CLC & Capstone

Money. It's an overwhelming, and for the most part private topic for most of us, and for that reason, it is not discussed in a lot of families and courses in school. In this lesson and accompanying assignment, we will attempt to cover some basics of money management that you will encounter as you transition into either your post secondary or working adventure!

1. Like many other events in your life, financial management is set around goals.

Throughout your years in Career Education, the importance of goal setting has been stressed as a way to ensure that they can be achieved in a reasonable amount of time despite any setbacks or obstacles.

It may seem like it's too early, or even overwhelming at the current stage in your life, but setting financial goals now when you're young will help you set positive habits as you move forward in your career, and will even help you grow your money faster!

There are so many reasons to set some financial goals at this point in your life, and they reach far beyond saving for that new car, for college, or to moving out on your own. According to Global News, over half of Canadians are living within $200 of not being able to pay their bills, or meet their debt obligations. If you are living at home right now, that may not seem that important, but think - $200 could make the difference between families losing their homes or financial despair. By learning about money management now, you will hopefully not end up as part of this statistic!

By setting financial goals, you can not only ensure that you have those emergency savings in case your car suddenly breaks down, your rent increases, or you lose your part time job. Aside from the importance of emergency savings, take a minute to think about retirement. It may seem crazy as you haven't yet started on your career, but think about how secure your future will be by taking advantage of compounding (earning interest on interest.) Your money invested now will grow so much faster over time.

What's the best way to set financial goals?

- Decide what matters to you! What are your short-term, mid-term, and long-term goals? Short term could include saving up for a new phone or for a small emergency fund, mid-term could include saving for a car or for post-secondary education, and long-term could include buying a home or saving for retirement. What is important to you will determine how you allocate your budget!
- Write them down! You've probably heard this quote before, but the difference between a goal and a wish is the written word. Once you have an idea of your financial goals, write them down. Research each goal, and estimate how much money you will need to achieve each one. Be realistic so you can make each goal achievable...as long as you stick to your plan!

- Break down each goal into smaller steps. The next step is to determine how long you have to save for each goal, how much you can save, and prioritize! Once you prioritize, you may find that certain things will take a shorter (or longer) amount of time to save for! That's just the reality of being responsible with your finances!
- Make a savings plan. Lastly, figure out how much you need (and can) save each month to achieve those goals. Don't get discouraged by the amount of time - saving is worth it. Things change, and your goals will change. Revisit your goals often and refine the plan as you go along. Achieving your goals has nothing to do with luck, it has everything to do with commitment and perseverance!

2. Think. No - really think - about needs and wants.

That brand-new snowboard...do you really need it, or do you just want it to look good on the slopes this year? You could say that the new snowboard will help you with your personal health goals, but we all know your old snowboard would do the same thing!

Some things you need, and some you just want. Sometimes that line gets blurry, though, and we talk ourselves into believing something is a need just because we want it so badly! Just because something is a want though doesn't mean you can't buy it, as long as you account for it in your financial goals and budget!

What's the best way to tell needs and wants apart?

Needs are those expenditures that are necessary for you to live, work, or go to school. They are those reoccurring costs that take up the majority of your budget.

Some of the most common expenses that fall under needs are housing, transportation, insurance, post-secondary tuition, groceries and utilities.

Wants are those expenditures that make you happy and live more comfortably. You could live without them, but your life is more fun with them! For example, groceries are a need, but dinner out with friends is more of a want.

Some of the most common expenses that fall under wants are travel, entertainment, clothing, and eating out with friends.

In one of the later sections, you will learn how to budget between all of those needs and wants - the goal is to have enough money in your budget for both!

3. There are so many benefits of investing early.

By saving today, you are able to have the life you want to later. For some of us, saving comes naturally - we are taught early the value of saving and investing for the future, but for some of us, we have more pressing needs, lower incomes, or perhaps are just looking for that instant gratification of buying something right away!

But either way, don't worry! Let's just go through why it really is important to start investing in yourself as soon as possible. You may think that this doesn't need to apply to you as your income is too low as a student, but you're wrong! It's never too early, or too late to start!

Nest Wealth gives the following advice on why it's so important to start investing early:

- *By not investing, you're missing out on opportunities like compounding returns.* Every day that passes uninvested, is a day you're missing out on compound returns. Making regular investments can lead to many compounding benefits. What are compound returns? It is the rate of return which represents the cumulative effect that a series of gains (or losses) have on an original amount of capital over a period of time. It's like earning interest on interest!
- *Why not improve your spending and saving habits?* Investing early will help develop positive spending habits earlier on because it teaches important lessons about budgeting, spending, and saving. People who practice investing early are less likely to overspend or be careless with their money in the long run.
- *Time is definitely working in your favour.* Your biggest asset right now is time. Even if you're just investing in retirement savings, nothing is going to make up for compound interest. Also, if you lose any money in the market, investing early gives you more time to make it back – before you actually need it.
- *Give inflation a run for your money.* On average, inflation decreases your money's value each and every year. You need your money to grow fast enough to outpace inflation, and for most, investing is one of the only ways to keep up with inflation.
- *Retirement will be less scary for you.* Today, many workers are facing a rather large problem – they don't have enough savings for retirement. If you start investing early enough you could avoid making impulsive decisions when you're nearing retirement, and as well your quality of life will benefit!

4. Look at ways to increase your income.

By the time you get to this stage, you may have already decided that your income is too low, and your needs and wants are too large. It may be time to look at ways to increase your income!

The most natural way to increase your income is to look for a part time job, but there may be ways to increase your income that you haven't thought of yet! If you have excellent knowledge in a certain subject area, perhaps you could offer tutoring services, if you like animals, children or landscaping, there is always a need for dog walkers, babysitters or lawn cutting in your neighbourhood. Maybe you could even take some of those old things that you don't use anymore and sell them on Craigslist. Think outside of the box in terms of ways that can bring in some extra income - even if it is just short term for those short-term goals.

5. Knowing the benefits and shortcomings of credit.

As soon as you turn 18 (or as soon as you walk onto a college or university campus as a student) you will find that you are bombarded with applications for credit cards. Don't make the mistake that many others do, and accept all of their offers. Although being responsible with a small amount of credit is beneficial for your long-term goals, too much could definitely harm their progress!

With the help of nerdwallet, let's look at some things you should know before applying for your first credit card:

- *What is a credit card?*

  A credit card looks just like a debit card. However, instead of having the funds removed directly when you make a purchase, you'll essentially take on a short-term loan. This loan may or may not accrue interest, depending on when you pay it off.

  For the purchases made in any given billing cycle — which is around 30 days — you'll have a small grace period before your payment is due. If you pay the balance in full by that date, you won't have to pay interest. If you pay less than the entire balance by the due date, you'll accrue interest on your balance.

- *Why you should get a credit card?*

  Credit cards come with numerous benefits. First and perhaps most important, a credit card used wisely will help you build your credit. Good credit can help you obtain future loans — such as a mortgage — at favorable rates. It can also help you get approved for an apartment or cell phone, avoid utility deposits and get lower insurance premiums.

- *How does a grace period work?*

  One of the many benefits of using a credit card is that you essentially get an interest-free loan and a grace period of 21 and 25 days. Here's how it works: Say you have a credit card period of Jan. 5 through Feb. 4, with a due date of March 1. Any purchases made within the period can be made interest-free until the payment due date. However, if you don't pay your balance in full on or before March 1, you'll owe interest on your average daily balance.

- *How is credit card interest calculated?*

  Many people think that credit card interest is assessed on the card balance remaining after the payment due date. However, if you don't pay your balance in full, you'll accrue interest on your average daily balance during the month.

  Say you have a card balance of $1,000. On day 11 of accruing interest, you pay off $200. Then on day 21 of accruing interest, you pay off another $350. Your average daily balance would be $750.

  If the card's annual percentage rate (APR) is 20%, the periodic interest rate is 0.0548%. Your periodic interest rate is calculated by dividing your APR by 365. Multiply your average daily balance by the periodic interest rate and the number of days in the month to get the interest accrued for the month. In our case, this is $12.33.

To avoid accruing interest, you need to pay the new balance on your credit card statement each month. The minimum payment is enough to keep you in good standing, but paying interest is unnecessary if you spend within your means.

That's a lot to think about - that's why it's so incredibly important to think about credit card interest before using a credit card!

- *How are minimum payments determined?*

  A minimum payment is the smallest amount of money you can pay each month without damaging your payment history and incurring a late payment fee. There are a few different methods for calculating minimum payments, but here is the most common:

  - **Percentage method:** Your issuer may calculate your minimum payment based on a percentage of your balance. This is generally between 1% and 3%. So if you have a balance of $2,000 and the minimum payment is 2% of your balance, you’ll have to pay a minimum of $40 to stay in good standing.

  If your balance is relatively low, you may be required to pay a flat minimum payment, which typically ranges from $25 to $35 a month. But we always recommend that you pay your balance in full by the due date.

- *How do credit cards affect your credit score?*

  The two credit bureaus in Canada (TransUnion and Equifax) use 5 different factors to determine your credit score:

  - **Your credit utilization ratio** – this is the percentage of credit you have used compared to the amount of credit that you have not used. This determines 30% of your credit score.
  - **Length of History** – refers to the length of time since you started using credit. This determines 15% of your credit score.
  - **New Credit** – new credit refers to credit you have applied in the last six months. This determines 10% of your credit score.
  - **History of payment** – this shows how responsible you have been in paying your credit. This determines 35% of your credit score.
  - **Type of Credit Being Used** – explains what type of credit you are using. This determines 10% of your credit score.

  It is important to note that your credit card bills have a pretty large impact on your credit score. This is because the credit information on your credit card is readily available to lenders such as the banks. They then use the information to limit or increase your credit amounts.

- *Where do credit card rewards come from?*

  Many credit cards offer cash or travel rewards on your purchases. These rewards come from interchange fees, or the fee paid by a merchant’s bank to a customer’s

bank when you use your credit card to make a purchase. Interchange fees vary, but are usually 2% or more, which is enough to cover the rewards rates on competitive rewards credit cards.

- *What fees will I be charged by using a credit card?*

  There are a host of potential credit card fees you may need to pay, but many of them are easily avoided. Here are the most common fees:

  - **Annual fee:** Annual fees are often charged on high-value rewards cards, as well as on cards for higher-risk consumers with lower credit scores. You can avoid them by getting a card without an annual fee, but if your spending is high enough, a fee card may net you higher rewards.
  - **Balance transfer fee:** Charged when you move a balance from one credit card to another, often by people trying to take advantage of an introductory APR offer of 0%. You should only pay a transfer fee if the interest you would pay on your current card is greater than the balance transfer fee you'll pay.
  - **Foreign transaction fee:** Charged whenever you make a purchase overseas, typically between 3% and 4% of your purchase.
  - **Late payment fee:** Charged if you don't pay at least the minimum payment by the due date on your credit card statement, typically around $35. Avoid this by always making your payments on time.
  - **Over-the-limit fee:** Charged if your balance exceeds your credit limit. You often have to opt in to this fee, and if you haven't and go over your limit, your purchases will be rejected at the register!

Whew! That's a full course of financial information made into two short lessons. Be careful with your money, and more importantly your spending, and be in control of your own financial future. It will definitely impact your career-life decisions moving forward!

As a reward, take a look at this great article from Joybird, looking at the budgets of some of your own favourite TV characters. As it turns out, many of them could use some financial help too!

Finances of Your Favorite TV Sitcom Characters
https://blog.joybird.com/sitcom-character-finance/