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Financial Literacy
FOR NEW CANADIANS

New Canadians have many things to learn upon arrival in Canada — housing, the education system, the labour market and Canada's official languages, all while adjusting to a new society and climate.

Often overlooked is the need to understand the Canadian financial system.

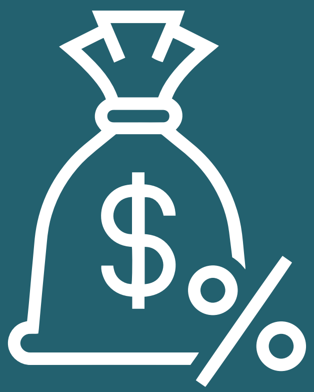
What is financial literacy and why does it matter?

Quite simply, financial literacy is understanding how to manage your money and how to use the Canadian financial system. Financial literacy is important so that you can understand the systems in your new country, avoid financial mistakes, and take control of your money before it controls you.

Banking in Canada

The five largest banks in Canada are Bank of Montreal (BMO), TD Bank (TD), Scotia Bank, Royal Bank (RBC) and the Canadian Imperial Bank of Commerce (CIBC). There are other smaller banks that you can also use. Some banks only offer online services such as Tangerine and Simplii. These banks do not have physical locations. Credit Unions are another popular banking option and include large credit unions such as Meridian, Desjardins, and Alterna. Some credit unions serve large areas of a province while others may only have a few branches in a specific area. You can compare the services offered and decide which bank or credit union is right for you.

- Most Canadians have a chequing account with a bank or credit union. A chequing account is an account you can use for daily banking, to deposit and withdraw the money you need for living expenses such as rent and groceries. Banks and credit unions offer similar products such as chequing accounts, savings accounts, credit cards, and investments.
- Savings accounts are not designed for daily banking but are accounts to keep money for future use. Financial institutions also offer products where you can invest money such as Guaranteed Investment Certificates and mutual funds.



TAXES

Taxes are collected in several different ways in Canada. Most purchases have tax added to them. This means the price you see when the item is on the shelf is not the price you pay!

In Ontario, the Harmonized Sales Tax (HST) is a combined tax collected on behalf of the Government of Canada and the Government of Ontario. HST adds 13% to most purchases. Some items, such as basic groceries, are tax exempt.

Income tax is deducted from your paycheque before you receive it. Your employer submits income taxes to the Canada Revenue Agency. The amount of income tax you pay depends on how much you make. Higher income earners pay a higher percentage of taxes from their paycheques. Taxes are used to pay for services such as schools and health care.

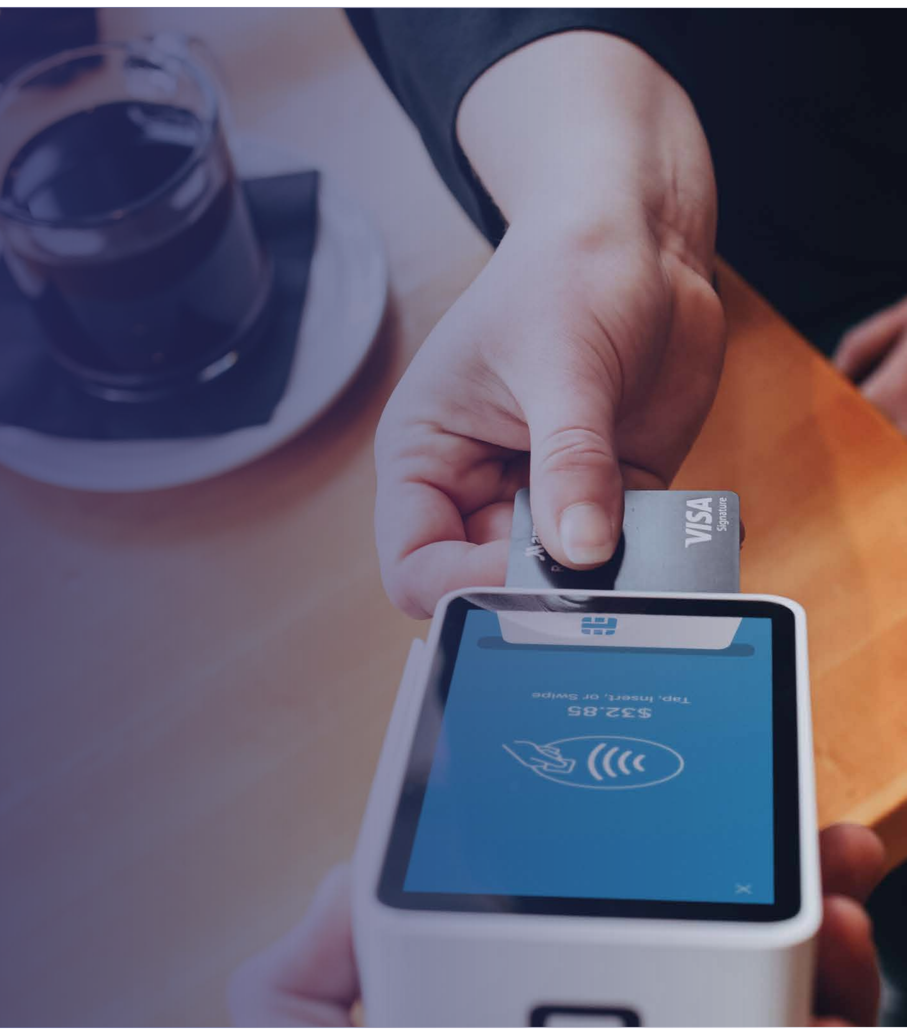
- Employees in Canada also have money deducted from their paycheques to pay into Employment Insurance (EI) and the Canada Pension Plan (CPP). EI is a program to help people with a temporary income if they lose their job. CPP is a mandatory savings program for retirement.
- Canadians file an “income tax return” to the Canada Revenue Agency each year by April 30th. This is a process that confirms you have paid the correct amount of income tax each year. If you have paid too much, you will receive a refund. If you have not paid enough, you will have to make an additional payment.

MAKING PURCHASES

Canada is one of the most “cashless” societies in the world!

Approximately 80% of Canadians prefer to make payments with a debit card or credit card. A debit card allows you to make a purchase and have the funds taken directly from your chequing account. Most chequing accounts come with a free debit card you can use to make purchases. A credit card is a card used for payment, the credit card company pays the merchant, and you must repay the credit card company.

Debit cards can also be used at Automated Teller Machines (ATM) to withdraw money. Some ATM’s also allow you to deposit cheques and money to your account and make bill payments.



Credit

Banks, credit unions, and other financial institutions offer many credit products.

Credit is a way of borrowing money to make a purchase based on the agreement that you will pay it back later.

Interest is the fee charged by the financial institution to loan the money to you.

HERE ARE SOME EXAMPLES OF COMMON CREDIT PRODUCTS:

MORTGAGE

A loan to purchase a house, usually paid back over several years (20-30 years). You are charged interest until the mortgage is paid in full.

CAR LOAN

A loan to purchase a car which may be offered by a bank or a car maker. Usually paid back over a period of 4-7 years. You are charged interest until the loan is paid in full.

LINE OF CREDIT

A loan account set up with a bank or credit union that allows you to borrow money when you need it. You are charged interest on the amount you borrowed until you repay the full amount.

CREDIT CARD

A card you can use to make purchases in stores and online, often known as a Visa or Mastercard. You receive a bill each month from the issuing financial institution. Typically, if you pay the bill in full, you do not pay interest. But if you don't pay the full amount, you will be charged interest.

Caution: the bill will have a "minimum payment" required. If you only pay that amount, it can take years to pay off even a small amount of money owed. Interest continues to grow, and if you keep using the card each month to make purchases, it can be very hard to pay it off. **Credit cards can contribute to financial problems if not used carefully.**

Many credit cards are "free" to use as long as you pay the bill in full each month.

However, some cards will charge an annual fee and come with extra benefits, so be careful to read all of the details before applying for a credit card. **Many credit cards offer rewards such as cash back or points you can save up towards travel or products. Be sure to understand all the costs involved before you apply for a card.**

CREDIT FOR NEW CANADIANS

Financial institutions will check your financial history before giving you a credit card or a loan. They use a "credit rating". As someone new to Canada, you may not have a credit rating. Speak with your bank or credit union about the options you have to qualify for a credit product while you establish a credit rating in Canada.

There are two credit rating companies in Canada — Equifax and Transunion. As soon as you get a credit product, one or both companies start a credit file about your credit history.
Credit can be a very useful tool. Most Canadians could not buy a home without borrowing money through a mortgage. Credit can also become a problem if not used carefully. Remember, credit is not income, and it must be paid back.

PAY DAY LOANS:

- Payday loans are very short loans that allow you to borrow money which must be repaid in less than 62 days. These loans are typically offered with very high interest rates and extra fees added. **A small payday loan can quickly grow into an amount you cannot pay back. It is best to avoid these types of loans!**

INTEREST:

Interest is the cost of borrowing money. A lender will charge extra money (interest) for the privilege of borrowing.

There are 2 kinds of interest: simple and compound.

- SIMPLE
  This is a set interest rate based on the principal amount borrowed.
  For ex: if you borrow $500 and the simple interest is 19%.The total amount that would need to be paid back would be $595.00.

- COMPOUND
  This is the most common type of interest. You will be charged interest on the principal amount borrowed as well as on any previous interest charges.
  For example: If you have a credit card with a limit of $500.00 at 19% interest, and you only make the minimum monthly payment, it will take you 4 years to pay off the credit card and you will be charged an additional $216.43 in interest charges. The total amount to borrow $500.00 would be $716.43.

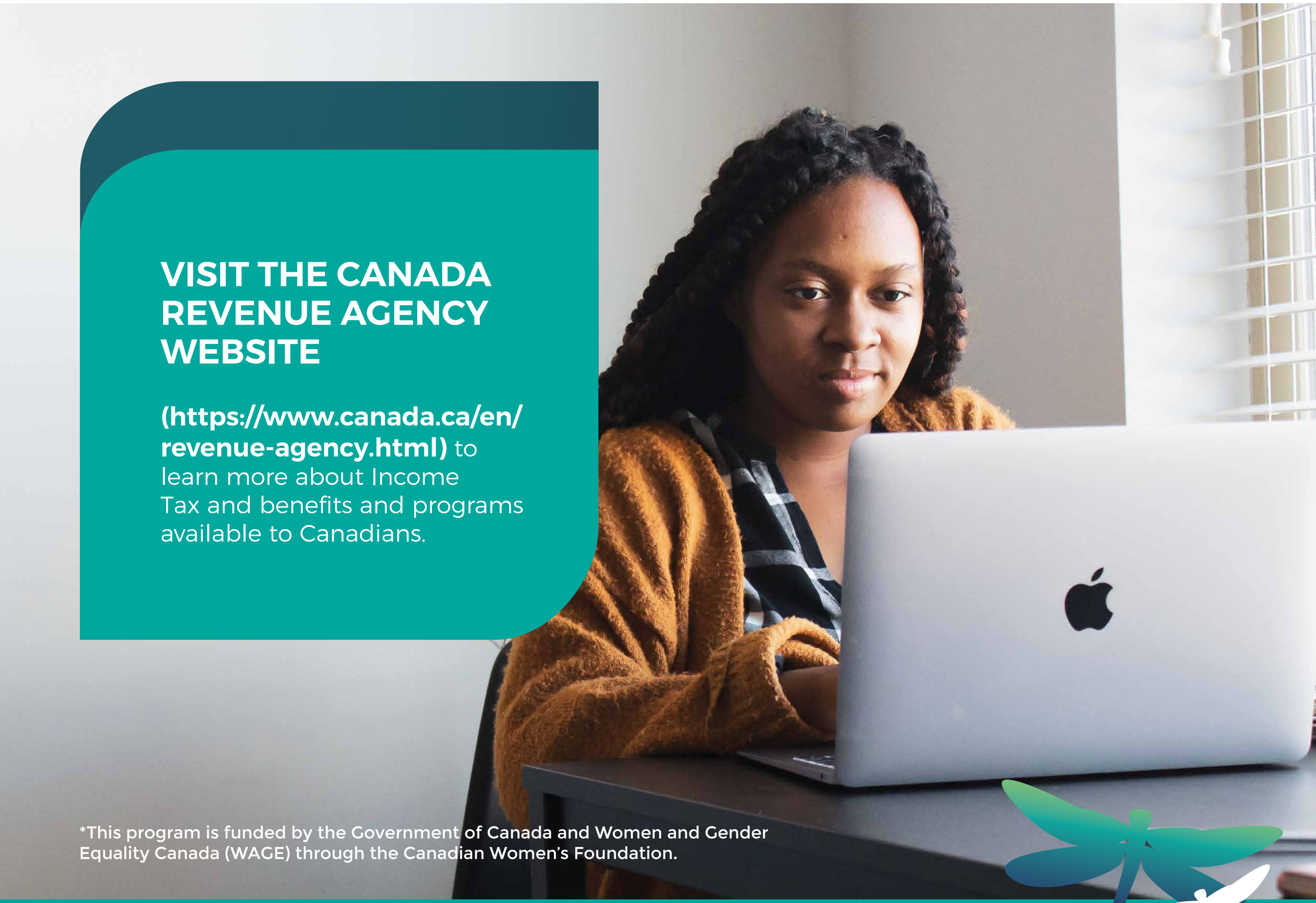
NEXT STEPS

Find a bank or credit union that offers the services you need.
Be sure to check into monthly account fees. Many financial institutions offer free or low-cost accounts, so shop around. Open a chequing account and savings account so you can separate your savings from your daily banking.

Understand your income, expenses, and set a budget.

Keep track of how you spend your money.

Talk to your bank or credit union about building a credit history in Canada.
Use credit carefully.



VISIT THE CANADA REVENUE AGENCY WEBSITE

(https://www.canada.ca/en/revenue-agency.html) to learn more about Income Tax and benefits and programs available to Canadians.

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