Sense2Dollars:
Financial Empowerment for New Canadians

MODULE 3:
INTRODUCTION TO SAVING ACCOUNTS & STRATEGIES

Access Alliance
Multicultural Health and Community Services

TD FINANCIAL LITERACY GRANT FUND
FONDS DE SUBVENTIONS D'ÉDUCATION FINANCIÈRE TD
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WELCOME AND ACKNOWLEDGEMENTS

Objective

- To convene and focus the group in a welcoming manner
- To introduce facilitators and thank the funders
- To pass on any 'housekeeping' information to participants
- To review workshop agenda

Time

5 – 10 minutes

What you need

✓ Name tags
✓ Agenda on Flip Charts

What to do

1. Welcome the group and announce that the workshop is beginning; facilitators introduce themselves.

2. Welcome and thank the interpreter for coming; have the interpreter to introduce her/himself. Explain that facilitators will be talking a bit slower and pausing at times to give interpreters a chance to catch up. Invite the interpreter to let you know when you are going too fast.

3. Make 'housekeeping' announcements (e.g. Washrooms, no break so leave if you have to, ask people to keep side conversations to a minimum, etc...)

4. Introduce the project and acknowledge the funders. Review workshop agenda written on a PowerPoint slide:

THE SAVINGS WEATHER REPORT

Objectives:

- To share collective knowledge of the personal, family, and structural influences that both negatively and positively affect our ability to save
- To start thinking about the services and resources in our lives that might help us save;
- To start thinking about solutions to the factors that prevent us from saving
- Collectively identify opportunities for advocacy that will support low-income, immigrant families who are interested in savings money

Time:

- 20 -25 minutes

What you need:

- ✓ 2 large flip charts, each with a blank "weather report" diagram drawn on them (see diagram on page 5)
- ✓ Markers
- ✓ Large Sticky notes

Room Set-up:

- Ensure space for groups to gather around the flip charts

What to do:

1. Create 2 blank "Weather Report" diagrams on large flip charts (perhaps 2 flip charts taped together)

2. Explain to participants that there are so many things happening in the world around us that have impacts on our ability to save in our everyday life.

3. Explain that we are going to look at the big picture; A savings weather report is a way to reflect and share what we know and to make some connections between things that are happening in our environment (structural), in our family and in our individual lives that positively or negatively affect our ability to save money. We call it the "savings weather report" because the diagram looks like those weather diagrams we see on the news and, like the weather we can use this to see what climate we are in and what is heading our way.

4. Divide participants into groups and have them gather around one of the flip chart diagrams (each facilitator will facilitate a small group discussion with one of the groups). Present the diagram of the savings weather report with personal, family and environment circles, and positive and negative sides.

5. Explain that in the "personal circle" we're going to use the sticky notes to post the skills, attitudes, habits, knowledge, and resources that help or hurt our ability to save.

6. Similarly, in the family circle, we are going to use the sticky notes to post the skills, attitudes, habits, knowledge and resources that exist in our families. We will use these points to discuss whether or not they positively or negatively affect our ability to save.

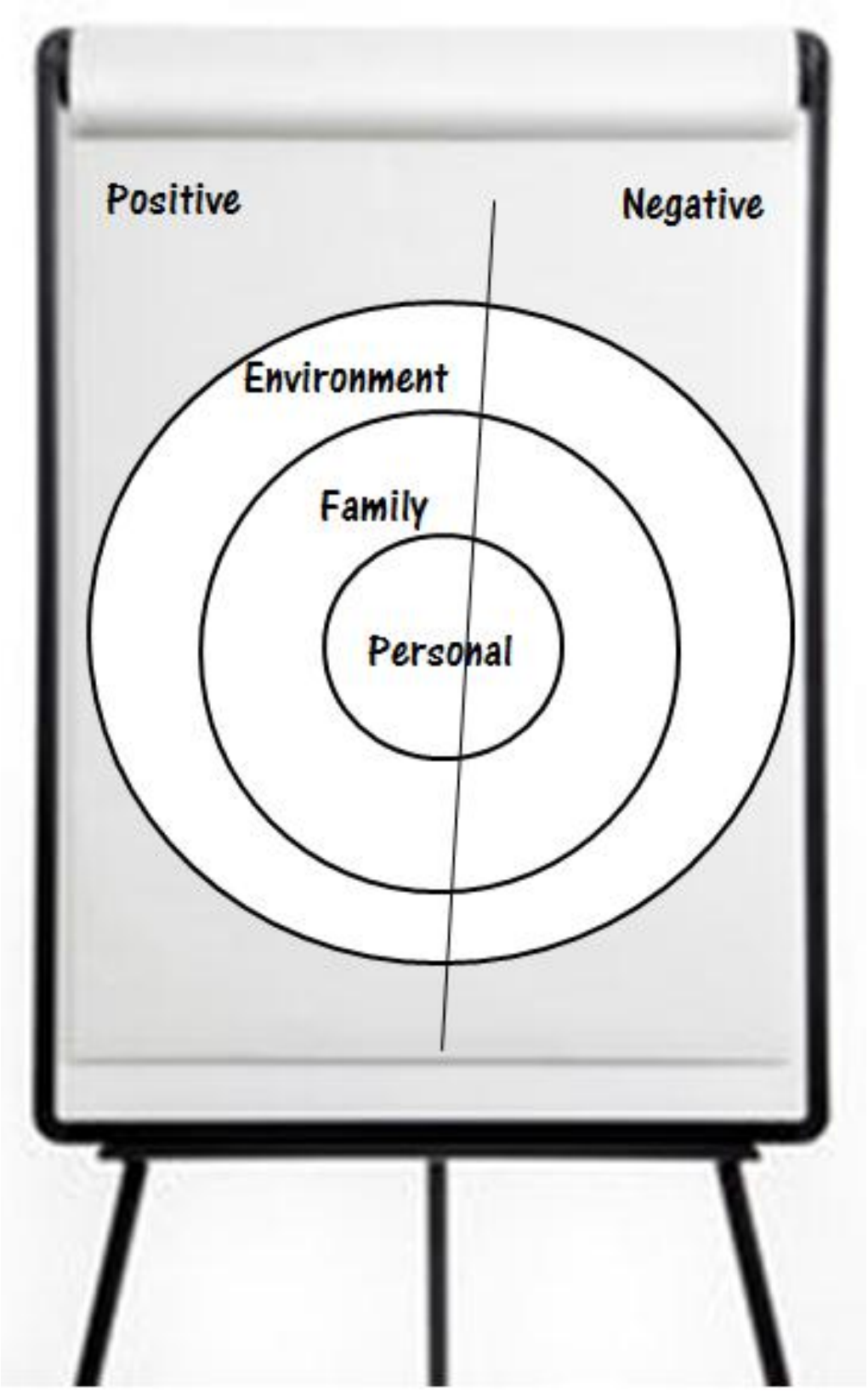
7. Finally, in the environment circle, we are going to use the sticky notes to make note of the challenges we face in our environment (in the world around us) that might make it hard to save money. We will also make note of the supports and resources in our environment that might make it easier or encourage us to save.
8. Provide examples: 1) "Really good at looking for sales" (positive personal influence); 2) "My daughter wants to go to university to study medicine" (positive Family motivation to start saving; but also a challenge because her goals may be outside of our financial capacity); 3) "Education is expensive in Canada" (negative environment influence)

9. Starting with the personal circle and moving outward to the environment circle, ask participants to shout out positive/negative influences. Write each influence on a sticky note and post it in the appropriate place on the diagram.

10. After the final circle, take a few minutes to evaluate and debrief on the big picture

Facilitation notes:

- Look for motivations for savings that can be translated into saving goals (e.g. children's education)
- Look at resources or points that can be related to the goals of the workshop; May want to point out influences that might be missing (i.e. the TFSA is a savings tool that is supposed to encourage modest-income families to save) but we plan to cover in the workshop
- Look at whether there are more negative influences than positive influences and discuss why
- Discuss possible solutions to the negative influences, including opportunities for advocacy (things about the system that need to change)


Positive
Negative
Environment
Family
Personal

INTRODUCTION TO SAVINGS ACCOUNTS AND RESOURCES: NABILA'S STORY

Objectives:

- To provide an opportunity for participants to think about the "pay yourself first" principle
- To provide an opportunity for participants to think about ways to make what may seem like small amounts of money grow
- To teach them the difference between compound interest and simple interest
- To provide an introduction to a selection of t savings accounts/services and discuss the pros and cons of those savings accounts/services
- To provide an introduction to the RRESP and Canada Learning Bond
- To provide an opportunity to think about realistic timelines around saving for education

Time:

80 minutes

What you need:

- ✓ PowerPoint and handouts
- ✓ Case Study notes below
- ✓ Flip Charts
- ✓ Markers
- ✓ "do-it-yourself" glossary handout

Note: The information in text boxes below should be converted in to PowerPoint slides and/or handouts

What to do:

1) Explain to participants that we are going to listen to Nabila's story and provide her family some financial advice on selecting the best savings tools to meet their financial goals.

2) Read Part 1 of Nabila's story and have the 2nd facilitator write down key points from the story below on a flip chart so that participants can keep track of certain numbers and facts about Nabila's family. Key points that might be written on a flip chart are bolded below.

Part 1 of Nabila's Story

When Nabila and Faisal lived in Afghanistan they were fortunate enough to own a small but successful business and managed to build a healthy financial portfolio with some modest investments and savings. Unfortunately, when they were **forced to leave Afghanistan in 2008**, they were also forced to leave all of their investments, savings and their business behind. This meant that by the time they arrived in Canada, **their family had to start all over again, from zero**.

They have lived in Canada for 6 years with their daughter, who is now 13 years old and their son, who is now 8 years old. Both Nabila and Faisal have **spent the last 6 years working survival jobs** and until recently have not been employed at the same time. **Nabila currently works in retail at the Jane and Finch mall** and **Faisal has just been hired as a full-time service**

station attendant. Now that they are both working at the same time, their monthly income will increase somewhat. Taking both jobs into account, **their monthly income (after taxes and deductions) is $3,525**.
Faisal has asked Nabila to be in charge of paying their monthly bills on time and whenever possible to save money for their future. But Nabila has trouble saving because it is **not very often that they have extra money that would be worth saving** and after losing everything in Afghanistan, she worries that she will work hard to save every month just to suddenly lose it all again. She prefers to live in the moment, instead of thinking about the future. After attending her first financial literacy workshop, **Nabila learns that instead of thinking about saving, she should think about paying herself first.**

3) **Introduce participants to the "pay yourself first" (a popular savings strategy) principle and discuss what might seem like small amounts in the beginning can add up to a lot of money years from now.**

PAY YOURSELF FIRST

- This means taking money off the top of each pay cheque to put into a savings account before taking care of your monthly bills.
- This amount can be as big or small as you think is reasonable
- Think about it as a % of your **net income**
- When you experience a change (particularly an increase in income) in your finances, this is a good time to explore whether or not you are able to pay yourself first
- You can ask your bank to automatically transfer a certain amount from your chequing account to a savings account each month

Net income: is the amount you receive after taxes and other deductions are taken off your pay cheque

Let's do the Math for Nabila and Faisal:

Their monthly net income = $3,525.00

% of monthly net income	Amount Saved Each Month	Amount Saved After 1 Year	Amount Saved After 10 Years
10%	$352.50	**$4,230.00**	**$42,300**
5%	$176.25	**$2,115.00**	**$21,150**
3%	$105.75	**$1269.00**	**$12,690**
1%	$35.25	**$423.00**	**$4,230**

Speaking Notes:
- After walking them through the "pay yourself first" principle, go through the chart
- Talk about what Nabila and Faisal can do with their savings after 10 years; point out that even 1% of their net income can add up and pay for half of their son's first year of university in 10 years
- It is important to note that this is just savings, without any interest
- Let's hear more about Nabila's story and help her family select a savings tool that will "put their money to work"

4)

5) **Read Part 2 of Nabila's story and have the 2nd facilitator write down key points from the story below on a flip chart so that participants can keep track of certain numbers and facts about Nabila's family. Key points that might be written on a flip chart are bolded below.**

Part 2 of Nabila's story:

After doing the math, Nabila decides to pay her family first by taking **3% of their monthly income** (**$105.25 or $106.00 a month)** and put that money towards their savings. Instead of saving money in her own account, Nabila is thinking about **transferring the money into her daughter's bank account**. That way she can transfer the money but cannot withdraw it without her daughter's permission. But **is this the best savings tool for her? Will she be able to get the maximum amount of interest on her savings**?

6) **Tell them that once you start saving it is important to think about how you can put your savings to work by figuring out the best way to earn interest. Review key concepts: Interest, Simple Interest, and Compound Interest. As you review definitions encourage them to add translations to their glossary handouts. Finally, review the chart that outlines how much Nabila will earn in compound interest.**

Simple Interest VS 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:

- Interest is paid to us only on the initial deposit

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. It grows 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.

REMEMBER:

- Without interest Faisal and Nabila saved $1,269 in 1 year and $12,690 in 10 years

Amount saved per month	Amount save after 1 year	Year Interest	Total saved in 10 years	Total interest earned in 10 years	Total savings in 10 years (savings + interest)
$105.75	**$1,269.00**	**$39.40 (year 1)**	**$12,690**	**$3,872.67**	**$16,562.67**

http://www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator.php

Facilitation Notes:

- Walk them through how Nabila's savings are put to work because they chose to deposit their money in a savings account that included a yearly compound interest rate of 5% (in 10 year the bank will pay them $**3,872.67** just in interest alone – think about what Nabila and Faisal can buy with just the interest)
- Important to note that if their financial situation changes and they have to deposit less or nothing at all – with the right savings tool that money can still grow.

- Advise them to ask their bank to help them calculate their new total with compound interest before they open the account

7) **Introduce popular savings accounts that are available from most financial institutions**

General Savings Accounts (not education, not retirement)

High Interest Savings Account

- Banks usually offer a variable rate of interest (The rate changes with the prime rate set by the bank)
- These types of accounts require a minimum deposit and will charge a fee for withdrawing money.
- This is a very safe way to save. Your money is protected by deposit insurance.
- This type of account is used for short to medium term financial goals
- Example: TD Bank offers high-interest savings account with 8% interest and a minimum balance of $4,999.99

Initial Amount	Monthly Deposit	Annual Interest (compounded)	Number of Years	Final Savings Balance
$4,999.99 (collected after 4 years in basic savings account)	**$105.75**	**8%**	**6**	**$17,580.25**

Note: Nabila may have to pay taxes on the interest she collects (depends on income range)

Guaranteed Investment Certificate (GIC)

- Very safe type of deposit account
- Your money is "locked in" for a period of time. This period of time is called a term (can range from 30 days to 5 years).
- The longer the term, the higher the interest rate. It usually provides a guaranteed interest rate (so the rate won't go lower than a certain amount but may increase if it is not fixed)
- At the end of the term, we say the money "matures". Then you can withdraw it. Your plan should be to wait for it to mature before you need the money.
- Requires a minimum deposit of $100 to $500.

Initial Investment	Interest Rate	Term	Access to funds before maturity Y/N?	Balance at time of maturity
$4,999	1.550%	5 year term	No	$5,386

**Note: Nabila will not make regular deposits into the GIC; If the same amount is held in a high interest savings account (8%) without any further deposits would amount to $7,345.17

*****Note: Nabila may have to pay taxes on the interest she collects**

Tax Free Savings Account (TFSA)

- This is a way of saving or investing money without having to pay tax on the money your earn from interest
- You can open a TFSA at your bank if you are 18 or older, a Canadian resident, and have a social insurance number
- There is a maximum amount that you can put into an account in a year (around $5,000).
- Within your TFSA, you can invest your money in a range of ways, such as GICs, stocks and bonds. A TFSA is a good way to avoid paying tax on your investments

Income Range	Monthly Investment	Rate of Return (%)	Term of Investment	Total TFSA Amount	Tax Savings Amount
$10,000 - $39,999	$106.00	5%	10 years	$16,529	$485**

**Note: The higher Nabila's income range the more she will save in Taxes; She will have to pay taxes on the remaining $16,044 (TFSA total – Tax Savings Amount) as she takes money out

- **Nabila can avoid paying taxes on the capital gains earned through a GIC by placing her GIC into a Tax-Free Savings Account**

8) Ask participants work in partners to create a 10 year savings plan based on what you know so far

Ask participants to work in partners to go over the savings tools that we just covered. In partners, ask them to create a 10 years savings plan – which tools should they use and for how long. After they have had a chance to create a plan for Nabila, ask them to share their plans with the entire group.

Things they might want to consider:

- **What is Nabila's best savings choice?**
- **Do you think she should be able to access her savings whenever she wants?**
- **When do you think she might need that money? Do you think she will need it soon or can she set it aside for a long time?**
- **What might she need that money for?**

Examples of plans:

- Use the "pay yourself first' principle to collect savings in a basic savings account (perhaps in her daughter's youth account where there are no fees and high interest rates) and then transfer some of that money to high interest savings account.
- Start putting her monthly payments to herself into a tax free savings account right away
- Save money in a basic savings account for a few years and purchase a GIC – then place that GIC into a Tax-Free Savings Account to avoid paying tax on the capital gains

Facilitation notes:

- Ask them to reveal their plans and ask them speak about why they chose those savings tools
- Walk them through the pros and cons of each plan; and subsequently each savings tool

9) Read Part 3 of Nabila's story and have the 2nd facilitator write down key points from the story below on a flip chart so that participants can keep track of certain numbers and facts about Nabila's family. Key points that might be written on a flip chart are bolded below.

After careful thought, **Nabila has decided that her savings should be attached to a financial goal**. This will help her decide which savings tool is the best choice for her. Since arriving to Canada in 2008, her children's futures have become her number one priority. With this in mind, **Nabila decides that her savings should go towards her children's education**. Her daughter will be starting university in **5 years** and her son will start in **10 years**. She will need a savings tool that will maximize the amount of money she can earn in interest in 5 years and again in 10 years. **A four-year college or university program can cost between $20,000 and $50,000.**

10) Introduce savings accounts and plans designed to help parents save for their children's education.

Education Savings Accounts

Registered Education Savings Plan (RESP)

- 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 fasters (Canada Education Savings Grant)
- You can open an RESP through a bank, credit union, life insurance company, investment company, or scholarship trust company
- You can invest the money in the RESP as you choose – in savings account, GICs, and so on.
- The person who opens the RESP is called the subscriber and your child or grandchild is called the beneficiary
- The beneficiary must be a Canadian citizen or permanent resident and must have a social insurance number
- The money in an RESP grows tax free until its withdrawn.
- It is taxed when it is withdrawn and that tax does to the student (beneficiary). The student will pay little to no t ax because their income is very low while in school
- BE CAREFUL ABOUT SIGNING CONTRACTS THAT REQUIRE MONTHLY PAYMENTS INTO AN RESP. Most banks and financial institutions will not make you contribute monthly

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
- Grants will end when the child turns 17. You can get a total of $7,200 from this savings grant.

11) Review the RESP reports for each of their children below. These reports were made using RESP calculators on line. Remind them that Nabila has 5 years to save before her daughter starts university and 10 years before her son starts university. These reports assume that her children will go to university in Toronto. This means that they will not have to pay for room and board while they go to school.

RESP Report for Nabila's Daughter (Sadia, Age 13)

Beneficiary Province of Residence:
Ontario (This report assumes that Sadia will go to school in Toronto and live at home)

Projected Required Savings: **$36,070**

After tax Family Income: $40,000
Margin Tax Rate: 46.41%
Annual Rate of Return: 4.6%
Monthly Contributions: $106.00

Total RESP Contributions	Projected Return on Investment	Total Government Grants	Projected Return on Government Investment	Total RESP Value in 5 years (Age 18)
$6,345	**$738**	**$1,061**	**$184**	**$8,334**

RESP Report for Nabila's Son (Burhan, Age 8)

Beneficiary Province of Residence: Beneficiary Province of Residence:
Ontario (This report assumes that Burhan will go to school in Toronto and live at home)

Projected Required Savings: **$37,359**

After tax Family Income: $40,000
Margin Tax Rate: 46.41%
Annual Rate of Return: 4.6%
Monthly Contributions: $106.00

Total RESP Contributions	Projected Return on Investment	Total Government Grants	Projected Return on Government Investment	Total RESP Value in 10 years (Age 18)
$12,720	**$3,372**	**$4,744**	**$1,444**	**$22,280**

Facilitation notes:

- If Nabila and Faisal only have $106/month to go towards savings then they have a hard choice to make:
  - do they put it towards Sadia's education for the next five years and then towards Burhan's education for the following 5 years (allowing for just over $8,000 for each of them)
  - Do they find extra money that will allow them to contribute to both
  - Should they choose one over the other
  - Ask participants what they would do; how would they advise Nabila and Faisal
- Point out this the RESP as a savings tool earns more than any of the other savings tools we reviewed earlier because the government offers to top-up their savings.
- Explore the idea of combining/integrating GICs and RESPs

12) **Introduce the Canada Learning Bond and review a revised RESP report for Nabila's son (Burhan)**

Education Savings Accounts (continued…)

The Canada Learning Bond

- Government benefit for low-income families to help you save for your children's education after high school;
- If you have a child born January 1, 2004 or later, and if you getting the National Child Benefit (NCB) Supplement, you can apply for $500 to open an RESP;
  - If your net income is below $24,183 then you qualify for the full NCB supplement and will qualify for the Canada Learning Bond;
  - If your net income is between $24,183 and $42,000 then you will qualify for a partial NCB supplement and will qualify for the Canada Learning Bond
- 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.

RESP Report for Nabila's Son with The Canada Learning Bond (Burhan, Age 8)

Beneficiary Province of Residence: Beneficiary Province of Residence:
Ontario (This report assumes that Burhan will go to school in Toronto and live at home)

Projected Required Savings: **$37,359**

After tax Family Income: $40,000
Margin Tax Rate: 46.41%
Annual Rate of Return: 4.6%
Monthly Contributions: $106.00

Planned Annual Contribution	Total Government Grants	Total CLB contributions after initial payment	Total RESP Value in 10 years (Age 18)
$12,690	**$4,338**	**$1,300**	**$23,580**

Facilitation notes:

- Remind participants that Sadia (Nabila's daughter) does not qualify for the CLB because she was born after January 2004
- Burhan is eligible for $1,300 extra dollars through the CLB; Nabila should apply for the CLB when opening Burhan's RESP in order to get the initial $500 for setting up the account

13) Facilitate group discussion by asking participant to give Nabila some advice on how best to save money for her children's education based on what they have learned about the savings tools that are available to them. Record their thoughts on a flip chart.

Facilitation notes:

- What would they do if they were in Nabila's shoes?
- How should they divide the little savings they have in order to provide the best financial opportunities for both their children?
- What are some other saving strategies that they can employ?
- Reminder: once she puts money into the RESP, she cannot withdraw that money before they are in school without having to pay taxes on that money.

END OF EXERCISE

GROUP QUIZ:
A REVIEW OF CONCEPTS INTRODUCED IN TODAY'S WORKSHOP

Objectives:

- To review key concepts introduced in the workshop
- To assess participants understanding of those concepts
- To clarify any confusion about the concepts

Time:

- 10 minutes

What you need:

✓ PowerPoint or handout with quiz on it (see text box below)

What to do:

1) Point participants to the questions on the group quiz. They will answer the questions as a group. Ask each question and select a participant to answer it. After each answer is given, ask if anyone in the group if they would give a different answer and why. If there is a wrong answer, help the group clarify the answer.

Group Quiz on Savings Tools:

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

2) I want to avoid paying tax on my savings and on the interest I earn from my savings. Which savings tools should I consider?

3) The most I can save in a TFSA each year is about $ _____.

4) The Savings tool that the Government of Canada contributes 20-40% in grants is called a _____.

5) I must deposit a minimum of $_____ in order to purchase a GIC. And I can protect the money I make from my GIC by doing what?

6) Which type of interest will earn me more money – Simple Interest or Compound Interest? Why?

END OF EXERCISE