

Get Smarter About Money



- How to:**
1. Set clear goals.
 2. Make a budget.
 3. Take care of debt.
 4. Start saving.
 5. Start investing.
 6. Plan for retirement.
 7. Protect your family and your assets.

It's your money. This guide sets out seven key steps to make it work harder for you. For each step, you'll find the basics you need to know, what you need to do and where to learn more.

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Unbiased money and investing information



Step 1: Set clear goals.

Taking control of your finances is not about counting every penny. It's about having a plan. It starts with setting clear, realistic goals.

Your top goal might be to get out of debt. Have some money for emergencies. Buy a new home or car. Start a new business. Or save enough to have a good life after you retire. These long-term goals can take years or even decades to achieve.

Other goals — like paying off your credit cards — can take less time. Short-term goals can be the first step to reaching your long-term goals.

Prepare for the unexpected

An important savings goal is to save for an “emergency fund.” Aim for 3 to 6 months’ income you can use if the unexpected happens.

How can setting goals help me?

- It's easier to save money when you know why you are saving.
- You'll know every dollar you save is bringing you closer to something that's important to you.
- You'll feel good about your progress. And, you'll be more determined to see it through.

How do I get started?

Use the checklist on the next page to sort out your goals. Make sure your goals are realistic. Remember:

- Set some big goals — like owning your own house in the next five years or saving for retirement.
- Break your larger goal into smaller goals to help you get there. For example, paying off your credit card(s).
- Set a date every six months or yearly when you will review how well you are doing. Mark the date on your calendar.
- When you achieve one goal, set another. And don't forget to celebrate your success!

Where can I learn more?

- For help setting your goals, read *How do I choose what to save for?* in the **Saving money section** of www.GetSmarterAboutMoney.ca
- Learn about setting financial goals at different stages of your life in *How will my financial goals change over my lifetime?* in the **Getting advice section** of www.GetSmarterAboutMoney.ca
- Learn more about financial planning in *Why do I need a financial plan?* in the **Getting advice section** of www.GetSmarterAboutMoney.ca

What are my goals? A checklist

Use this checklist as inspiration to make a list of your goals.

In the next two years or less, I want to:

- Have enough money coming in to pay for my basic needs and a little left over for fun
- Put some money away for emergencies
- Have some backup money in case I lose my job
- Take a vacation
- Pay off all of my credit cards
- Pay off student loans
- Get married
- Enjoy a new hobby or get more education
- Buy things for myself or my family (such as a new appliance, furniture, TV, clothing)
- Give some money to charity
- Help out my family members
- Pay less money in taxes

Other goal(s): _____

In the next three to five years or less, I want to:

- Save for a new car or boat
- Buy a home
- Start a family
- Fix up my home
- Move to a new city
- Change jobs

Other goal(s): _____

In the next five years or more, I want to:

- Start my own business
- Pay for my kids' education
- Pay off my mortgage or other debt
- Save enough money to work or play when I want to
- Build my retirement savings
- Leave some money or property to family members

Other goal(s): _____





Step 2: Make a budget.

A budget is useful for everyone — not just for people who find it hard to save money.

How can a budget help me?

You can use a budget to:

- Keep track of everything you spend
- Remind you about the bills you must pay each month, such as food, rent or mortgage, car, gas, hydro, phone and loans
- Plan for costs you only have from time to time, such as clothes, gifts, entertainment, trips, or things for your home
- Find ways to spend less and save more.

Three tips to put savings in your budget:

1. A standard guideline is to save at least 10% of your pay.
Example: If you make \$2,000 a month, try to save \$200 from your pay.
2. If your income changes each month, adjust your savings up or down.
3. Save more if your pay goes up or you get a bonus at work.

How do I get started?

Start with these three steps:

1. Track your spending. Gather together any pay stubs, bills, or receipts you need to help you figure out what you make and what you spend every month. Add up your actual expenses for the last month, or longer if you can, and keep tracking. If you have a bill you pay just once a year — like your driver's license — divide it by 12 to get your monthly cost.
2. Use the Budget Worksheet on the next page to create your own monthly budget. You want to see if you have enough money coming in to pay the bills plus some extra to save or pay off debt. Compare your spending against your budget to make sure you keep on track.
3. If you need to save more, look over your budget and see if you can find any ways you can spend less or earn more.

Where can I learn more?

- For tips on budgeting, read *How do I make a budget?* in the **Budgeting section** of www.GetSmarterAboutMoney.ca
- For tips on spending less, read *How can I cut my spending?* in the **Budgeting section** of www.GetSmarterAboutMoney.ca
- Watch a video to see *Where you might be wasting your money* in the **Videos section** of www.GetSmarterAboutMoney.ca
- If you're in trouble from over-spending, get expert help from your local credit counselling service. Find them on the **Credit Counselling Canada website** at <http://creditcounsellingcanada.ca/>

What's Your Budget?

For good financial planning, you need to know what you spend. The experts say you should try to save at least five to ten percent of your income each month. Use this worksheet to work out a plan.

My Current Monthly Expenses:			
Housing		Other Expenses	
Rent/mortgage	\$	Groceries	\$
Property taxes	\$	Restaurants	\$
Maintenance	\$	Personal clothing	\$
Insurance	\$	Work clothing	\$
Utilities		Toiletries	\$
Hydro	\$	Medical	\$
Gas	\$	Dental	\$
Sewer and water	\$	Travel to work	\$
Phone(s)	\$	Entertainment	\$
Internet	\$	Magazines, books and newspapers	\$
TV cable/satellite	\$		
Car		Hobbies	\$
Loan/lease payment	\$	Vacation/travel	\$
Insurance	\$	Gifts	\$
Gas	\$	Donations	\$
Repairs	\$		
Miscellaneous			
Personal Insurance		Financial	
Health insurance	\$	Personal loans	\$
Disability insurance	\$	Bank fees	\$
Life insurance	\$	Credit cards	\$
		Savings	\$



Step 3: Take care of debt.

Why is it smart to avoid debt or pay it off quickly? It's simple. Every day you are in debt, you pay for it — in more ways than one.

Debt includes mortgages, personal loans and lines of credit, car loans, money you owe on credit cards or store cards, and mortgages.

Why do I need to take care of my debt?

- You avoid costly interest charges.
- You can start growing your savings. The sooner you get out of debt, the sooner you can save and invest the money you had to put toward debt before.
- You will worry less about money. With debt, you may feel a lot of stress trying to find the money to pay your bills each month.
- You protect your credit history. That means lenders will be more likely to lend you money again in the future if you need it for an important purchase like a home.

Having trouble paying your debts?

Talk to your lender as soon as possible. Try not to miss a payment — or you may find it hard to borrow in the future.

How do I get started?

Here are seven ways to reduce your debt:

1. Make a budget and stick to it. Find ways to cut your spending to pay off debt faster.
2. Pay off your high-interest debt first. Those debts cost you more to carry each month.
3. If you have investments, consider cashing them in to pay off your debt. The interest rate on your debt could be higher than the money you are making investing.
4. Consolidate different debts into one loan. You may get a lower rate of interest at the same time.
5. Set up an automatic savings plan. For example, have your bank put some of your pay into a separate account for saving.
6. Some types of life insurance build up cash in an account. You can use this cash to pay off debt.
7. For mortgages, look for the lowest interest rate. Make an extra mortgage payment. And if you set up payments every two weeks, you'll pay your mortgage off faster.

Where can I learn more?

- Learn how interest charges work on your debt. Read *What does it really cost to borrow?* in the **Managing debt section** of www.GetSmarterAboutMoney.ca
- Learn *How long it will take to pay off your loans and credit cards* with **practical calculators** at www.GetSmarterAboutMoney.ca
- Watch *How Canadians are struggling with debt* in the **Videos section** of www.GetSmarterAboutMoney.ca



Step 4: Start saving.

Once you know why you want to save and you have a budget for saving, it's time to get started. Many people find it easier to save if they make it automatic.

How can I make it easier to save?

One of these three approaches may work for you:

1. Set up a deposit to your savings account.

Ask your bank to take money out of your chequing account each month or at each pay period, and put it into a separate savings account. You may pay a fee for this service, but at least you know you'll keep saving.

2. Join a savings plan at work.

Your workplace may be able to take a set number of dollars off your pay every month, and put them into a savings plan for you. This way you won't have a chance to spend the money first. You likely won't even miss it.

With some plans, your workplace will also contribute, or match what you contribute. The money goes into a savings account, or it may be used to buy Canada Savings Bonds or mutual funds.

A workplace pension plan can also help you save for retirement. Your money may go into a registered account or Group Registered Retirement Savings Plan (RRSP).

3. Save your tax refund.

Look at your tax refund as a bonus you can save each year. You've already been living without this money, so you likely won't miss it if you invest it instead of spending it. You can put the money into your Registered Retirement Savings Plan (RRSP) and get an even bigger tax refund the following year. You could also put the money into an educational savings plan for your children.

Where to save

Emergency and short-term savings should generally be in lower-risk "cash" investments like a bank savings account or term deposit.

Long-term savings should generally include some "growth" investments like property or stocks. These can grow your savings faster, but there is also a higher risk you may lose money.

Where can I learn more?

- To avoid making mistakes as you start saving, read *What money mistakes should I avoid if I don't know what to do?* in the **Saving money section** of www.GetSmarterAboutMoney.ca
- Learn what to do with smaller amounts of savings in *Where can I put smaller amounts of money for a short time?* in the **Saving money section** of www.GetSmarterAboutMoney.ca



Step 5: Start investing.

You don't have to be rich to invest — even small amounts can build up over time. Just remember: with some investments there is a higher chance you could lose money. This is called investment risk.

How can I make money investing?

There are three basic ways to make your money grow:

1. Investments that earn interest

- Your money is safe. You likely won't lose your money. But, it will likely grow more slowly than if you make other choices.
- There's no guessing. You know what you'll make before you buy.
- You can get your money out easily, even if you need it sooner than you think. This helps if you are saving only for a short time.

Examples: A bank account or Guaranteed Investment Certificate (GIC)

2. Investments that pay dividends

- You get a regular income from the investment. The amount of the dividend depends on how well the company did that year and what type of stock you own.
- Companies that pay regular dividends are often mature and well managed, which could make them more likely to go up in value. It could also lower investment risk — although there is no guarantee.
- Investments that pay dividends may also allow you to earn a profit when you sell them.

Example: Some stocks pay dividends, which give investors a share of what the company makes.

3. Investments that you sell for a profit (capital gains):

- These investments often make sense if you plan to invest for a longer time. For example, you may have goals to save for your far-off retirement, or you may start saving for your children's education while they're young.
- You have a chance to grow your money faster. The stock market tends to do better than other kinds of investments on a long-term basis. Of course, the investment risk is higher.
- Investments that you sell for a profit may also pay dividends.

Examples: Stocks, bonds and mutual funds

How do I get started?

You've already done the first step by setting clear financial goals. Before you buy investments, you should also think about what kind of investor you are. Ask yourself:

1. How much risk is right for me?

- Do I want the chance to make more money if it also means I may lose money?
- Would I rather make less and keep my money safe?

2. How much am I hoping to make by investing (your investment return)?

- With some investments, your return takes the form of income, as interest or dividends.
- With others, it takes the form of capital gains (or losses, if you sell an investment for less than you paid).
- In most cases, to get a higher return, you have to take more risk.

3. How long do I plan to invest for?

- Saving to buy a house is a shorter-term goal. Saving for retirement is a long-term goal.
- Investments that don't guarantee your return are often better if you won't need your money right away.



4. Do I need to be able to get my money quickly?

- How easy will it be to get your money back from an investment?
- Cash is the easiest. You have it in your hand, purse, or pocket.
- Money in a bank account is also easy to access. You can get it right away and get it easily, either from a teller or a bank machine (ATM), or with a debit card.
- In most cases, when you give up quick and easy access to your money, you should expect a higher return.

Example: Bank account deposits often pay less than if you lock your money into a Guaranteed Investment Certificate (GIC) for three years. They may also earn less than a mutual fund over time.

Where can I learn more?

- Learn more about investing wisely in *What are the top investing mistakes to avoid?* in the **Investing basics section** of www.GetSmarterAboutMoney.ca
- Before you choose investments, read *What are the five basic steps in investing?* in the **Investing basics section** of www.GetSmarterAboutMoney.ca
- Take a quiz to learn *How much investment risk is right for you* in the **Tools and calculators section** of www.GetSmarterAboutMoney.ca
- Learn about getting a financial adviser to help you invest in *Who can help me with my money and what will it cost?* in the **Getting advice section** of www.GetSmarterAboutMoney.ca



Step 6: Plan for retirement.

What money will you live on when you retire? You will likely get money through one or more government plans when you retire. But will it be enough to help you afford the lifestyle you want?

For example, the Canada Pension Plan only provides about 25 per cent of your pre-retirement income. That's about \$11,000 a year in today's terms.¹

What will your retirement be like?

Stop and think about what your life will be like after you retire. Where will you live? How will you spend your time? Will your costs stay the same or change? How much money will you need to live on? Where will this money come from?

So how much should you save? There's no right answer. We don't know how long we'll live. Should you save enough to last until 75 or 95? If you save for 95 years, you'll have to save a lot more — but it's probably a lot safer to plan for this age.

The one thing we do know is that the sooner you start, the more you are likely to save.

¹ Source: "Canadians not saving enough to retire," *Toronto Star*, September 17, 2009

How do I get started?

Start by asking these four questions:

1. Where will I get money after I retire? From the government? From a company pension plan? Most people need to save extra money themselves.
2. How much money will I need when I retire? Where you live and the kind of lifestyle you want really affect how much money you need.
3. How much should I save for retirement? It depends on when you start saving. Starting early pays. Even 10 extra years can really change how much you need to save.
4. How should I save for retirement? Find out if you have a retirement savings or pension plan at work. They're often the best deal around — especially if your employer will contribute to your savings. You can also set up your own savings plan with a financial institution. Some of these plans help you save tax while you save for your retirement.

Where can I learn more?

- Learn about *Four common ways people save for retirement* in the **Retirement planning section** of www.GetSmarterAboutMoney.ca
- Find out *What your Registered Retirement Savings Plan will be worth when you retire* using the RRSP savings calculator in the **Tools and calculators section** of www.GetSmarterAboutMoney.ca
- Watch a video to learn about *Saving for retirement in tough times* in the **Videos section** of www.GetSmarterAboutMoney.ca
- See *How your costs will change after you retire* in the **Retirement planning section** of www.GetSmarterAboutMoney.ca



How saving early in your RRSP helps: Amy and Amanda's story

Amy and Amanda may be twins, but they are very different when it comes to saving for retirement. Here's what they did:

Amy:

- Started saving at age 20
- Put \$1,000 a year into her RRSP to age 34
- Total she saved: \$15,000

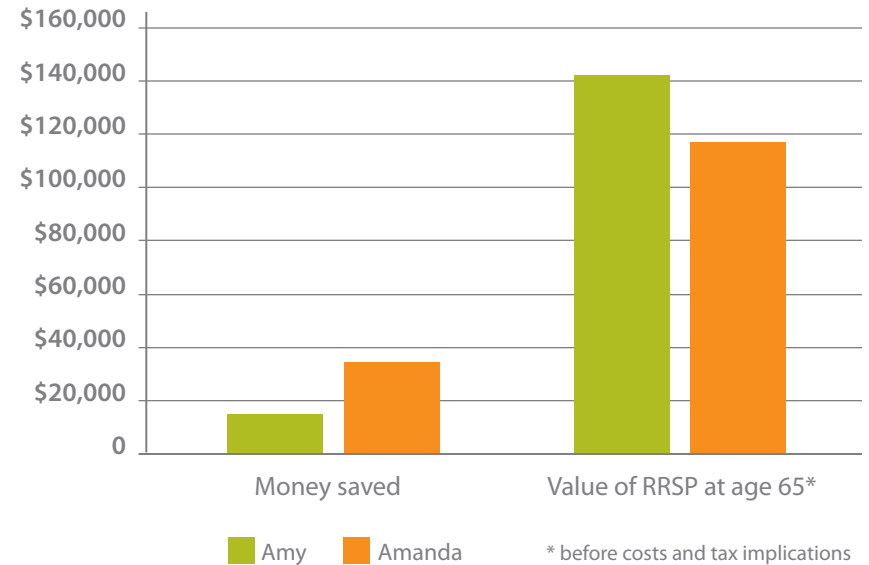
Amanda:

- Started saving at age 30
- Put \$1,000 a year into her RRSP to age 64
- Total she saved: \$35,000

Both sisters made 6% yearly on their investments, before costs. Here's what their investments were worth by their 65th birthday:

- **Amy: \$141,700**
- Amanda: \$118,100

Amy and Amanda's comparative RRSP savings



Note: Amanda actually contributed \$20,000 more than Amy, but Amy wound up ahead by more than \$23,000 due to the magic of **compounding interest**. Clearly, starting to invest early can really pay off. If you wait even 10 years to start saving, you would have to save a lot more money, over many more years, to come out ahead.





Step 7: Protect your family and your assets.

What if you lost your home, your car or your belongings in a fire? What if you got sick and couldn't work? Or died? There are ways you can protect your assets and your family, if you have one. First, you need insurance. Second, you need a will.

Why do I need insurance?

With insurance, you can:

1. Make sure your loved ones have enough money to live on after your death.
2. Pay your bills if you get sick, injured, or disabled.
3. Pay your loans if you lose your job.
4. Build up savings to pass on money to your spouse or your children.
5. Cover your funeral and other costs after your death.

Why do I need a will?

Here are the top five dangers of not having one:

1. If you don't have a will, the government will name someone to decide what happens to your savings and property. This person may also decide who will raise your children. Do you really want a stranger to make those kinds of decisions?
2. Less money may go to your loved ones because it may cost more to settle your estate.
3. It may take longer to settle your estate. If the government has to get involved, it will take longer for your loved ones to get the money or property you leave them. This adds a lot of stress to your family at a difficult time.
4. If your will is out of date, even by just a few years, a lot of things could have changed. This means your family may not be taken care of in the best way possible.
5. If you don't state your wishes clearly and properly, your loved ones won't know what you want. For example, the simple phrase "I want my children to share my money equally" can mean many different things and cause disagreement between family members.

Leave more to your loved ones

When you buy life insurance or open a retirement savings plan, name the beneficiary who should receive the money in the event of your death.



How do I get started?

- Check that all your assets are insured and that you aren't paying for more insurance than you need. Ask yourself — what are the chances the event you are insuring against will happen? If the event did occur, how much would it cost? Shop around for the best insurance rates.
- Contact a lawyer about making a will.
- Keep your will and other important documents like your insurance policies in one place — so they are easy for you and others to find.
- Review your will and your insurance coverage whenever you have a big life change like the birth of a first child, the death of someone you name in your will, or separation.
- Get independent legal advice if you're in a relationship and think you may need to take some action to protect your assets.

Where can I learn more?

- See *How your insurance needs will change over time* in the **Insurance section** of www.GetSmarterAboutMoney.ca
- Find out what a will should include in *Seven key things that a will should cover* in the **Wills and estate planning section** of www.GetSmarterAboutMoney.ca
- Learn how insurance can reduce taxes or fees after your death in *How can insurance help me save taxes and plan my estate?* in the **Insurance section** of www.GetSmarterAboutMoney.ca
- Complete an insurance checklist in *What type of insurance to I really need to protect my income?* in the **Insurance section** of www.GetSmarterAboutMoney.ca

Can I write my own will? Take this quiz.

1. Will you have a very simple will? Answer “yes” only if all of these statements apply to you:

	Yes	No
• You have heirs	<input type="checkbox"/>	<input type="checkbox"/>
• You have few or no debts	<input type="checkbox"/>	<input type="checkbox"/>
• You do not own a business	<input type="checkbox"/>	<input type="checkbox"/>
• You do not share property with other family members	<input type="checkbox"/>	<input type="checkbox"/>
• You do not own property outside Canada	<input type="checkbox"/>	<input type="checkbox"/>
• You live in Canada all year round	<input type="checkbox"/>	<input type="checkbox"/>
• You have not been married more than once	<input type="checkbox"/>	<input type="checkbox"/>
• You do not have children from more than one partner	<input type="checkbox"/>	<input type="checkbox"/>
• You don't plan to cut someone out of your will	<input type="checkbox"/>	<input type="checkbox"/>
2. Are you 100% sure you can state your wishes clearly?
3. Can you prove you were thinking clearly and knew what you were doing when you wrote the will? You can't prepare your own will if there's any doubt about your state of mind at the time.

If you answered “no” to any of these questions, you should see a lawyer to help you write your will.

Most people need to go over their wills with an expert. An expert can also ensure your will is properly witnessed.

Remember: Even if you make your own will, have an expert review it.

It's easy to make a mistake and you won't likely ever know. Sadly, it's your loved ones who will feel the impact.



About us

The Investor Education Fund develops and promotes unbiased, independent financial information, programs and tools to help consumers make informed decisions when investing and managing their money. It was established as a non-profit organization by the Ontario Securities Commission (OSC) and funded by settlements and fines from OSC enforcement proceedings.



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