CanLearn *www.canlearn.ca*
This is a Government of Canada website. It tells you all about saving for education using RESPs.

Service Canada *www.servicecanada.gc.ca*
This is a full website about federal government programs and services. Here you can get information on RESPs, RRSPs, and TFSAs.

Tax Free Savings Account *www.tfsa.gc.ca*
This Government of Canada website is all about the TFSA.

Tax Tips *www.taxtips.ca*
This website has a wealth of information on how RRSPs, RESPs, and TFSAs affect taxes.

PLAN: RDSP *http://www.rdsp.com/*
This is the most complete website on RDSPs. It has a step-by-step guide. There is an RDSP calculator that shows how much can be saved in the long term.

RESP http://www.startmyresp.ca/ProsperCanada
This online application will make it easier for participants to sign up for the Canada Learning Bond. Smart Saver has teamed up with RESP providers and will help people start an RESP with $0: no enrolment fee, no annual fee and no contribution required.

Glossary

Bond: A kind of investment where you lend your money to a government or a company.

Canada Savings Bond (CSB): A bond issued by the government through the Bank of Canada. When it matures, it can be cashed at most Canadian financial institutions.

Compound interest: When the bank pays interest into the savings account after a year, and then starts paying interest on the money we put in plus the interest we earned. With compound interest, the interest we earn grows every year, even if we do not make more deposits.

Earnings: This means money earned from work, but it also means what you earn on savings and investments.

Guaranteed Investment Certificate (GIC): A type of investment. You deposit money with a financial institution for a fixed period of time and get a set rate of interest at the end of that period.

Interest: The amount of money you get paid when you lend a financial institution your money to invest.

Investment: A way to put your money to work so that it has a chance to increase in value.

Investor: Someone who makes an investment.

Maturity date: The date on which a bond, GIC, or term deposit is due to be paid out.

Mutual fund: A pool of money that is managed for a large number of investors by a professional money or fund manager.

Need: Something you must have to live.

Registered Disability Savings Account (RDSP): A special savings plan for people with disabilities. It allows people to put money aside for a disabled person to use in the future. The government may also add money to the plan.

Registered Education Savings Plan (RESP): A special savings plan that allows people to put money aside for a child's education after high school. The government may also add money to the plan.

Registered Retirement Savings Plan (RRSP): A special savings plan for people who are working and paying taxes. It helps you to reduce your taxes and save for old age at the same time.

Return: The profit you make on an investment through interest, dividends or increased value of the investment.

Risk: The risk in some forms of investing is that you might lose money. Some investments have very low risk and some have higher risk.

Risk tolerance: How willing or comfortable you are to risk losing your money on an investment.

Savings: Money you have not spent or that you set aside for a special purpose.

Shares: This is what you buy if you invest in the stock market. It means that you own a small part of the company. If the company does well, your shares increase in value.

Shareholder: Someone who owns shares in a company.

Simple interest: Interest that is paid only on the amount you deposit. Simple interest does not pay interest on the money that your deposit earns over time (See compound interest).

Stocks: Shares in a company. What you buy if you invest in the stock market (See shares).

Tax-Free Savings Account (TFSA) A special type of savings plan. You do not have to pay taxes on the money that your savings and investments earn in the account.

Term: A set period of time.

Term deposit: A type of deposit with a financial institution that you earn interest on. You get your money plus the interest at the end of the set term (See Guaranteed Income Certificate).

Want: Something you desire (but do not need to live).