

LEARNING MADE EASY



7th Edition

Personal Finance For Canadians

for
dummies[®]
A Wiley Brand



Build financial literacy
and evaluate your assets

Prepare for big purchases,
education, and retirement

Improve your budgeting
and investing skills

Eric Tyson, MBA

Tony Martin, B.Comm



Personal Finance For Canadians

7th Edition

**by Eric Tyson, MBA and
Tony Martin, B.Comm**

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dummies[®]
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Personal Finance For Canadians For Dummies®, 7th Edition

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

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Published simultaneously in Canada

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Library of Congress Control Number: 2024941901

ISBN 978-1-394-22066-3 (pbk); ISBN 978-1-394-22068-7 (ebk); ISBN 978-1-394-22067-0 (ebk)

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Introduction

You're probably not a personal finance expert, for good reason. Historically, Personal Finance 101 hasn't been offered in schools — not in high school, university, or even graduate programs. Thankfully, a small but growing number of schools are offering personal-finance-type courses. Of course, every school should.

However, even if you got some financial education and acquired some financial knowledge over the years, you're likely a busy person who doesn't have enough hours in the day to get everything done. So, you want to know how to diagnose your financial situation efficiently (and painlessly) to determine what you should do next. Unfortunately, after figuring out which financial strategies make sense for you, choosing specific financial products in the marketplace is often overwhelming. You have literally thousands of investment, insurance, and loan options to choose from. Talk about information overload!

To further complicate matters, you probably hear about most products through advertising that can be misleading, if not downright false. Of course, some ethical and outstanding firms advertise, but so do those that are more interested in converting your hard-earned income and savings into their short-term profits. And they may not be here tomorrow when you need them.

Perhaps you've ventured online and been attracted to the promise of “free” advice. Unfortunately, discerning the expertise and background (and even identity) of those behind various blogs and websites is too often impossible. And, as we discuss in this book, conflicts of interest (many of which aren't clearly disclosed) abound online.

Despite the development of new media and new financial products and services, folks keep making the same common financial mistakes — procrastinating and lack of planning, wasteful spending, falling prey to financial salespeople and pitches, failing to do sufficient research before making important financial decisions, and so on. This book can keep you from falling into the same traps and get you going on the best paths.

As unfair as it may seem, numerous pitfalls await you when you seek help for your financial problems. The world is filled with biased and bad financial advice. We both constantly see and hear about the consequences of poor advice. All too often, financial advice ignores the big picture and focuses narrowly on investing. Because

money is not an end in itself but a part of your whole life, this book helps connect your financial goals and challenges to the rest of your life. You need a broad understanding of personal finance that includes all areas of your financial life: spending, taxes, saving and investing, insurance, and planning for major goals like buying a home, someday running your own business, investing for your future, retiring, and so on.

Even if you understand the financial basics, thinking about your finances in a holistic way can be difficult. Sometimes you're too close to the situation to be objective. Your finances may reflect the history of your life more than they reflect a comprehensive plan for your future.

You want to know the best places to go for your circumstances, so this book contains specific, tried, and proven recommendations. We also suggest where to turn next if you need more information and help.

About This Book

The book you hold in your hands reflects hard work and brings you the freshest material for addressing your personal financial quandaries. Here are some of the updates we've made to the book in this edition:

- » Complete coverage of the latest tax laws and rules and how best to take advantage of tax changes in 2018 and beyond affecting individuals, families, investors, and small businesses
- » Expanded and updated coverage of the best ways to shop online (and its changing dangers) and from retail stores
- » The latest changes and rules for Registered Retirement Savings Plans (RRSPs), Registered Education Savings Plans (RESPs), and Tax-Free Savings Accounts (TFSA), and how best to take advantage of them
- » Updated investment recommendations for exchange-traded funds, mutual funds, international investments, real estate, and more
- » The latest information on government assistance programs, the Canada Pension Plan and Quebec Pension Plan, and Old Age Security, and what all this means in terms of how you should prepare for and live in retirement
- » Revised recommendations for where to get the best insurance deals
- » Coverage of the best personal finance apps
- » Expanded and updated coverage of how to use and make sense of the news and financial resources (especially online)

Aside from being packed with updated information, another great feature of this book is that you can read it from cover to cover if you want, or you can read each chapter and part without having to read what comes before or after. Handy cross-references direct you to other places in the book for more details on a particular subject. If you like, you can skip the sidebars (shaded boxes) and text marked with the Technical Stuff icon; that info is interesting but not essential.

Foolish Assumptions

In writing this book, we made some assumptions about you, dear reader:

- » You want expert advice about important financial topics (such as paying off and reducing the cost of debt, planning for major goals, making wise investments), and you want answers quickly.
- » You want a crash course in personal finance, and you're looking for a book you can read to help solidify major financial concepts and get you thinking about your finances in a more comprehensive way.

This book is basic enough to help novices get their arms around thorny financial issues. But it also challenges advanced readers to think about their finances in a new way and identify areas for improvement.

Icons Used in This Book

The icons in this book help you find particular kinds of information that may be useful to you.



TIP

The Tip icon highlights ways to make the most of your money, as well as the best financial products in the areas of investments, insurance, and so on. When you see this icon, you're sure to find a moneysaving strategy or a product that can help you reach your goals.



REMEMBER

The Remember icon points out information that you'll definitely want to remember.



WARNING

The Warning icon marks things to avoid and points out common mistakes people make when managing their finances. We also use the Warning icon to alert you to scams and scoundrels who prey on the unsuspecting.



TECHNICAL
STUFF

The Technical Stuff icon appears beside discussions that aren't critical if you just want to understand basic concepts and get answers to your financial questions. You can safely ignore these paragraphs, but reading them can help deepen and enhance your personal financial knowledge.

Beyond the Book

In addition to what you're reading right now, this product also comes with a free access-anywhere Cheat Sheet that includes debt reduction strategies, more information on RRSPs, and tips for improving your credit score. To get this Cheat Sheet, simply go to www.dummies.com and type **Personal Finance For Canadians For Dummies Cheat Sheet** in the Search box.

Where to Go from Here

This book is organized so you can go wherever you want to find complete information. Want advice on investing strategies, for example? Go to Part 3 for that. You can check out the table of contents to find broad categories of information and a chapter-by-chapter rundown of what this book offers, or you can look up a specific topic in the index.

If you're not sure where you want to go, you may want to start at the beginning with Part 1. It gives you all the basic info you need to assess your financial situation and points to places where you can find more detailed information for improving it.

1 Getting Started with Personal Finance

IN THIS PART . . .

Understand your level of financial literacy.

Grasp the building blocks that form your financial foundation.

Assess your current personal financial health.

Set and accomplish personal and financial goals.

IN THIS CHAPTER

- » Defining what financial literacy includes and means
- » Looking at what your parents and others taught you about money
- » Questioning reliability and objectivity
- » Overcoming real and imagined barriers to financial success

Chapter **1**

Embracing Financial Literacy

A continuing stream of studies has indicated that many Canadians are, by and large, financially illiterate. The vast majority of survey respondents have “failing” scores — meaning that they often struggled just to answer half of the questions correctly.

We know from our many, many years of work as personal financial teachers, trainers, writers, and commentators that many folks do indeed have significant gaps in their personal financial knowledge. Though more folks have greater access today to more information than in prior generations, the financial world has grown more complicated, and there are more choices, and pitfalls, than ever before.

Unfortunately, most Canadians don’t know how to manage their personal finances because they were never taught how to do so. Their parents may have avoided discussing money in front of them, and most high schools, colleges, and universities lack courses that equip students with this vital, lifelong-needed skill.



REMEMBER

Some people are fortunate enough to learn the keys to financial success at home, from knowledgeable friends, and from the best expert-written books like this one. Others either never discover important personal finance concepts or they learn them the hard way — by making lots of costly mistakes. People who lack

knowledge make more mistakes, and the more financial errors you commit, the more money passes through your hands and out of your life. In addition to the enormous financial costs, you experience the emotional toll of not feeling in control of your finances. Increased stress and anxiety go hand in hand with not mastering your money.

This chapter examines what topics fall under the heading of “financial literacy” and where people find out about finances, and it helps you decide whether your current level of knowledge is holding you back. You can find out how to improve your financial literacy and take responsibility for your finances, putting you in charge and reducing your anxiety about money. After all, you have more important things to worry about, like what’s for dinner.

What Being Financially Literate Means

We start with the basics. What exactly are we talking about when it comes to being literate in personal finance? Following are the three key subjects to become acquainted with:

- » **Managing your everyday transactions:** We cover accounting for money in the short term that passes through your hands and your transaction accounts.
- » **Investing for the long term:** We discuss the best ways to invest money for better returns and longer-term purposes.
- » **Protecting your money:** We provide an overview on the generally less popular but highly important topic of protecting your income and assets with insurance.

In addition to these major topic areas, the field of personal finance includes plenty of jargon. As you read this book, you’ll become familiar with the terminology, which will boost your confidence and your decision-making skills.

Starting with the basics: Budgeting and transaction accounts

If you’re like most people, as you earn money, much of it too quickly passes through your hands or, more specifically, into and out of your transaction accounts. As you surely know, a hefty chunk of money you earn is siphoned off to federal and provincial taxes. What’s left is used to pay your monthly living

expenses, such as housing, food, utilities, clothing, and hopefully some entertainment and recreation. Chapter 2 delves into the different kinds of transaction accounts and how to use them.

Managing your monthly living expenses (including taxes) and budget and establishing and working toward financial goals take time and effort. Parts 1 and 2 help you accomplish these important tasks.

Making your money work for you: Investing

When you're spending less than you earn and are able to add some more money to your savings each month, you will have the pleasant but challenging problem of deciding where and when to invest your savings. Or maybe you already have additional money you want to invest so it will work harder for you.

The world of investments is complicated and filled with pitfalls. That contributes to some folks leaving their excess money sitting in their everyday — and low-interest — transaction accounts by default. While you could do worse (by losing money in poor investments), you can certainly do better — and you probably actually need to do better in order to accomplish your financial goals. Part 3 covers all things investing and helps you master that important task.

Protecting your income and assets: Insurance

When you're earning money and have some assets (for example, a car, house, and so forth), insurance protects you against both the loss of that income and the loss of — or damage to — your assets. If others are dependent upon your employment income, you likely need some life insurance. Even without dependents, you probably rely on your own income and thus should have adequate disability insurance.

Assets like a car and home require sufficient insurance protection. And, as your investments and net worth grow, having some excess liability insurance to protect that makes sense as well. See Part 4 for the important details on insurance.

Talking Money at Home

We were both fortunate — our parents taught us a lot of things that have been invaluable throughout our lives, and among those were sound principles for earning, spending, and saving money. Our parents had to know how to do these

things because they were raising large families, often on one modest income. They knew the importance of making the most of what you have, and of passing that vital skill on to your kids.

However, most parents' financial knowledge has some significant gaps. Many people have observed firsthand the struggles of parents dealing with making decisions about everything from buying and financing a home to handling retirement money after being laid off to helping to support their own parents.



WARNING

In many families, money is a taboo subject — parents don't level with their kids about the limitations, realities, and details of their budgets. Some parents believe that dealing with money is an adult issue and that children should be insulated from it so they can enjoy being kids. Others readily admit the many holes in their financial knowledge and thus don't feel comfortable teaching their kids about personal finance. In too many families, kids hear about money *only* when disagreements and financial crises bubble to the surface. Thus begins the harmful cycle of children having negative associations with money and financial management.

In other cases, parents, with the best of intentions, do try to teach their children about personal finance, but they end up passing on a harmful combination of wrong assumptions, incorrect principles, and bad money-management habits. You may have picked up from a parent, for example, that buying things is a good way to cheer yourself up. Or you may have witnessed a family member maniacally chasing get-rich-quick business and investment ideas. Now, we're not saying that you shouldn't listen to your parents. But in the area of personal finance, as in any other area, poor family advice and modelling can be problematic.

Think about where — or *if* — your parents learned about money management, and then consider whether they had the time, energy, or inclination to research their options before making their decisions. For example, if they didn't do enough research or had faulty information, your parents may mistakenly have thought that banks were the best places to invest money, or that buying stocks was like going to Las Vegas. (You can find the best places to invest your money in Part 3 of this book.)

In still other cases, the parents have the right approach, but the kids do the opposite out of rebellion. For example, if your parents spent money carefully and thoughtfully, and often made you feel denied, you may find yourself doing the opposite, buying yourself gifts the moment any extra cash comes your way.

Although you can't change what the educational system and your parents did or didn't teach you about personal finances, you now have the ability to find out what you need to know to manage your finances.



TIP

If you have children of your own, don't underestimate their potential or send them out into the world without the skills they need to be productive and happy adults. Buy them some good financial books when they head off to university or begin their first job.

PERSONAL FINANCE AT SCHOOL

In schools, the main problem with personal finance education is the lack of classes, not that kids already know the information or that the skills are too complex for children to understand.

Nancy Donovan teaches personal finance to her fifth-grade math class as a way to illustrate how math can be used in the real world. "Students choose a career, find jobs, and figure out what their taxes and take-home paycheques will be. They also have to rent apartments and figure out a monthly budget," says Donovan. "Students like it, and parents have commented to me how surprised they are by how much financial knowledge their kids can handle." Donovan also has her students invest \$10,000 (play money) and then track their investments' performance.

Urging schools to teach the basics of personal finance is just common sense. Children need to be taught how to manage a household budget, the importance of saving money for future goals, and the consequences of overspending. Unfortunately, few schools offer in-depth classes like Donovan's. In many cases, the financial basics aren't taught at all.

In the minority of schools that do offer personal finance-related courses, the classes are often in economics (and an elective at that). "Archaic theory is being taught, and it doesn't do anything for the students as far as preparing them for the real world," says one high school principal. Having taken more than our fair share of economics courses in university, we understand the principal's concerns.

Some people argue that teaching financial basics to children is the parents' job. However, this well-meant sentiment is what we largely rely on now, and for all too many, it isn't working. In some families, financial illiteracy is passed on from generation to generation.

Education takes place in the home, on the streets, and in the schools. Therefore, schools must bear some responsibility for teaching this skill. However, if you're raising children, remember that no one cares as much as you do or has as much ability to teach the important life skill of personal money management.

Identifying Unreliable Sources of Information

Most folks know that they're not financial geniuses. So, they set out to take control of their money matters by reading about personal finance or consulting a financial advisor.

But reading and seeking advice to find out how to manage your money can be dangerous if you're a novice. Misinformation can come from popular and seemingly reliable information sources, as we explain in the following sections. (Because the pitfalls are numerous and the challenges significant when choosing an advisor, we devote Chapter 20 to the financial planning business and tell you what you need to know to avoid being duped and disappointed.)

The dangers of free financial content online

In addition to being able to quickly access what we want, the other major attraction of the internet is the abundance of seemingly free websites providing piles of apparently free content. Appearances, however, can be decidedly deceiving!

While there are exceptions to any rule, the fact of the matter is that the vast majority of websites purporting to provide a seemingly never-ending array of "free" content are rife with conflicts of interest and quality problems due to the following:

- » **Advertising:** Any publication that accepts advertising has a potential conflict of interest because it may not want to publish articles that would upset its advertisers. This mindset can stand in the way of telling consumers the unvarnished truth about various products and services. For example, credit card companies aren't very interested in advertising someplace that publishes articles highlighting the negatives of credit cards. (Check out the section "Publishers pandering to advertisers" later in this chapter for more on the power of advertising to influence the financial information you encounter online, on TV, and elsewhere.)
- » **Advertorials:** Too many website owners are unwilling or unable to pay real writers for quality content and instead publish articles that are written and provided by advertisers. These pieces of "content" are known as *advertorials* or *sponsored content* and, in the worst cases, aren't even clearly labeled as advertisements, which is precisely what they are.
- » **Affiliate relationships:** Many companies pay "referral fees" to websites that bring in new customers. Here's how that practice causes major conflicts of interest. On a financial website, you read a glowing review of a particular