

MONEY AND YOUTH

GARY RABBIOR
Canadian Foundation for Economic Education

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by Gary Rabbior

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110 Eglinton Avenue West, Suite 201, Toronto, Ontario M4R 1A3

Tel: 416-968-2236; Fax: 416-968-0488; Toll-free: 1-888-570-7610

E-mail: mail@cfee.org; Web site: www.cfee.org

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PREFACE

Today's world is full of opportunities. As changes occur and our society evolves, those who are prepared will be able to take advantage of the increasing opportunities — opportunities to do new things, generate new ideas, accomplish new tasks, and formulate and realize new hopes and dreams. Although it is certainly true that change creates stress for many, for those prepared to take control of their lives, and willing and able to take the initiative, the future that is unfolding holds much promise.

Taking control of one's life can mean many things — pursuing a good and relevant education, forming and nurturing personal and family relationships, establishing priority goals and objectives, developing skills and abilities related to areas of interest and personal passion (the things we love to do), and so on. Taking control of one's life helps to instill confidence, determination, and commitment, which can lead to accomplishment, personal success, and happiness.

If we don't take control of our lives, we are more vulnerable to outside influences. The goals and objectives of others may lead us to where they want to go — not necessarily where we want, or hope, to go. However, many people lack the knowledge and skills that can help them to take control.

The world of money and financial planning is one area where people, especially young people, often feel they are less in control — if not downright out of control. But like it or not, our ability to earn, acquire, and manage money affects our lifestyle and our ability to achieve our personal economic goals. Equipped with knowledge, skills, and experience, young people can begin to take more control over their personal financial affairs. They can set goals and start toward achieving those goals. And if a person can start to take control at a young age, his or her ability to be in control, and take more control, later in life will be strengthened.

The Canadian Foundation for Economic Education, in partnership with Investors Group, has produced this publication to provide youth with information that will help them to better understand the world of money and enable them to begin to take more responsibility for their financial future.

CFEE's primary goal is to promote and assist economic and entrepreneurship education for Canadian youth so that they are able to assume economic roles, and make economic decisions, with confidence and competence. It is our hope that *Money and Youth* will make a significant contribution toward that goal.

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Part I • GOALS, VALUES, AND DECISIONS

Chapter

1

Your Goals: Who's in Control?



Life Lines

Try to complete the following activity in less than two minutes.

- ▶ Identify the five most important things in your life at the present time.
- ▶ After you have done this, identify the five things you most hope for in the life that lies ahead.

Try Activity 1.1. Are you able to provide your answers quickly and easily? Have you spent time thinking about what's important to you in life? Are there things you want to do, places you'd like to go, experiences you'd like to have? If so, how will these things come about?

If providing your answers was not quick and easy for you, maybe you have yet to figure out what's really important to you. Or maybe you've just started to think about it.

Sooner or later, it will be necessary for you to think about what's important to you and the course in life you would like to follow. If you don't, if you have no direction — no aims, no goals, no hopes — then there's a saying that applies: "If you don't know where you're going, you're sure to get there!" You just might not like where you end up.

Each of us has to figure out what makes us happy. Then we have to try to put the pieces in place. And some of those pieces will require money.

"Money can't buy happiness" is probably quite true. But it is also true that a lack of money can create problems. Being in debt over one's head, being unable to pay bills, being unable to take



holidays, being unable to afford the accommodation one wants can be frustrating and unpleasant experiences. “Money can’t buy happiness” but, let’s face it, it helps. And let’s not forget two other sayings: “A penny saved is a penny earned” and “A fool and his (or her) money are soon parted.”

Money plays an important role in most people’s lives. We may wish it weren’t so, but it’s true. Earning money. Spending money. Saving money. Investing

money. Making money.

Losing money. Giving money away. Remember,

though, we don’t eat

money, wear money, or

build buildings out of coins and twenty-dollar bills.

Money is a tool. It is a

means to an end. It is

something created to help

our economy work more

smoothly. It serves as a

“medium of exchange,” that is, we can use it for purchases. And money can help each of us in achieving our goals — whatever they may be. Or, money can cause problems.

You can plan now to avoid money problems. You can plan now to take control of your financial affairs. After all, if you don’t take control, who will? You can use your money wisely today. You can spend money in ways to get the most from what you have. You can begin to save and invest at a young age. Even small amounts (such as pennies, nickels, or dimes) can build over time into significant savings. You can avoid debt problems. And you can set goals that you are likely to achieve. Today is the best time to start to take control. And the best way to take control is to be prepared.

And don’t think financial planning is only for the well-to-do. The less money you have, the more important it probably is to plan. Make sure you use what you have wisely. Get the most out of the money you have.

Planning will involve setting goals — deciding what you really want to achieve out of life. In setting goals you also have to consider the “time periods” — the short-term (what do you hope to achieve over the next year), the medium-term (1–3 years), the long-term (3–10 years), and the more distant future (beyond 10 years). Short-term goals serve as stepping stones to your medium-term goals. Then, use medium-term goals as stepping stones to long-term goals, and so on. You then have continuous “check points” for you to see

Planning is important to almost everything, whether it’s organizing a career, having a great trip, getting a ball across a goal line, or enjoying a date. It is much better to learn to drive, know the rules of the road, and chart a course than to just jump behind the wheel of a car for the first time and take off. In either case, you may have an accident or hit bumps along the way, but your chances for success are better if you are prepared and take the time to learn and plan.

how you are doing. Achieving short-term goals should also make you more confident about your ability to achieve your longer-term goals.

Different people will have different goals because, as we all know, people are different. What one person wants out of life can be different from what another person wants. What people have in life also differs greatly. Individuals

face life and its financial challenges from a wide array of starting points. Some people have access to a great deal, including opportunities for education, training, working, and acquiring income. Others have access to very little and face different challenges and opportunities. Different cultures have differing attitudes to money and material things. The same is true of various religions.

No matter what the differences, however, everyone can set goals for what they want out of life and for what they think is important. And everyone will face decisions related to earning money, spending money, saving money, and so on. To guide these decisions, we each need a set of goals. Setting goals is the first step in taking control of money matters in your life.



Taking Aim

- ▶ Identify the top three goals that you hope to achieve within one year.
- ▶ Identify the top three goals that you hope to achieve within the next three years.
- ▶ Identify the top three goals that you hope to achieve within the next ten years.



Chapter

2

Your Goals and Your Values

Refer back to Activity 1.1 and Activity 1.2. Did the things you picked as important in life and the goals you identified reflect your “values”? Can you tell?

Values are like the engine in a car. A car can look great on the outside — or it can look less than great. Appearances tell you very little about the car. How it runs, how it performs, how far it goes, and where it ends up all depend significantly on the engine.

The same is true of people.

What are values anyway? Values are those things that make up your character. They represent what you think is important in life. They show up in your decisions, actions, and judgments.

How we look on the outside tells very little. It's what's on the inside that will make most of the difference. And values are a big part of what's inside.

There are many things that can influence your values. Your parents, brothers and sisters, teachers, and friends are particularly strong influences. Television, movies, videos, and music certainly play a role, too. Advertising can also do a great deal to influence, or try to influence, what you think is important and what you value.

Your values will also govern many of your financial decisions. What material things are important to you? How much money will you need? What will you do to get it? What trade-offs will you make? What will you do with your

money? And so on. There is no denying that decisions related to money are important — they affect each of our lives and those around us. And your values affect those decisions.

Let's try to explore the things in life that you value — and the things that have influenced your values.



A Value-able Top Ten

It is time for brutal honesty. Below are a number of things you may think are important in life. They may be things in life you want for yourself, what you try to be or hope for, or things you respect in others. There are probably other things that are important to you that aren't included. Please add them to the list. Then select the "top ten," the things you value most, and rank them one to ten.

WHAT'S IMPORTANT TO YOU

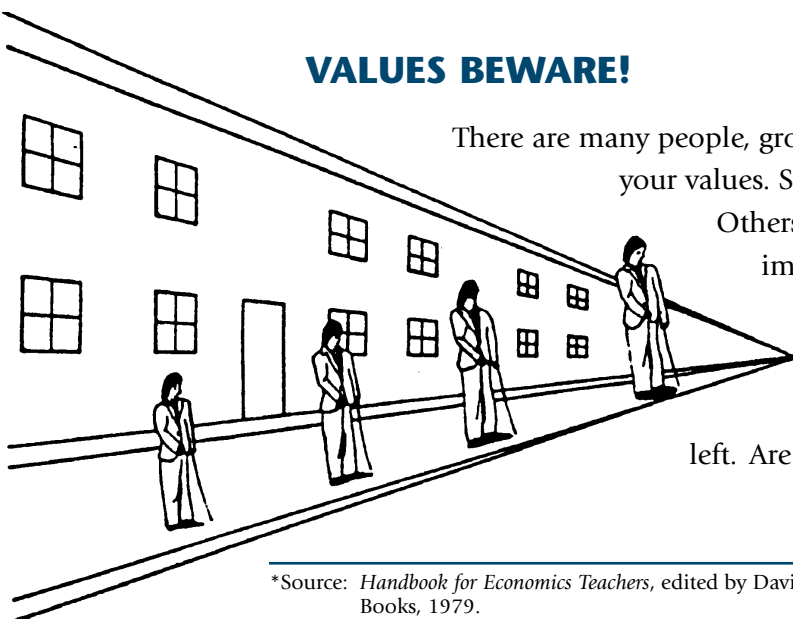
Happiness	Recreation and travel	Maturity	Good health
Work	Status	Education	Freedom
Family	Tolerance	Love	Compassion
Sympathy	Loyalty	Fitness	Honesty
Reliability	Fun	Wealth	Acceptance
Patriotism	Responsibility	Respect	Sense of humour
Security	Beauty	Honour	Safety
Faith	Commitment and dedication	Religion	Being in style
Acquiring abilities/skills	Independence	Excitement	Influence
Friendship	Risk	Helping others	Community involvement
			Others:

VALUES BEWARE!

There are many people, groups, and things that can influence your values. Some may *try* to influence them.

Others may do so *without* even trying. It is important to be cautious about those who are out to influence what you do and the decisions you make.

Take a look at the visual* to the left. Are all of the figures the same size?



*Source: *Handbook for Economics Teachers*, edited by David J. Whitehead. London: Heineman Educational Books, 1979.



To most people, the figures will appear to be of different sizes. Put a ruler alongside each one. They are, in fact, the same size. But the way they have been drawn makes them appear to be different than they really are.

Visual illusions such as this can be fun. They also make a point. We can be fooled. We can be influenced. We can be made to see things differently than they really are. Take a look at the visual on the left.* Do you see a picture of an old woman or a young woman?

Did you see both? Both are there. The point is that different people can see things differently. It's not necessarily such that one is wrong and the other is right. Both may be right. So whenever you think something is true, consider whether or not there might be other ways of looking at it. Is there another point of view? A better point of view? A view that will strengthen what you believe?



Course Source

In Activity 2.1, you identified the things you feel you value most in life. But where did those values come from? What influenced your values in the past? What influences your values today? Possible influences are listed below. From these, or others you can think of, identify the top seven factors that you believe have contributed the most to determining what you value most. Refer back to your top ten values list and try to figure out where those values came from. Are you aware of what has influenced you in the past and what influences you today? Or did your values sort of sneak up on you?

POSSIBLE INFLUENCES

Your parents	Other people	Books	Camp experiences
Other relatives	Television	Magazines	Volunteer experiences
Your childhood experiences	Entertainment personalities	Travel experiences	Work experiences
Your childhood friends	Sport personalities	Specific events	Sickness or injury
Your current friends	Radio	Community activity	Others:
Your teachers	Music		

*Source: *Handbook for Economics Teachers*, edited by David J. Whitehead. London: Heineman Educational Books, 1979.



Psst — Over Here

Think about the last time that somebody tried to influence a decision that you made. How long ago was it? Why were they trying to influence your decision? How frequently does this tend to happen?

Others may see things differently than you do and may try to bring you around to their way of thinking. And, as you know, what is right for them, may not necessarily be right for you.

Consider some instances where people's views differ. What is "right" and "wrong" is often somewhat unclear.



"Perspecting"

Identify two different perspectives, each of which might be true to some degree, that might be held on each of the following:

- ▶ Nuclear testing
- ▶ University education
- ▶ Space research and exploration program
- ▶ Birth control
- ▶ God
- ▶ Computers in education

PEER PRESSURE

Peer pressure refers to how others your own age can influence your thinking — on purpose or not. Peer pressure is one of the strongest influences on young people. Friends, classmates, teammates, and workmates are usually very important to you. You may value them and what they think and do.

At the same time, they are in the same situation as you are — trying to figure out their lives, trying things, thinking about things, and figuring out what they value and what's important to them.

Many of the decisions that you make in your youth will be influenced by your peers. Situations can arise that involve making decisions related to alcohol, smoking, drugs, clothing fads and styles, concerts, schools, careers, jobs, and so on. Many of these are difficult decisions, and peers can apply a great deal of pressure — either directly on you or by the decisions they have made and what they are doing. You will face times and decisions when your values are really put to the test.



In a group situation, discuss the following:

- ▶ Where does peer pressure push the hardest (for example, when deciding whether or not to smoke, to dress a certain way, to listen to certain music, to drink, to associate with certain people, to want certain possessions, and so on)?
- ▶ What are the best ways to deal with peer pressure when you disagree with the direction toward which it is pushing you?

As far as money matters go, your peers again may seek to influence you — how much you spend, what you buy, how much you borrow, what styles you follow. Once again, it is important to make the decisions you believe are best for you, the ones that fit your values, priorities, and goals.

KEEPING UP WITH THE JONESES



N V N U

Are you envious? Does envy play much of a role in terms of your goals, decisions, and actions? On a scale of 1 to 10, rate the influence of envy on your economic decisions.

Do you feel envy plays much of a role in your life at this time? Do you feel envious of anyone? Is there something that you currently want that stems from envy? Have you made a recent decision or purchase that stems from envy?

You may not even know anyone by the name of Jones. For you, it may be the Howards, the Garneaus, the Villachis, or others. The “Joneses” is simply a reference to those around us with whom we may struggle to keep up. We may want what they have, or try to live how they live. For youth, the “Joneses” can be friends who wear certain shoes or jackets, go to certain concerts, wear certain clothes, drive certain cars, have a new possession (such as an MP3 player, or computer, or computer software), take vacations, and so on.

Basically, it comes down to envy and the role it plays in your values, decisions, actions, and goals.

There may be many reasons why another person was able to get what he/she did — everything from generous parents, to an inheritance, to a good job, to trading off other things, to effective saving, to hard work, to a large debt. You will have to judge how much you will make your decisions on the basis of trying to keep up with, or get ahead of, others.



What's Cool?

Look around at those in your peer group. What things have people been buying that you think are decisions made by them to “keep up” with what others are doing or to be “in” or “cool”?

ADVERTISING

Advertising is the way producers provide information to consumers about a product or service and how they encourage consumers to purchase it. It is their objective to convince you, as a consumer, to purchase their product. At the same time, advertisers are governed by rules and regulations (such as those provided under the Competition Act, the Food and Drugs Act, the Canadian Radio-television and Telecommunications Commission, and other federal and provincial laws) that set standards and guidelines for advertisers. For example, it is illegal for advertisers to provide untrue or deceptive information. They cannot make false claims about their product. They cannot make untrue statements about their competitor's product.

Therefore, within certain guidelines, the advertiser's aim is to influence you and to get you to buy a particular product or service. This is not as deceptive an act as it may sound. As you know, there are many good products and services available. If you don't know about them, you can't make effective decisions about which ones, if any, you want to purchase and use. Furthermore, producers have the right to make accurate claims about how good their product is. If the product is good, they should certainly be able to let you know about it.

Advertising performs a number of positive functions:



It is a source of information regarding new products, existing products, and improvements or changes to products.



It encourages competition, which can lead to product improvements, lower prices, specials, improvements in supply and availability, and more.



As you are probably well aware, advertising pays for media presentations. Advertising sponsors TV and radio shows, magazines and newspapers, concerts, and so forth.

Advertisers sponsor these activities according to how many of their potential customers they believe will watch the show, listen to the show, read the magazine or paper, or come to the concert. Through sponsorship, some of these activities, such as TV and radio programs, are provided free to us (even though we do end up paying for the advertising in the prices we pay for what we buy). Some (such as a newspaper) are provided to us at much lower cost than would otherwise be the case, and some (such as a concert) might not have come to town without the sponsor.



Advertising enables consumers to compare the different products and services that are available.

But just as advertisers have their objectives, priorities, beliefs, and methods, so do consumers. The consumer is out to make the best, most effective “buy” that is possible.

How can advertising have a powerful influence on your buying decisions? Advertising may lead you into impulse buying (buying on the spot without much thought) or fad buying. It may lead you to buy something you really don’t want, or don’t need, or shouldn’t buy at this time. But who’s fault is that — the advertiser’s or yours? There is a saying — *caveat emptor* — which means “let the buyer beware.” You are responsible for your own decisions. If you make a bad buy (one that is not in your best interest), then, unless an ad has been misleading or illegal, you have only yourself to blame. Therefore, when making your buying decisions it is important for you to be aware of some of the ways in which advertisers may try to influence you to buy their product.

Some of the techniques that advertisers may use to influence you are listed on the next page. The advertiser’s job is to put the product forward in the best light possible. Your job, as a wise consumer, is to use your head and make the decisions that you think will be best for you.

There is one further point to mention in this section. As a consumer, you do have certain “rights.” We are not going to go into them all here, but you should investigate and know what your rights are. For example, you have the right to receive accurate information through advertising, not misleading or incorrect information.

You may find that, on occasion, your rights have been abused. Or you may have a complaint about a good or service you purchased. If so, identify who you can speak with and voice your complaints. For those times (which we hope will be few) when you have legitimate complaints, you need to learn the “art of effective complaining.” Most producers will welcome the chance to



Advertising and You

Review each of the advertising techniques described below. See if you can think of one or more product or service ads that you have seen recently that use the following techniques. Rank these techniques from 1 to 10 in terms of which is the most effective at influencing your opinion of a product or service. Let “1” represent the most effective and “10” the least.

- ▶ **REPETITION** You have heard it said that “If you tell people the same thing often enough, they will come to believe it.” Some advertisers will use this method, repeating their message over and over again.
[Eat at Joe’s! Eat at Joe’s! Eat at Joe’s! Eat at Joe’s!]
- ▶ **CONFORMITY** This approach aims to have you “get on board,” “be in,” “get with it.”
[Join “the Pepsi generation.”]
- ▶ **IMITATION** This is the effort by an advertiser to influence a consumer by having a celebrity associated with the good or service. The advertiser hopes that those who like and respect the celebrity will imitate the behaviour by using the product.
[“Last year I won the Indy 500...but I know I would never have won without....”]
- ▶ **EMOTIONAL APPEAL** This is where the advertiser seeks to draw upon one or more of the consumer’s emotions to influence the decision. *[“That Long Distance Feeling.”]*
- ▶ **GOOD WILL** Providing something for free – a free sample, a free issue, and so on. However, always remember that there is no such thing as a free lunch – someone always pays. It’s a question of who pays and why.
[“Four free CDs! Just sign up to buy one CD a month and you’ll get four free CDs!”]
- ▶ **SCARE TECHNIQUES** Well, maybe not exactly scare techniques, but who wants to face the consequences of going around with bad breath, blotchy skin, or underarm odor, especially when the ads portray such awful consequences.
[“Nick and Lotta were about to kiss when, all of a sudden, Lotta noticed Nick’s teeth. If only Nick had used...”]
- ▶ **SNOB APPEAL** These ads are designed to appeal to those who want to be seen as in the lead, on the move, up and comers, those who have made it and want others to know about it. These ads emphasize that if you have the product you are definitely “in” or among the “elite” or “successful.”
[“If you need to know the price, you’re not interested.”]
- ▶ **ECONOMIC APPEAL** This type of ad presents the “great deal” – no money down, no interest payments, and so on. Be on your toes and watch for those that are genuine deals and those that have catches to them such as factoring all of the delayed interest payments into the price.
[“No payments until 2010! That’s right, it can be yours and you don’t pay until 2010!”]
- ▶ **COMFORT AND ENJOYMENT** Some advertisers may attempt to present their product in relation to something that, although enjoyable, is largely unrelated to the product. For example, have you ever sat through a commercial wondering what on earth was being advertised – only to be surprised at the end?
- ▶ **HUMOUR** One method to attempt to influence your purchase is to present the product or service in a humorous way and hope that your laughter will carry over all the way to your buying decisions.



The Good, the Bad, and the Ugly

Clip your favourite, and least favourite, ad from a newspaper or magazine. Identify why you like or dislike the ad and share your opinions with others.

turn an unhappy customer into a happy one. After all, if you leave unhappy, you'll probably never return. They lose your future business. Give them a chance to fix any mistakes or problems. Discuss, in a group, the art of effective complaining. Who has had a reason to complain? What did they do about the problem? Was that the right thing to do? What else could they have done? What was the desired result? What was the actual result?

Chapter

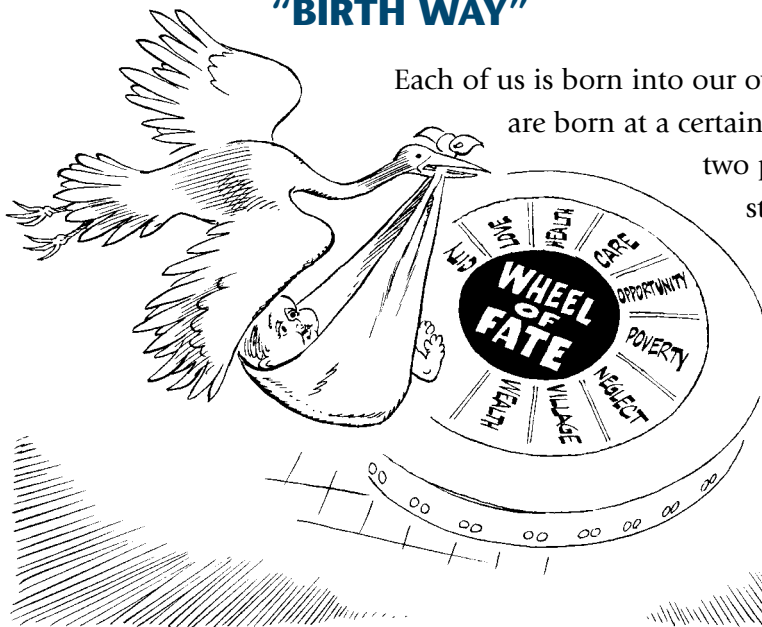
3

Your Goals: Other Things to Consider

In this chapter, we are going to examine some of the other forces and factors that will influence your financial decisions and actions. Specifically, we are going to look at the following factors:

- "Birth Way"
- Life Cycle Stage
- Tastes, Preferences, and Lifestyle
- Economic Conditions
- Social Factors
- Political Factors
- Technological Change
- Language and Communication Skills
- Prejudice

"BIRTH WAY"



Each of us is born into our own individual set of circumstances. We are born at a certain period of time, in a certain location to two particular parents (who may or may not stay together as a family unit), into a certain lifestyle, and so on. We enter into different economic circumstances, into different geographic locations, into different cultures, with differing family conditions and values. You may support the belief that all are created equal, but few will claim we are all born into circumstances of



Your “Birth Way”

When you entered this world on the “highway” to life, you may believe you started with certain advantages or disadvantages. Identify both the advantages and disadvantages you feel you started with.

equal opportunity. The way in which we start life can vary greatly, and many aspects of our lives are influenced by the social, geographic, and economic circumstances into which each of us is born. That is a reality that we all have to face in terms of our personal financial affairs.

LIFE CYCLE STAGE

If you are in your teens or early twenties, your day-to-day thoughts are probably focused more on things such as personal relationships, sporting events, education, jobs, concerts, and travel. You have to consider possible career paths, educational options, work experience, setting up a first “home,” and deciding who, if anyone, might be that particular person with whom to share a life. Over time, though, and at different stages of life, our priorities and concerns will vary. Different things are more important at different times. The priorities, concerns, and goals of someone who is 15 will likely be quite different from those of someone who is 65. Therefore, when setting goals, you have to consider the changes that will tend to occur throughout your life cycle.

What is the life cycle? Although each of us will experience our own particular life cycle, there tend to be similarities in terms of what our primary concerns and preoccupations are at various stages in our life. Concerns will vary with respect to education, training, saving, investment, life insurance, retirement, travel, and so on.

Taking control and planning your financial affairs means that you have to consider the various stages of your own life cycle. You can't think only about what is important today. You also have to think about what will be important to you in the future — at another stage in your life cycle. Therefore, you need to set goals for various times in your life. You don't want to find yourself thinking about retirement only when you are about to retire. Then it's too late. You want to be prepared.

In addition, recognize that for many people, at some point in the life cycle, personal plans will have to merge with those of someone else — or at least incorporate the hopes, goals, assets, debts, and so forth of someone else. It is important to understand that trade-offs may lie down the road.



Goals and Your Life Cycle

The following is a list of possible goals (including some financial goals) that a person may have in life. Add others that are important to you.

Possible Goals/Concerns that Affect a Financial Plan

- ▶ Owning a home
- ▶ Obtaining a good education
- ▶ Obtaining specific training
- ▶ Writing
- ▶ Performing
- ▶ Playing a sport
- ▶ Saving/investing for an enjoyable retirement
- ▶ Travelling
- ▶ Obtaining a good job/career
- ▶ Owning a business
- ▶ Owning a cottage
- ▶ Owning a car
- ▶ Getting married
- ▶ Helping to educate grandchildren
- ▶ Caring for parents
- ▶ Health, fitness, and medical care
- ▶ Having children
- ▶ Having a hobby
- ▶ Donating to charity
- ▶ Having time to volunteer
- ▶ Working part-time rather than full-time
- ▶ Joining a club
- ▶ Building a collection
- ▶ Renovating/improving accommodation
- ▶ Developing a specific talent
- ▶ Others:

At different times in your life, you will probably assign your goals different priorities. Review the above list and identify those goals/concerns that you think will be most important to you at each of the following age ranges.

- ▶ Age 14–17
- ▶ Age 18–24
- ▶ Age 25–34
- ▶ Age 35–49
- ▶ Age 50–64
- ▶ Age 65+

TASTES, PREFERENCES, AND LIFESTYLE

Individual tastes and preferences will be factored into almost every decision made. For example, is it important to you to one day own your own home? If so, does it have to be a house? What about a condominium? An apartment? A townhouse? Maybe your economic circumstances limit your choice, but what would you want and how important is it to you? Is it more important that you live in an urban/downtown area than live in a house? Is it important to you to live in the country or live in a small town?

In terms of a career, what kind of work environment do you want? Do you want to work for yourself? Do you prefer work in a factory or on an assembly line? Do you want a career that will require many years of education, or do you want to start working as soon as possible?

On and on it goes. What are your tastes? What are your preferences? What are your expectations?



That's Entertainment

Suppose you have \$100 to spend on various types of entertainment. Indicate your preferences for each type of entertainment by allocating a portion of your \$100 to the ones you most prefer. The total should equal \$100 (for example, \$30 on concerts, \$30 on movies, \$20 on dancing, \$10 on sporting events, \$10 on books).

Type of Entertainment

- | | |
|---------------------------------|--------------------------------|
| ▶ Buying and listening to music | ▶ Sports events |
| ▶ Concerts | ▶ Playing sports |
| ▶ Books | ▶ Playing a musical instrument |
| ▶ Magazines | ▶ Dancing |
| ▶ Movies | ▶ Shopping |
| ▶ Parties | ▶ Eating out |
| ▶ Camping | ▶ Others: |

ECONOMIC CONDITIONS

Conditions in the economy can affect financial decisions and affairs. The following are just some of the economic factors that can have an important influence:

- prices and the rate of inflation
- the level of employment/unemployment and conditions in the labour market
- the activities and priorities of business
- the ability of companies to succeed and create jobs
- interest rates
- investment opportunities
- government programs and subsidies
- tax policies
- labour unions
- what goes on in other countries
- the exchange rate for the Canadian dollar
- the quality of goods and services that are produced and consumed

It is important for everyone to have a basic economic education. That doesn't mean training to be an economist. It simply means that it is highly beneficial for financial planning and decision making, as well as for other activities, to have a basic knowledge of the economic system and what can affect such things as employment, prices, interest rates, and so on.

Many of the decisions that you make will be influenced by these economic factors. You may hope for a particular career, but if circumstances change or jobs aren't available, then that career choice may not be open to you. You may want to own a house, but if the

housing market pushes prices way up, and/or interest rates on mortgages climb to high levels, then your hopes may be dashed or at least postponed.

Has the economy had an impact on your life lately?



Economics in Everyday Living

Think back over the last five years and identify any ways in which the economy has affected your financial circumstances or those of a family member. Has it affected jobs, incomes, housing, car purchase, vacation plans, and so on?

SOCIAL FACTORS

Changes in our society can affect our living conditions and our tastes, preferences, and goals. As cultural values change, we may find our own values changing.

For example, attitudes toward work may change. Attitudes toward leisure may change. Over recent decades, the number of women in the workforce has increased significantly. In the past, the man was often seen as the "breadwinner" and the "woman's place was in the home." Well, that certainly is not the common attitude these days, which is reflected in the increased number of women working and the greater social acceptance of women working.

Social changes that occur with respect to family size, the importance of education, housing, the desirability of certain careers, and so on can all have a bearing on us and on our financial decisions and plans.



Decisions and Actions

Think about the world as it is today and how it would have been when your grandparents were your age? Have things changed? What social factors have changed that might influence your actions, decisions, and goals?

How do you deal with change? Do you: Resist? Ignore? Lead? Adapt? Accept? React? Respond?

POLITICAL FACTORS

We live in a society in which governments play a prominent role. Governments are involved in areas such as the following:

- insurance and banking regulations
- unemployment insurance programs
- parkland and other recreational facilities
- legislation affecting wages and conditions in the workplace
- transportation and communication
- training programs
- taxation
- health care
- public education
- welfare programs
- interest rates



“Made by Government”

Identify the major government products and services that you have used in the past or that you use today (for example, parks, roads, sidewalks, schools).

Government decisions can affect the prices of goods and services we buy; the availability of certain jobs; the quality, cost, and availability of health care; the quality, cost, and availability of education and training programs; pension plans; housing costs; and much more.

Each of us has the right to vote, and we have a responsibility to cast our votes for those candidates representing the views and values each of us believes are best. The decisions of those people we elect will ultimately affect the communities and society within which we live. Their decisions



Public Options

Identify how the major political parties differ in terms of their views and proposed policies related to:

- ▶ Government spending
- ▶ Taxes
- ▶ The debt and deficit
- ▶ Health care
- ▶ Education
- ▶ Pensions
- ▶ Free trade
- ▶ Interest rates
- ▶ Role of business
- ▶ Role of organized labour
- ▶ Job creation
- ▶ Youth employment

will affect the conditions in which we live, work, play, spend, invest, raise a family, and retire. Along with our financial responsibilities, we have a responsibility to put in power the best government we think possible. The consequences of our collective decisions as citizens will be enormous as various actions, policies, and decisions are taken by the politicians and political parties we elect.

TECHNOLOGICAL CHANGE

No one needs to tell you that technological change is occurring at an extremely rapid pace. Such change has many influences on our lives. It can influence the kinds of jobs that are available and the types of skills that are required. Technological change can displace some workers from their jobs while it creates jobs for others. Technological change can lead to Canada, or areas within Canada, becoming more or less productive and more or less successful economically. That can affect jobs and incomes. Technological change can affect the way we live our daily lives. It can affect the way we do banking, keep our records, do our shopping.



Tech Check

How have changes in technology affected your life over the last few years in terms of decisions and activities related to school, housework, work in general, banking, health care, vacations, entertainments, and so on?

As one example, consider the computer. More and more people have computers in their homes today. This has dramatic implications for recordkeeping and planning. It can lead to “shop at home” services including

banking. Automated banking machines are now commonplace. Check-out lines at supermarkets are shorter due to computerized pricing; in some locations you can scan and bag your own items at the grocery store. Some cars have computers built in to tell you when they are sick or need servicing — or to tell you to fasten your seatbelt.

Technology is, however, much more than computers — and it is all around us and changing rapidly. All of us must do our best to keep abreast of technological change as it is affecting our lives and as it might affect our decisions.

LANGUAGE AND COMMUNICATION SKILLS

Handling money and financial matters requires a great deal of decision making. Decision making requires gathering information. It also involves communicating with others to obtain information and to implement decisions — and goals. Many Canadians have some language or communication challenges. For example, their first language may not be English or French, they may have a learning disability, or they may have a lack of education.

We are living, increasingly, in an information age — multimedia, Internet, World Wide Web, hyperlinks, and so on. New opportunities arise. New mistakes can be made. Old ways change. New ways arise. Those who get ahead and succeed are often those who have been able to effectively access new and relevant information and factor it into their decisions. If an individual has difficulty acquiring, interpreting, or using new information, he or she can be at a significant disadvantage. Therefore, do not treat the development of effective communication skills lightly, and hone these skills whenever the chance arises.

PREJUDICE

It is an unfortunate reality that prejudice tends to exist in every society to varying degrees, and it can have an influence on an individual's ability to get a job, on the opportunities that are presented or denied, on the quality of service that might be provided, on the level of confidence an individual may develop, and so on. Prejudice is something that no one should have to face, but, unfortunately, some experience it in their lives and in planning and implementing their financial affairs.

SUMMARY

These are some of the major factors, in addition to your values, that can have an influence on your decisions and goals. There are others that you can probably think of — media, geographic location, various environments (home, school, work). You will have little control over some of these. Some you have complete control over. Try to be aware of how these and other factors can have an impact on you and your financial affairs.

Throughout your life, you will face a continuous series of decisions. Making effective decisions is a skill — a skill that is very important to handling and planning your financial affairs. Let's turn our attention to this key skill.

Chapter

4

Decision Making

Let's begin our look at decision making with the need for a decision.

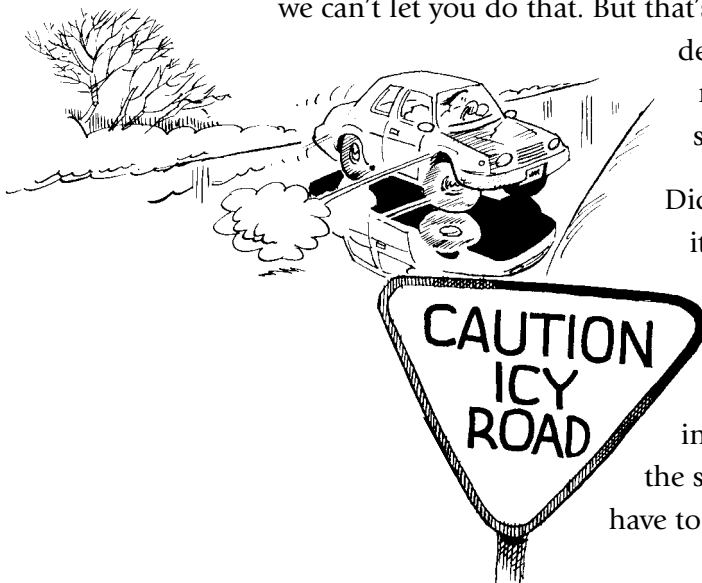
There is a stretch of highway where ice is forming and causing accidents. A sign was set up last year to warn motorists, but it does not seem to have worked. Accidents are still occurring. Your task is to consider the problem and make a decision offering a possible solution.

Now, in confronting this problem, you would probably want to gather more information, go and inspect the site, observe the cars and motorists, get some of the statistics, and so on. That would certainly make sense. Unfortunately, we can't let you do that. But that's not going to stop us from asking you to

define what you see as the problem. Before reading on, take a second to define what you see as the key problem in this situation.

Did you define the problem? What did you say it was? Is the problem the sign? Does it have to be moved? Does it have to be made bigger? Brighter?

Was the problem the motorists? Is better instruction in winter driving necessary? Does the speed limit have to be reduced? Does the area have to be policed for speeders?



Is the problem the ice on the road? Does it have to be covered? How about a covered bridge?

Does the ice have to be removed? Would salt do? Sand? How about pipes under the road?

Is the problem that drivers shouldn't be on that road in the first place in the winter? Should the road be closed? Should traffic be rerouted?

Obviously, how we define the problem will make a big difference in how we try to fix the problem. Furthermore, the expense of the solution can vary greatly depending on how we define the problem — just look at the options noted above. Therefore, when making any decision, it is very important to begin with a clear definition of the problem. Without defining the problem it is very difficult to make an effective decision.

SIX STEPS FOR EFFECTIVE DECISION MAKING

In building this model, we will draw together a number of the things we have covered along the way such as your values, goals, preferences, and so on — so be ready.

STEP #1: Clearly define the problem.

For the purposes of this book, and this particular chapter, let us assume that the problem/issue/challenge is to:

Identify the financial goals that are most important in your life.

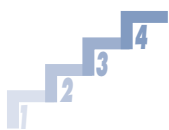
STEP #2: Establish your criteria (what is important to you).

This brings us back to your values. They, more than anything, will determine the factors that will be important to your decisions — decisions such as determining your financial goals in life. Refer to previous activities that provided an opportunity for you to think about your values and your goals and the factors that influence them.

STEP #3: List your alternatives.

What are the options and possibilities? Refer back to Activity 3.2 and list all of your possibilities here. This step involves identifying your possible financial goals.

You now have a list of criteria (what's important to you — your values) and a list of possible financial goals. Your task now is to determine which of these goals are most important to you. They may all be important. But which are the *most* important. If you can't achieve them all, which do you most hope to achieve? As with every decision, this requires some evaluation.

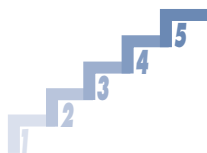


STEP #4: Evaluate the alternatives based on your criteria.

Which of the goals that you have listed are the most important based on your values and what you want out of life. To evaluate the options and to help determine the most important, list all of the possible goals down one side of a grid. Then list all of your most important values along the top. Then, review each of the possible goals based on each of the values. If the goal is very consistent with a particular value in your life, give it a +2. If it is quite consistent, give it a +1. If it really doesn't relate, give it a 0. If it is somewhat inconsistent with a particular value, give it a -1. If it is quite at odds with a particular value, give it a -2. See the following grid as an example.

VALUES POSSIBLE GOALS	Value A	Value B	Value C	Value D	Total Points
1. Goal A	+2				
2. Goal B	-2				
3. Goal C	+1				
4. Goal D	0				

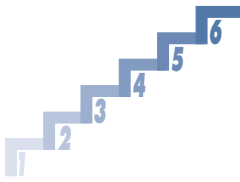
After you have completed this exercise, add up the total assigned to each alternative. The highest total won't necessarily indicate your top priority financial goal. It just isn't as simple as that. This is because there is no real way of accurately measuring the *intensity* of the feelings inside of you — how strongly you really feel about something. What this exercise does is force you to think about each option in relation to your key values. The numbers will give you some idea of what seems to be right for you and what isn't. But, when all is said and done, you'll have to look at each alternative and decide how strongly you feel about it. It may be that the alternative with the highest point total may drop to number two in terms of your financial priorities, and number three may move to the top. That is for you to decide, which brings us to Step #5.



STEP #5: Make a decision.

Once you have been through steps #1 to #4, it is time to make a decision. This is the step that people often want to delay or avoid altogether. It can be the hardest step of all because we often want "to know for sure." But, quite frequently, that certain sure answer won't be there.

Looking at your criteria (values), select from the possibilities your most important financial goal, and then rank the others that you selected as important. But our decision-making model isn't complete yet.

**STEP #6: Review the decision.**

When you can, evaluate your decision. If necessary, and if possible, change the decision based on what you have learned or experienced. Some decisions, of course, you can't change. If you decided that one of your goals was to visit Greenland, and you did, and you were disappointed and wish that you had done something else — well, chalk that one up to experience and factor it into future decisions. But it's all water under the bridge once the trip is taken. You used the available time, money, and other resources for that trip. They are not available for another choice.

However, nothing would have prevented you from altering your decision any time prior to the trip. You could have chosen a trip to Florence, or a new computer or ... That's the point of considering some key factors when making decisions. What are you trading off or giving up in making the decision? How much benefit are you likely to get from this decision compared with your second choice? How does this decision fit with your preferences, priorities, options, and overall goals and objectives?

**LET'S SUMMARIZE THE STEPS IN THIS
SIX-STEP DECISION-MAKING MODEL:**

1. Clearly define the problem.
2. Establish your criteria — what's important to you.
3. Identify your alternatives.
4. Evaluate your alternatives based on your criteria.
5. Make a decision.
6. Review and evaluate your decision and alter it as possible/necessary/appropriate.



School — Then What?

Let's see how the model could be applied to a sample problem.

1. **Problem/Decision:** *What to do after high school?*
2. Identify what factors would be important in making such a decision (the possible criteria that could influence your decision).

Many criteria could be important in making this decision, including the desire to:

- ▶ meet new people
- ▶ further education
- ▶ gain experience
- ▶ determine what career options are available/attractive
- ▶ have fun
- ▶ begin to establish a career
- ▶ develop independence
- ▶ develop a skill/talent
- ▶ be able to earn a reasonable income
- ▶ improve self-confidence
- ▶ associate with friends

3. Identify possible alternatives that could be considered after high school. Consider such things as university, community college, work, travel, training program, internship, volunteering, starting a business, and so on.
4. Identify the five most important criteria for you across the top of a grid similar to that shown below. (Note that the criteria and alternatives are for illustration purposes only.) Next, identify the four most attractive alternatives in your opinion and note each in one of the boxes on the left hand side of the grid. Then, evaluate each alternative by assigning +2 to -2 based on how well it fits with each of your criteria.

Sample Grid

CRITERIA	Develop a skill/talent	Meet new people	Have fun	Explore career options	Gain exposure	TOTAL POINTS
POSSIBLE ALTERNATIVES						
1. Work						
2. College						
3. Internship						
4. University						

5. Make a decision. Look at the totals for each alternative. Does the one with the highest total fit with your expectations? Does the ranking of any option surprise you? What decision do you think would be best for you?

Part II • IN SEARCH OF INCOME



Chapter

5

Sources of Income

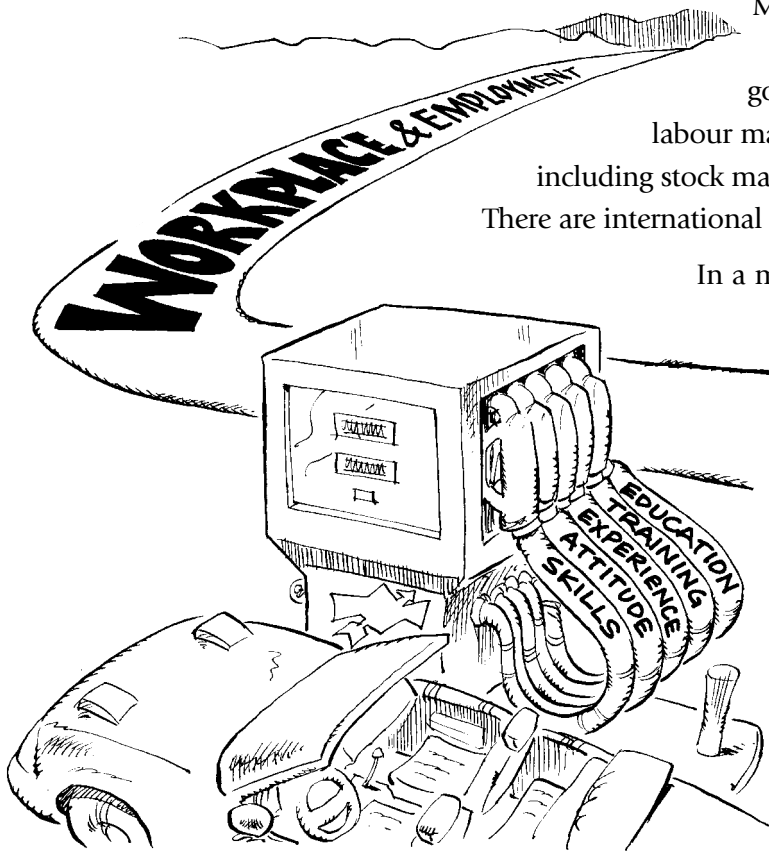
Obtaining money is a task most of us wish was easier than it is. (Have you seen the line-ups at the lottery ticket windows lately?) However, when you stop to think of it, most people will earn one to two million dollars over the course of their lifetime — so it's important that they make the most of it. Most of your lifetime income will likely come from your hard work and labour. There are other sources, but income from employment (working for others or self-employment) will be the primary source for most of us — at least in the first half to two-thirds of our working lives. If we plan effectively, and are able to secure a reasonable income, it is possible for investment income to play a bigger role in life as we get older. In fact, by the time we retire, investment income plays a very key role. Later on, we'll look more closely at the topic of investment. For now, let's take a quick look at these possible sources of income.

EMPLOYMENT INCOME: WORKING FOR OTHERS

WAGES AND SALARIES

Most of us will earn income from our labour. Through education, training, and experience, most of us will develop some talent or skill. We then seek to provide our knowledge and skills in return for income paid as a wage or salary (a wage is paid hourly, a salary is paid on the basis of one year's work).

If we provide our services to others, we enter into the labour market. Here, the forces of supply and demand, along with other influences, operate to affect the wage or salary we might earn.



Markets are at work in many aspects of our economy. There are markets for all of the various goods and services that are produced. There are labour markets. There are various investment markets including stock markets, bond markets, and money markets. There are international markets, foreign exchange markets, and so on.

In a market, there will be sellers and buyers. In the case of the labour market, a person offering his/her services for an income is part of the “supply.” An individual is the “seller” of the labour services. Employers looking to hire people and pay a wage or salary represent the “demand.” They are the “buyers” of labour services. In general, the higher the demand for a particular skill in comparison with the supply, the higher the wage or salary will be. Therefore, you would ideally want to be looking for work in an area where there is a relatively high demand compared with supply.

There are other factors that can influence wages and salaries, too. Let’s take a look at these.

FACTORS AFFECTING EMPLOYMENT INCOME

- the level of education, training, and experience that is required to do a particular job
- the level of demand that exists for the type of labour you are skilled/trained/educated to provide
- the number of others who have similar or better skills who can compete for the job
- how good you are at what you do
- how long you have been working — your experience, your seniority
- your work habits, reliability
- the state of the economy
- government legislation, particularly wage legislation such as minimum wage
- the effectiveness and impact of unions on the negotiated wages
- the region in which you work and the labour market conditions in that region

- the profitability and success of the organization for which you work
- chance — being at the right place at the right time or the wrong place at the wrong time



A Supply and Demand Face-off

Identify some of the key factors that you believe influence the salary of a professional hockey player.

There are, of course, other factors, some of which are even illegal but, nevertheless, can be at work in affecting income. For example, in many cases women are still paid at lower levels than their male counterparts; there may be discrimination also on the basis of age, race, or colour. Authorities, in many cases, are trying to prevent situations of wage discrimination. But some still exist and pose challenges to those who face prejudice and discrimination.

OTHER BENEFITS

When you work as an employee for a company, other benefits may be provided. It is certainly not the case that all companies offer attractive benefits packages. Benefits packages vary a great deal from company to company, industry to industry, and even occupation to occupation. Since they can be quite significant, the benefits that are available should be factored into employment decisions.

The possible benefits can include the following:

- paid vacation holidays
- paid sick days
- paid provincial government medical premiums (covering your health insurance)
- extended health care insurance
- disability income insurance (short-term and long-term)
- life insurance
- dental insurance
- profit sharing (employees receive a share of the company's profits)
- payroll savings plan (convenient plan to help build savings)
- stock option purchase (become a part owner of the company through owning shares)
- registered pension plan (to help build a retirement fund)

- group registered retirement savings plan
- educational expense reimbursement (cover costs of additional education and training)
- provision of an automobile or funds for travel expenses
- benefits for a spouse
- access to financial advice



You've Only Just Begun

Calculate the approximate income you have received in your life so far. Consider the following sources from which you may have received money.

- ▶ Allowances
- ▶ Business income
- ▶ Employment income
- ▶ Investment income
- ▶ Awards
- ▶ Gifts
- ▶ Inheritances

SELF-EMPLOYMENT: WORKING FOR YOURSELF

The income that those who set up and operate businesses are able to earn over and above their costs is called profit. Profits are another possible source of income.

In Chapter 7, we will explore in some detail the self-employment option of entrepreneurship. For now, note that an entrepreneur is someone who, in order to accomplish his/her goals, sets up and operates a venture. In many cases, this means starting a business. There are thousands of Canadians, and the number is increasing all the time, who have set up and run their own businesses. It is an attractive option for those who can make it work. But a great deal of thought and planning go into setting up a business. Anyone who chooses this route can't do so on a whim and with just a good idea in mind.

Most of today's large companies were started by one or more entrepreneurs. Over time, though, as a business grows and requires more money for growth and improvement, the original entrepreneur(s) will often sell shares of ownership to raise the additional funds needed. Eventually, the original entrepreneur(s) may sell all of his/her/their shares of ownership. In this way, large

companies often become owned by a large number of shareholders. Shareholders are people who invest part of their financial resources in shares of the company. As shareholders, they receive a share of profits — called dividends. Each shareholder receives a share of the profits of the company or corporation according to the number of shares owned.

You may some day set up and operate your own business — some of you may have done so already. Some of you may one day buy shares of a corporation and, thereby, invest in the stock market (some of you may have also tried this or been provided with some shares by a family member). If or when you do, the income you earn in this way is a result of profits earned by companies.

INVESTMENT INCOME

CAPITAL GAINS



Taking Stock

Select a newspaper and turn to the section that provides information on stock prices. Learn how to read the stock table. Select a single stock and assume you purchased 100 shares of that stock today. Follow the price of the stock on a daily or weekly basis for the period of a month. At the end of the month, determine whether the 100 shares of this stock would have provided a capital gain or a capital loss.

In addition to a share of the profits from a company (paid as dividends), you can also earn income in another way from investing in the shares of a company. For example, if you buy shares of a company at \$10 a share and sell those shares later at \$12 a share, the difference is referred to as a capital gain. This can occur with any investment (for example, real estate, mutual funds, art), not just investments in a business. Capital gains can be earned any time you take ownership of an asset (something of value) for a period of time and then sell that asset later at a higher price (you may also sell it later at a lower price and end up, that's right, you guessed it, with a "capital loss"). If, instead of taking ownership of an investment, you lend funds to others who maintain the ownership, you don't earn dividends or capital gains. You earn the next category of income — interest.

INTEREST

Interest is the income you receive when you provide someone with use of your money for a particular period of time. That time period may range from a matter of days to years. As an example, you may provide the funds to a bank by depositing the funds with the bank. The bank pays you interest because the bank will lend a good portion of your money out to borrowers. Those



Very Interest-ing!

Next time you are in a financial institution, look for the posted interest rates. Examine the interest rates. How do the rates offered to savers compare with the rates charged to borrowers? Why do they differ? Are different interest rates available to savers? If so, why do these differences exist?

borrowers will then pay interest to the bank. (Don't worry, banks and other financial institutions keep enough money on hand to give you yours back if and when you need it. Depositors' insurance also helps protect depositors up to \$100,000.)

You may also lend money to a company by buying a company's bonds. Bonds are like an I.O.U. You may lend the government money by buying government bonds. You can also lend the government money by buying Treasury Bills, which is the way the government borrows funds for periods of less than a year (they use bonds to borrow funds for periods of more than one year).

Interest, then, is the income you earn by lending money to others for a period of time.

INHERITANCE

At some point in their lives, many Canadians receive inheritances. At times, these amounts can be quite significant because they often come from parents who have spent an entire lifetime acquiring their assets, investments, and so on. The value of inheritances will also vary based on the number of benefactors as well as any taxes that may apply, charitable donations made by the estate, and so on. Furthermore, inheritances will often be in the form of fixed assets rather than money, assets such as houses, cars, cottages, and furniture. Although it is difficult to factor income from inheritances into one's financial planning, it is a form of income that affects many peoples' lives.

GOVERNMENT TRANSFERS

Many government programs provide money or goods and services. Child tax benefits are an example of a government transfer paid to many parents with children under age 18. There are other government transfers, such as welfare, that go to those who are in particular need and who are able to provide evidence to the government that they are in need of financial assistance. Governments will also subsidize (pay part of the cost of) such things as education and health care. Although this subsidy isn't money received, it represents money that doesn't have to be spent — which is the next best thing.

It is, however, important to note that income or goods and services that are received from government do not fall mystically out of the air. Canadian taxpayers pay for those programs through the money that they pay in taxes. Taxes are something you probably already know a lot about (because you already pay them — provincial sales tax and/or federal sales tax) and will likely learn a lot more about in the future.

LOTTERIES

Good luck if you try!

WHAT PATH TO TAKE?

These, then, represent some of the major sources for obtaining income. Before we look at the self-employment route to obtaining income, let's take a look at some things to think about when deciding your career path.

Chapter

6

Career under Construction - Investing in You

"WHICH WAY DO I GO?... WHICH WAY DO I GO?"

To begin this section, take a look at the set of figures below and select the one that doesn't belong.

This set of figures appeared in a book entitled *A Whack on the Side of the Head* by Roger von Oech. In that book, he gives the following response to the "test" you just took.

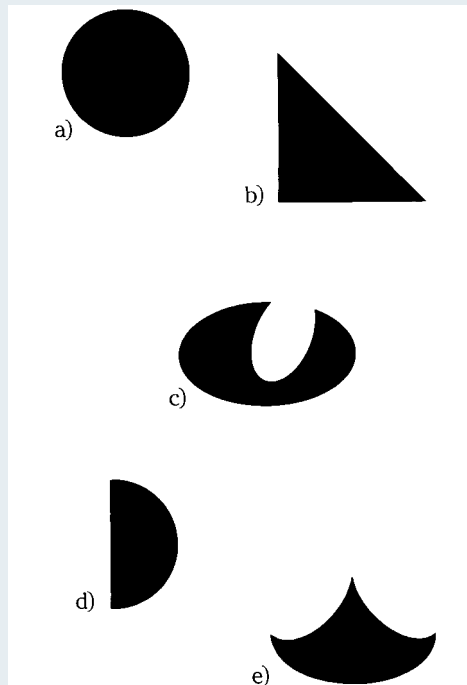
"If you chose figure B, congratulations! You've picked the right answer. Figure B is the only one that has all straight lines. Give yourself a pat on the back!

Some of you, however, may have chosen figure C, thinking that C is unique because it is the only one that is asymmetrical. And you are also right! C is the right answer. A case can also be made for figure A: it is the only one with no points of discontinuity. Therefore, A is the right answer. What about D? It

is the only one with both a straight line and a curved line.

So, D is the right answer too. And E? Among other things, E is the only one which looks like a projection of a non-Euclidean triangle into Euclidean space. It is also the right answer. In other words, they are all right depending on your point of view.

Much of our educational system, however, is geared toward teaching people the *one right answer*... the "right answer" approach becomes deeply ingrained in our thinking... if you think there is only one right answer, then you will stop looking as soon as you find one."



von Oech, Roger. *A Whack on the Side of the Head*. New York: Warner Books, 1983

This is particularly true for those who have come through a school system that focused on “right answer” learning, test after test, quiz after quiz, and exam after exam. The student who entered school full of excitement, creativity, and hopes for the future may have had those hopes drift away with “A’s” turning to “B’s,” then to “C’s” and who knows where eventually. As the famed educator Neil Postman said: “Students enter school as question marks and leave as periods.”

There is no doubt about it, the school system works very well for many students. But it also does not work particularly well for many others. Some students, for example, may have many talents but not do well in written exams. They often end up on the lower end of the grade scale. They are put on a level somewhat below others — others who were able to take notes, study from books, and score well on tests. What is the impact of this?

How do you feel about you? Are you self-confident? If not, why do you think that is the case? What do you think would help to improve your self-confidence? If you are self-confident, what contributed to that self-confidence?

There is probably nothing that affects a person’s career choice, and chances for success, more than self-esteem and self-confidence. How you feel about yourself will affect your plans, your expectations, your hopes, your effort, and your determination. If you have low expectations of yourself, then you have already built a big roadblock to your future success. People tend to live up to, or down to, their level of expectations.

First, the dreams and hopes of some students are affected. They lose self-confidence. They lower their expectations of themselves. They start to “give less” and as a result “get less.” Their overall self-esteem takes a beating. The reality of this is shown by the drop-out rate from many schools. Some young people decide that school is not working for them. It isn’t providing what they need, or perhaps what they want.

Another key thing to consider are your accomplishments. Many young people have little appreciation for the things in life they have accomplished. Therefore, they lack a sense of accomplishment and a belief that they *can* accomplish things. Many youth consider only long-term goals such as careers and families. Think about the things in life you have already accomplished — in sports, in school, in theatre, in dance, in the community, with your family, at work, and so on. When we put our minds to it, most of us can identify many things we have accomplished. Recognition of those accomplishments helps to build self-confidence.

So, hold on to your hopes and dreams. Work on your self-confidence. Think of your successes and accomplishments — large, or small, or anything in between.

Set some short-term goals and achieve them. Prove to yourself you can do what you put your mind — and hard work — to achieving.

One key thing to remember is that research has shown that one of the most important factors influencing a person's success is passion. Caring about, and loving, what you do is an extremely important factor to consider when it comes to career choice.

CAREER PLANNING: SOME SUGGESTIONS TO CONSIDER

The following are some suggestions and tips related to the consideration of a career. Review them and note the ones that may be helpful to you.



Possibilities from Your Passion

What two things do you enjoy most in life? What career possibilities are there in these two areas?



Talent Time

What are you "best" at in terms of your own abilities? Are there career possibilities that fit with this talent?



Stepping Stones to Success

What mistakes/failures have you experienced over the last year? (Go back further in time if you have to!) What was the most important thing you learned from each mistake/failure?

- Apply the decision-making model to the consideration of career selection. Few decisions are more important for you than selecting the career that's best for you.
- Do volunteer work to gain experience and broaden your outlook. Get a sense of a career area through volunteering and determine whether or not you would enjoy it. Furthermore, volunteer activity generally makes a positive impression on a résumé.
- Consider careers that might be related to a hobby or something you enjoy (for example, sports, movies, music, science, camp, computers, travel).
- Be honest with yourself in assessing your talents and abilities. You should never lower your sights below your true potential. And you should avoid setting your sights so high that you are likely to be frustrated and disappointed.
- Set goals. Set your sights on what you want to achieve. Work toward something. Don't meander down the road and occasionally stop to see where you are. That may be a nice way to see Europe, but it's a poor way to find a career. Furthermore, don't set only long-term goals. Set some short-term goals, too. Give yourself a chance to succeed.
- Learn from your mistakes and disappointments. Mistakes are powerful learning experiences. They are stepping stones to future success. Apply that attitude to everything you do.

- Talk with people. You can learn a great deal about many career options from talking to someone who is already involved in a particular career.



The “In” Thing

Identify a “trend” you believe is just getting started. What types of jobs do you think would be helped if this trend really developed? Can you identify two or three trends that have been big over the last two years that led to career and employment opportunities for many people?



On Target?

If you are working now, why are you working? What goals are you working toward by working?

- Talk with a range of people. Don’t judge a career on the basis of discussions with one or two people.
- Plan for the future, not the present. Look ahead, not to the side. Observe trends. Watch for changes. Look where everyone else is going, and realize that if they are all heading there, it’s likely to be pretty crowded.
- Know why you want to work. What are you wanting out of your career? Are you working strictly for an income? Are you concerned about the working environment, how mobile you can be in the job, opportunities for advancement, job satisfaction, the people you will work with, the benefits that may accompany the income? There are many possible factors that might be related to why you want to work and the type of work you want to do. Include these in your career plans and decisions.
- Regard your career as a path of lifelong learning and development. Keep on top of developments in your field. Pursue new training if you are able/interested. Lifelong learning is a valuable concept, and many people will have four or more different careers in their lifetime.
- Keep your options open. Make sure you don’t slam the door on yourself by making poor course or training selections.
- Look beyond the most obvious career options. Some of the less known careers can be the more interesting ones. Furthermore, far fewer people may be preparing for them, which may help when hiring time comes along.
- Look beyond your own front door to see what’s going on. Look at what’s going on in the country and around the world.
- Don’t be your own worst enemy. Don’t get down on yourself. Get off your back. You control the machinery in there, and you can run like a Porsche or a jalopy. Attitude means so much. Be your own biggest booster.
- Know your strengths and work on them. Recognize the talents that you have, and then build on and develop them.



Network Problems? Or Opportunities?

How effective is your network already? If you had to identify ten people in your network to call upon for career advice, who would they be?

- Network. Make contacts. Keep in touch with those contacts. Use your contacts to keep aware of developments, changes, possible problems, opportunities, and so on.
- Learn how to cope with stress. Identify what puts pressure on you. Do what you can to minimize those things. Deflect the pressures. Learn how to relax. Avoid burn out.

SOME TIPS ON FINDING A JOB

There are many different approaches to looking for a job, and we encourage you to read up on some of the different methods. The following represent a number of general tips for your consideration.



- Recognize that finding a job is hard work. Develop a plan and a schedule for yourself in terms of what you are going to do on a day-by-day or week-by-week basis to find a job.
- Make contacts. Make as many contacts as you can with people who work in the type of business in which you are seeking employment.
- Don't rely on a résumé (see the section on résumés). A résumé should be a partner in your job search, it can't do it all for you.
- Don't count on seeing ads for employment in the newspaper. The majority of jobs are probably never advertised.
- Don't waste time on gimmicky approaches. Be direct, truthful, and businesslike.
- Set non-employment goals for yourself. A job search should not be singularly focused on getting a job. Set targets for number of contacts, number of interviews, and other related tasks.
- Recognize that finding a job takes time. Don't wait until April or May to find a summer job. Start in January.
- Contact local, provincial, and federal government placement centres to explore the programs that focus on youth.
- Watch the local papers for announcements regarding the activities, plans, and growth of local businesses and industries. Some developments may mean that a business will be looking for workers.

- Maintain a good appearance. This does not mean that you can't be yourself. However, you may have to face certain realities in the workplace. Some styles popular among youth may not be as popular among potential employers. Just as you have the right to be yourself, they have the right to hire those they feel will be best for the job. You may be forced to decide on the degree to which certain styles are important to you versus the prospect of getting a job. This is often a difficult decision, especially for youth who are very much involved in trends, fashion fads, and so on. As much as you may be attempting to convey a message about yourself through style, businesses have their own priorities, and dealing with some of the more unusual fads and trends of youth are often not one of them. Once again, it is up to you.
- Be confident in yourself. People will be hesitant to hire someone who doesn't convey the message that he/she is able to do, and right for, the job.
- Be persistent and dedicated to the task of finding a job.



Personal Job Search Strategy

Assume that you are about to begin a search for a job for next summer. Make a list of the steps/actions you could take that would help you find a job. Note such things as who you would approach, what offices you would visit, what businesses you would contact, whose advice you would seek, for what information you would write, and so forth.

- If you are turned down for a possible job, try to learn from the experience. Ask interviewers for a review of how you did and suggestions for how you could improve your performance in a job interview or your résumé.
- Consider doing volunteer work to gain experience.
- Don't pressure yourself to "know" what it is that you want to do. Give yourself the chance to fully explore various options and alternatives. Avoid pressure to make some decision at an early age about what you are going to do for the rest of your life.
- Be organized. Keep clear and thorough notes and records. Keep track of your contacts. Keep files on companies in which you are interested. Collect articles providing advice on résumés and job search techniques.

TIPS ON PREPARING A RÉSUMÉ

A résumé is the term used to refer to a written summary of your work and education experience as well as other abilities you have that make you a candidate for a particular job. It is your "ad," if you like, illustrating your strengths and abilities.

Most young Canadians have had little experience in preparing résumés, yet

they are an important partner for you in your job search. There is no standard format, and you should investigate different approaches to develop the résumé that best suits you and the job for which you are applying.

It is important to note that you should never send your résumé out alone. You should always include a covering letter. The covering letter should be specific to the job for which you are applying and should introduce you, state why you are interested in the position, and why you think you are particularly suited for it. It should be no longer than a page or a page and a half. Therefore, conserve words, be clear, be concise. Then let your résumé take over.

Again, your résumé should not be long. It should be anywhere from one to three pages. Once again, it is important to be clear, concise, and to the point. No potential employer will want to read a long résumé or a résumé full of poor grammar and spelling or lacking organization. Potential employers will likely receive many applications and résumés. Yours should stand out if it is well-written, well-organized, brief, and to the point. Following are some general tips for preparing a résumé.



- Your objective with your résumé should be to sell yourself. It should represent you well, covering all of your strengths, skills, accomplishments, and abilities. You want it to show, as best it can, how you stand out from other applicants.
- Don't trivialize your accomplishments. Some things that may seem small to you may be a sign to a potential employer of particular skills and abilities. For example, babysitting may seem like a trivial thing to note. However, considerable babysitting experience shows responsibility. It also shows that you took the initiative to get out and work and earn some income. The responsibility of looking after a child is far from trivial and can reflect the confidence that other adults have had in your abilities.
- Be proud of things you have done. Think of what they may imply about you and your abilities.
- Avoid gimmicks. They usually do not impress. Furthermore, it is the content, rather than the style or format, that will make your résumé stand out. Therefore, don't go to a great deal of effort and expense to have your résumé prepared in some fancy fashion.
- Although content is more important than format, format is important too. Prepare your résumé neatly on good quality paper if submitting a hard copy.
- Do not include a long list of personal statistics such as height and weight. This is excess information. Simply indicate your name, address, contact numbers, and any abilities you have in speaking various languages.

- Keep in mind that your résumé should answer the following questions when a potential employer reads it: Why should I pick you? Why are you right for this job? Why are you better than the other applicants?
- When you can, present your résumé in person rather than by mail or e-mail. It puts a face to the paper and may provide you with an early opportunity to make a positive impression.
- Quantify your accomplishments where possible. How many children did you sit for or supervise? For how long? How many children were you responsible for at camp? How many papers did you deliver? When the numbers help to convey the scale of your activity or responsibility, use them.
- Use action words to describe your responsibilities and accomplishments, words such as: organized, created, demonstrated, supervised, managed, co-ordinated, developed. These words imply particular abilities and skills. Furthermore, even if the activity that you co-ordinated is unrelated to the job for which you are applying, the fact that you have served as a co-ordinator could be very relevant.
- Keep the structure of your résumé as flexible as possible so that you can easily change it. You may recall something you want to add, or you may want to tailor it for a specific job application.



Writing a Résumé and Covering Letter

Assume that you are applying for a job as a camp counsellor at Camp Buckhorn. The Camp specializes in offering programs for children with discipline problems. Write a covering letter outlining why you are interested in this job and why you think you are suited for it. Then develop a résumé to accompany your letter. If an employment counsellor is available locally, ask for a review of your letter and résumé. If no employment counsellor is available, a teacher or a family member should be able to offer a knowledgeable review.

- Offer references upon request, do not include them on your résumé. Do not put a great deal of reliance on letters of reference. In fact, it is often advisable not to bother including them unless, for some reason, you believe that they will have an impact. Most employers feel that it is the rare person who will not be able to find someone who will say nice things about him or her. Besides, it is often difficult for employers to know if the letters are from friends.

Suppose now that you have organized your job search, you have prepared an effective résumé, you have developed a network of contacts, and you have managed to reach the stage of being asked in for an interview. The following are some tips related to job interviews.

TIPS ON JOB INTERVIEWS

The interview is usually the last step in the job search process. Everything up to that point — contacts, résumé, and so on — has been designed to give you a chance to meet with the employer and show why you should be hired. Virtually no job will be attained without going through the interview process. It is a fearful experience for some, an enjoyable experience for others. If it is a fearful experience for you, you have got to change that. When you are fearful or overly nervous, you will seldom put your best side forward. The most important piece of advice regarding interviews is to be yourself.

Many young Canadians, in their early interviews, try to give the interviewer the information they believe the interviewer wants to hear. Nothing could be worse. You rack your brain and fumble around trying to find the right answer. You look unsure of yourself, you look weak, and, most important, you will never really know what the interviewer wants to hear. The interviewer's objective is to find out about the real you; trying to second-guess the interviewer may work against you.

If you go into an interview trying to give the “right” answers, you will almost always enter in a nervous state, lacking confidence, aware of the uncertainty you face. If you go in knowing who you are and what you believe in, then you can feel confident that you will always give the best response you can based on what you truly believe.

Therefore, be confident

about who you are and go into an interview prepared to be yourself and answer questions on the basis of what you honestly believe. That's a key recommendation. Now here are some others.

- Dress appropriately. You are out to make an impression. Don't work against yourself by giving the impression that you don't care or that you don't respect the people who are interviewing you.
- “Mind your manners.” Once again, you are selling yourself.
- Be prepared for different interview styles. You have to realize that it is not easy to hire good people. Employers will use a variety of methods to try to ensure that they hire the best person for the job. Hiring is an important responsibility for any employer.

Some interviewers use the “good cop, bad cop” technique. This is an interview by two people, one of whom appears to be friendly and supportive of things that you say while the other will tend to disagree with you and be somewhat unfriendly. The aim of this may be to see how you cope in both

situations and how you react to criticism. Sometimes you will be interviewed by a team of people. Each member of the team will have something in particular that he or she is looking for. A team interview means that you will face a variety of approaches and objectives all in the same interview.

And there are other interview techniques. Be prepared for a variety of approaches. This is another reason to be yourself — you never know the type of situation that you may face.

- Know your rights. There are certain questions that you cannot be asked and certain things that employers cannot do in screening potential employees. Refer to government booklets and brochures that outline your personal rights in interviews and job search situations.
- Go to as many interview situations as you can to become familiar with the processes/styles and to become more confident. Each interview can be a learning experience.
- If you are turned down after an interview, try to follow up. If the interviewer will take the time, ask for suggestions about how you could improve your interview skills, ask if you might be considered again in the future, and so on. As much as possible, learn from each experience.
- Role play in advance, that is, rehearse interviews with someone. Ask a parent, teacher, counsellor, or friend to ask you questions so you can practise your responses.
- Be enthusiastic. Appear as if you want the job.
- Don't be long-winded. Keep your answers informative, concise, and to the point. Be sure to answer the question asked. Try to avoid yes and no answers. The interviewer is trying to find out about you and will become frustrated by yes and no responses.

Don't be afraid to ask your own questions. If you have particular questions about the job, ask them. This shows you are interested and have put some thought into the job. At the same time, don't be overly anxious about asking questions about raises, holidays, and so forth. These are important questions, but you will have a chance to ask them once you have been offered a position. Most employers would consider it appropriate for you to ask about the starting wage/salary if you don't already know it.

- Don't be afraid to have, or take, notes but not to the point of distraction.
- Give yourself time to prepare, time to think, time to organize yourself. Avoid running from some activity right to an interview.

- Don't oversell yourself. Be forthright and honest. Put your best foot forward, but avoid the "hard sell" of you.
- Maintain your self-control at all times. Don't argue. Keep cool and keep your composure should any disagreement arise.
- Enter an interview assuming you will receive equal treatment with others. Don't assume that the employer will not be fair. If he/she isn't, it will probably soon become apparent. At the outset, give the employer the benefit of the doubt, which will make you feel more confident, too.



Thanks for Coming in!

Suppose you have been successful in getting an interview for the job at Camp Buckhorn. Imagine how you would answer the following questions.

- ▶ Why do you think that you would be able to work effectively with these children?
- ▶ What do you think are your greatest strengths?
- ▶ Do you foresee any situations in which you would have problems?
- ▶ What experience have you had with children?
- ▶ If you are given the opportunity to develop some programs for these children, give me an example of something you might do.
- ▶ What would you do if a child refused to do what you told him/her?
- ▶ Do you feel your education has prepared you in any way for this job?
- ▶ What would you see as your major responsibilities in this position?
- ▶ Do you take criticism well?
- ▶ In which situations are you "your own best friend"? In which are you "your own worst enemy"?

That concludes our tips on career planning, résumés, job search, and interviews. These have assumed that your goal is to get a job working for someone else. But maybe you are interested in creating your own job. That is, maybe you are interested in becoming an entrepreneur. Let's turn our attention to the area of entrepreneurship.

Chapter

7

Career Option – Are You an Entrepreneur?

You may or may not be familiar with the term “entrepreneur.” Even if you are, you may have some misperceptions of entrepreneurs because there is a great deal of mythology about them. For example, it is often believed that entrepreneurs are only those who start up small business enterprises. Although initiators of small businesses are, indeed, frequently entrepreneurs, you can be an entrepreneur while involved in other activities as well. Let’s take a closer look at entrepreneurs and entrepreneurship and whether or not it is an option of interest to you. Let’s start with a quick quiz.

ENTREPRENEUR’S QUIZ*

- ① Faced with a problem, the entrepreneur is most likely to:
 - a) go to a close friend for help;
 - b) get help from a stranger who is known to be an expert;
 - c) try to work through the problem alone.

- ② The entrepreneur is most like the distance runner who runs mainly:
 - a) to work off energy and to keep in good physical condition;
 - b) to gain the satisfaction of beating other competitors in the race;
 - c) to try to better his or her previous time over the distance.

*Source: Jennings, William E. *Entrepreneurship: A Primer for Canadians*. Toronto: Canadian Foundation for Economic Education, 1985.

- 3 **Entrepreneurs are motivated most by the need to:**
 - a) achieve a goal of greater personal importance;
 - b) gain public attention and recognition;
 - c) control wealth and other people.
- 4 **Entrepreneurs believe the success or failure of a new business venture depends primarily on:**
 - a) luck or fate;
 - b) the support and approval of others;
 - c) their own strengths and abilities.
- 5 **If given the chance to earn a substantial reward, which of the following would entrepreneurs be most likely to do:**
 - a) roll dice with a one in three chance of winning;
 - b) work on a problem with a one in three chance of solving it in the time given;
 - c) do neither (a) nor (b) because the chances of success are so small.
- 6 **The entrepreneur is most likely to choose a task:**
 - a) which involves a moderate level of risk but is still challenging;
 - b) where the risks are high but the financial rewards are also very great;
 - c) which is relatively easy and the risks low.
- 7 **Money is important to entrepreneurs because:**
 - a) it allows them to develop other ideas and take advantage of other opportunities;
 - b) monetary measurements provide an objective measure of how successful they have been;
 - c) the main reason they accepted the risks of starting a new venture was to accumulate personal wealth.

ANSWERS TO QUIZ*



QUESTION 1:

Entrepreneurs do tend to be independent, self-reliant individuals. They may try to work through a problem alone. They do have a high need to achieve. But successful entrepreneurs are not so committed to the purely individual achievement of goals that they will not seek aid.

Entrepreneurship is difficult and requires the help of others. Successful entrepreneurs will seek out those who can be most helpful whether they are friends

*Source: Jennings, William E. *Entrepreneurship: A Primer for Canadians*. Toronto: Canadian Foundation for Economic Education, 1985.

or strangers. The need to achieve will likely be greater than the social need to work with friends. The best choice is (b).

**QUESTION 2:**

Entrepreneurs often have a tremendous amount of energy and drive, with a capacity to work for long hours. Good general physical health is necessary in order to withstand the stresses of running their own ventures. One of the risks they must evaluate is that their work will likely put physical, social, and emotional strains on them. Few entrepreneurs pursue initiatives for the good of their health although many seem to thrive on the work-related stress.

Entrepreneurs tend to compete against standards of achievement they set for themselves rather than standards set for them by others. Entrepreneurs are most like the runner who races to beat the clock. To achieve a new “personal best” time will likely be more rewarding than beating others. The best choice is (c).

**QUESTION 3:**

Those who are motivated by a need to gain attention, get recognition, and control others are motivated by power. They are more active in political life or large organizations where they concentrate on controlling the channels of communications both up to the top and down to the bottom so that they are more in charge. By contrast, entrepreneurs are motivated more by their need for personal achievement than personal power. Power and power recognition may be the result of success, but they are not the motivating goals. The best answer is (a).

**QUESTION 4:**

Successful entrepreneurs likely have a high level of self-confidence. They tend to believe strongly in themselves and their own abilities to achieve the goals they set. They also believe that what happens to them in their lives is determined mainly by what they themselves do. They are not reluctant to place themselves in situations where they are personally responsible for the success or failure of an operation. They will take the initiative to solve a problem and provide leadership where none existed before. The best choice is (c).

**QUESTION 5:**

The entrepreneur is thought of as a risk taker. There are many risks involved in entrepreneurial activity. But psychological testing of entrepreneurs has indicated that they are no more motivated to do something by risk than anyone else. They are not daredevils or reckless gamblers.

Successful entrepreneurs are very good at assessing the amount of risk involved in a venture and will choose to accept that risk if they feel their personal chances for success are relatively high. They may well choose to do something when the odds of success are only one in three if they believe they have the abilities and experience needed to succeed.

The entrepreneur would most likely choose (b), to work on the problem even though rolling dice is obviously less work. Entrepreneurs avoid situations where the results depend mainly on chance or the efforts of others. The opportunity for personal achievement is more important than the size of the reward offered.



QUESTION 6:

Entrepreneurs tend to be positive, optimistic types who focus their attention on their chances of success rather than the chances of failure. Individuals who fear failure tend to select tasks that are either very easy or where the risk is very high. By selecting an easy task, the chances of failure are reduced. By selecting a task with little chance of success, failure can be rationalized, "Oh well, it was just a long shot anyway." The entrepreneur avoids both extremes and selects those tasks that are challenging but where the opportunities for success are reasonably good. The best choice is (a).



QUESTION 7:

It is a popular misconception that entrepreneurs are, at heart, greedy, acquisitive individuals who enter into ventures for the purpose of accumulating personal wealth. Such a description would be more aptly applied to some promoter who's a fast buck artist.

Entrepreneurs are driven to build a venture rather than simply to get in and out in a hurry with someone else's money. They will enjoy the benefits a higher income brings but will usually spend only a portion of their gain on personal consumption. Entrepreneurs are primarily interested in the creation, not the consumption, of wealth.

So, what is entrepreneurship? The statement below provides one definition.

Entrepreneurship involves the recognition of opportunities (needs, wants, and problems) and the use of resources to implement innovative ideas for new, thoughtfully planned ventures.

Does that describe what you do? What you like to do? What you might like to do?

In considering the entrepreneurship option, it

might also be helpful to consider the contributions that entrepreneurs make to our society.

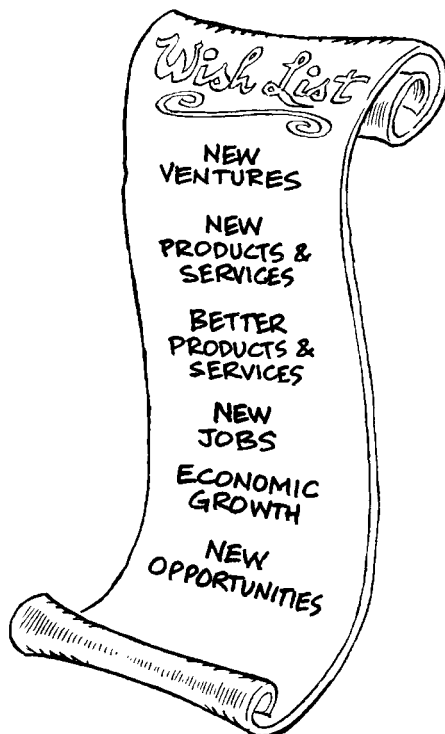
CONTRIBUTIONS OF ENTREPRENEURS TO SOCIETY

In our society, entrepreneurs:

- create new ventures that provide new, improved products and services
- find new ways of making products and services available to more people
- compete with each other to be the “best,” which improves production and keeps prices down
- create jobs in the community through their new ventures
- increase the quantity of products and services we produce in our economy (that is, help us to achieve “economic growth”) by creating new ventures
- create new opportunities for others through their initiatives and innovations
- provide a spirit of energy, initiative, and potential for progress to a community

Can you think of others? Do these spark an interest? Do they motivate you? To help you consider the entrepreneurship option, it would probably be helpful to review some of the key characteristics and skills associated with entrepreneurship. Let’s begin with the image on the following page, which illustrates what one might call an “entrepreneurial person.”

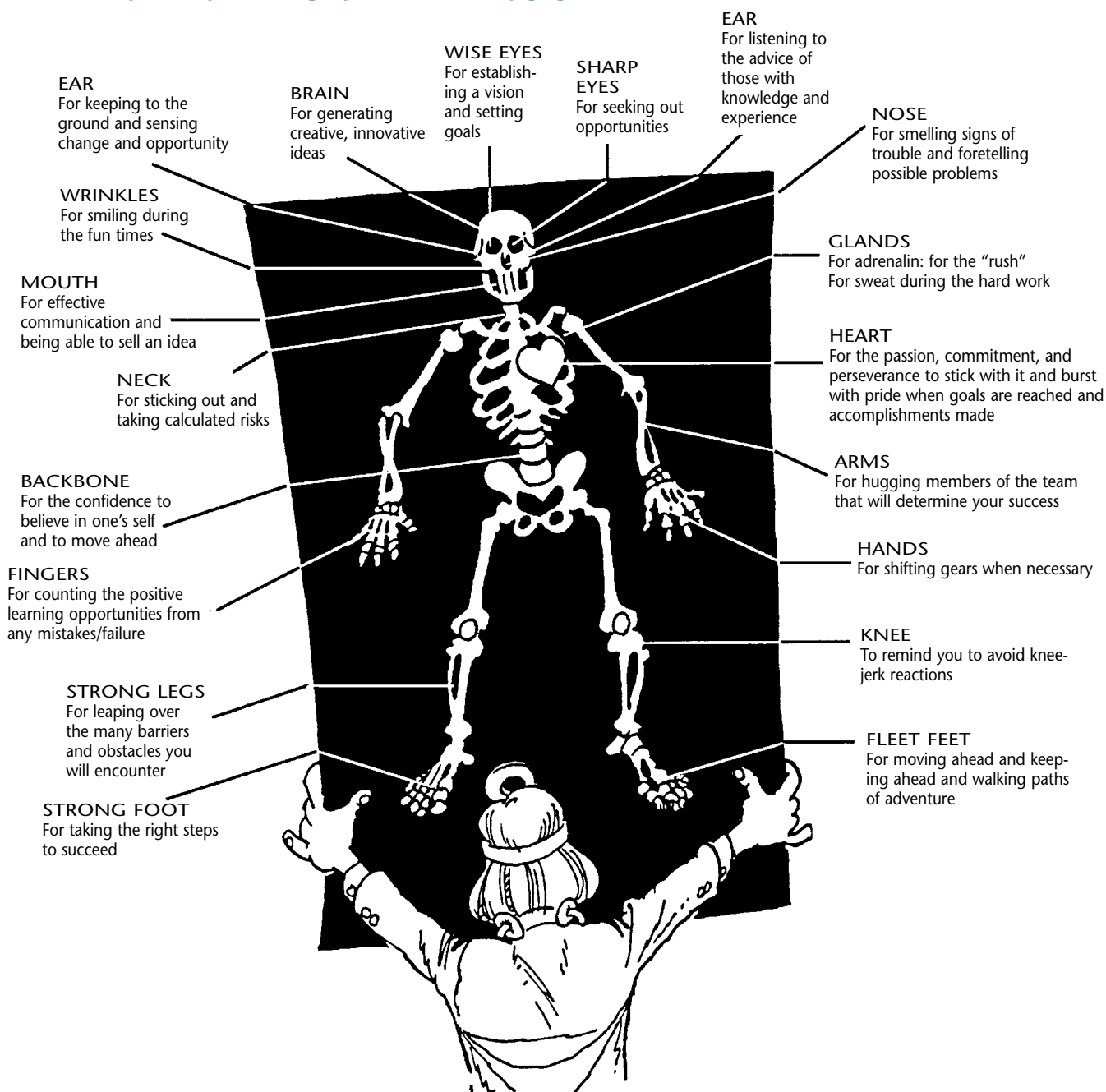
AN ECONOMY’S WISH LIST



In Search of Entrepreneurs

Identify five entrepreneurs in your community and determine the contributions each is making to the community.

ENTREPRENEURIAL PERSON



With this image in mind, let's summarize some of the key characteristics and skills that tend to be important for entrepreneurs. Note that few, if any, entrepreneurs possess all of these characteristics and skills. One entrepreneur will often form a partnership with one or more other entrepreneurs to complement his/her own talents. Alternatively, the entrepreneur may hire and employ needed talent. The key thing will be to bring as many of these characteristics and skills as possible to the venture.

CHARACTERISTICS

- A desire to be an entrepreneur
- Belief in one's ability to influence/affect events and outcomes in life
- Sense of self-confidence
- Belief in one's ability to handle most situations
- Positive self-esteem
- Belief in one's ability to achieve one's goals
- High level of self-awareness
- Passion
- Willing to act
- Willing to take initiative
- Strong sense of commitment
- Perseveres
- Focuses on change
- High drive/motivation for accomplishment
- Willing to work hard
- Willing to learn
- Ready to learn
- Willing to seek out relevant knowledge
- Willing to acquire relevant experience
- Capacity to transfer knowledge and experience
- Goal-oriented
- Creative
- Opportunity-oriented
- Willing to assume risk

SKILLS ONE SHOULD HAVE:

- Capacity to plan
- Communication
- Marketing
- Interpersonal
- Basic management
- Quantitative/analytical
- Personal effectiveness
- Team building and leadership

SKILLS ONE CAN ACCESS/EMPLOY:

- Specialized management talent
- Advanced planning
- Specialized marketing advice/services
- Recordkeeping
- Legal
- Accounting
- Research
- Technical
- Financial/financing
- Information management
- Specialized talent

“THE ENTREPRENEUR’S DOZEN”

What does an entrepreneur do? One way to answer this question is with “The Entrepreneur’s Dozen.”

- E**xamines needs, wants, and problems for which he/she feels something can be done to improve the way needs/wants are met or problems overcome.
- N**arrows the possible opportunities down to one specific opportunity.
- T**hinks of an innovative idea.
- R**esearches the opportunity and idea thoroughly.
- E**nlists the best sources of advice and assistance that can be found.
- P**lans the venture and looks for possible problems that might arise.
- R**anks the risk and the possible rewards.
- E**valuates the risk and possible rewards and makes a decision.
- N**ever hangs on to an idea, as much as it is loved, if research shows it won’t work.
- E**mploys the resources necessary for the venture if the decision is made to go ahead.
- U**nderstands that any entrepreneurial venture will take a great deal of long, hard work.
- R**ealizes a sense of accomplishment from successful ventures and learns from failed ones to achieve success in the future.



It is important to emphasize that one of the most essential ingredients of entrepreneurial success is the identification of a good entrepreneurial opportunity. An entrepreneurial opportunity is a need or want that needs to be satisfied (or that can be satisfied in a new or better way) or a problem that needs to be solved. How do entrepreneurs seek out, find, and assess potential opportunities? The following are some suggestions for you to consider.

AN ENTREPRENEURIAL SAFARI • ON THE HUNT FOR OPPORTUNITY

- SAFARI TIP #1:** Recognize patterns as they are forming. The entrepreneur has an advantage if trends, patterns, and changes are detected before others have noticed them — perhaps even before they have happened.
- SAFARI TIP #2:** Look at the small things. Many of the best opportunities lie in what has been overlooked.
- SAFARI TIP #3:** Don't overlook the obvious. There is a saying that "only a foolish mouse would hide in a cat's ear, but it is the foolish cat that fails to look there."
- SAFARI TIP #4:** Watch for good ideas that are poorly executed. Some people find the opportunities but just don't know how to take advantage of them. You may know how to.
- SAFARI TIP #5:** Combine two or more things/thoughts together. Somebody came up with the idea for combining a bar and a laundromat. Someone else came up with a coffee shop and book store. Opportunities can often arise when two things are brought together for examination and thought.
- SAFARI TIP #6:** Look for new, generally unknown information. The best information is what is new and/or generally unknown.
- SAFARI TIP #7:** Talk with people. What better way is there to identify needs, wants, and problems than by talking to people and finding out what they have to say.
- SAFARI TIP #8:** Read journals, trade magazines, and so on to keep on top of things and to gather new information that may give rise to an opportunity or idea.
- SAFARI TIP #9:** Look for what has worked elsewhere.
- SAFARI TIP #10:** Look for new ways to meet old needs and wants.
- SAFARI TIP #11:** Look for ways to overcome barriers that blocked a good idea in the past. People tend to resist change, and some other entrepreneur may have been unable to overcome the resistance to a good idea.
- SAFARI TIP #12:** Look for "left-behind" markets — leaded gas cars, older model computers, 8-track tape players, Volkswagen Beetles. As long as people continue to use certain things, they continue to have needs.
- SAFARI TIP #13:** Look for good ideas that can be improved.
- SAFARI TIP #14:** Look at "why" people buy something rather than "what" they buy. The idea is to get at what motivates people — what prompts them to buy something — what the underlying needs and wants are. Therein lie the opportunities.
- SAFARI TIP #15:** Look for new uses for old products — old tires, end pieces of lumber, record players, records.
- SAFARI TIP #16:** Look for what's not working.
- SAFARI TIP #17:** Look for unhappy, dissatisfied people. Here you will find needs and wants that are still to be addressed.
- SAFARI TIP #18:** Look for happy, contented people. Here you will find insight into what has worked and what might work better.
- SAFARI TIP #19:** Keep your eyes and ears open. There is no more important tip than this one!



Your Entrepreneurial Safari

Look around your community. What needs, wants, or problems exist? Identify five opportunities that you believe exist right in your local community.

Once you have found an opportunity, it is important to assess it. Is it a good one? Is it a great one? Is it the best one that can be found? The following represent some of the key questions to consider when assessing opportunities.

ASSESSMENT

- Actual:** It is really an opportunity?
- Seen:** Has it been seen by others?
- Selected:** If seen, have others selected it to act upon?
- Enduring:** How long will it last?
- Satisfied:** Are you satisfied that you have accurate and sufficient information?
- Specific:** Have you specifically defined the opportunity?
- Many:** Do, or will, many care?
- Experience:** Do you really know what you're doing in this area?
- Number 1:** Is it the best opportunity you can see?
- Think:** Can you come up with a good idea?



Put It to the Test

Apply this assessment activity to the opportunities you identified in Activity 7.2. Which is the best opportunity?

There you have it — a basic primer on entrepreneurship and what it takes to be an entrepreneur. Of course, there is much more, and there are many other resources that can help you.

Whether or not you choose the entrepreneurial route or the employment route, you will find yourself working in a rapidly changing economic environment. Let's take a moment to examine some of the changes that are occurring in Canada's workplace.

Chapter

8

Careers and a Changing Workplace

GETTING A JOB, AND KEEPING A JOB: KEY FACTORS

The challenge of getting a job and keeping it — even if you are working for yourself — seems to be getting more and more difficult as time goes by. Governments are continually changing, as are

businesses. The number of workers is continually changing. The skills that are needed are changing.

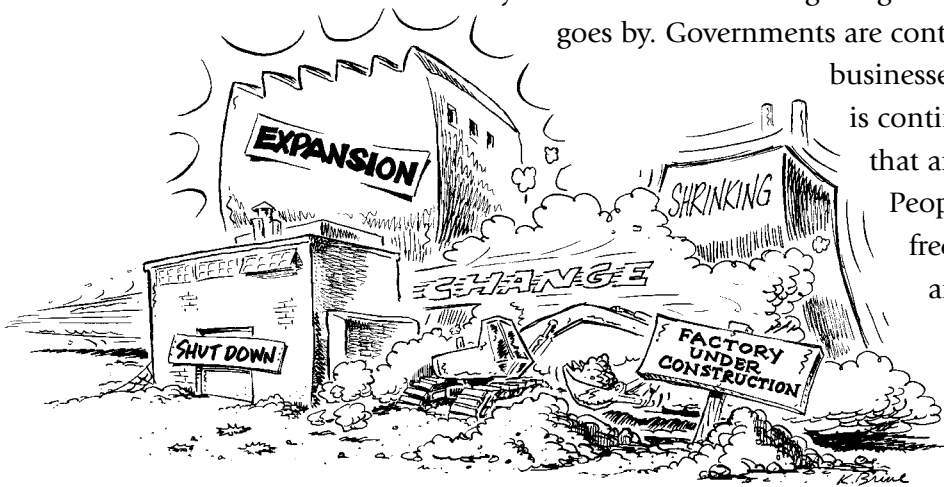
People are changing jobs more frequently. And more businesses are being started all the time — even while many other small businesses are closing down.

Change. Change. Change. That is the key word. In

this chapter, we want to look at some of the factors that are affecting the chances of Canadians getting, and keeping, a job — whether it is a job working for someone else or one you create for yourself.

INCREASING IMPORTANCE OF EDUCATION AND TRAINING

The changes occurring in our economy and throughout the world aren't news to anyone. Yet, it is surprising the degree to which many Canadians still do not understand the impact of these changes.



As the world is changing, information is becoming increasingly important. Entire industries related to gathering and using data and information are growing. Technology is exploding, and there is an ever-increasing need to be able to adapt to and apply these changes in technology.

An important key to getting and keeping a job today, and in the future, is education — education and training. At no time in our history have education and training been more important. To succeed in today's world, and in the competitive marketplace of the future, education and training will be critical. Statistics show that the more education and training you have, the more likely you are to have a job — and the higher income you are likely to earn from that job.

Learning how to do something today in no way ensures that you will be able to do the same thing tomorrow — or maybe as well as someone else can — either here in Canada or in another country.

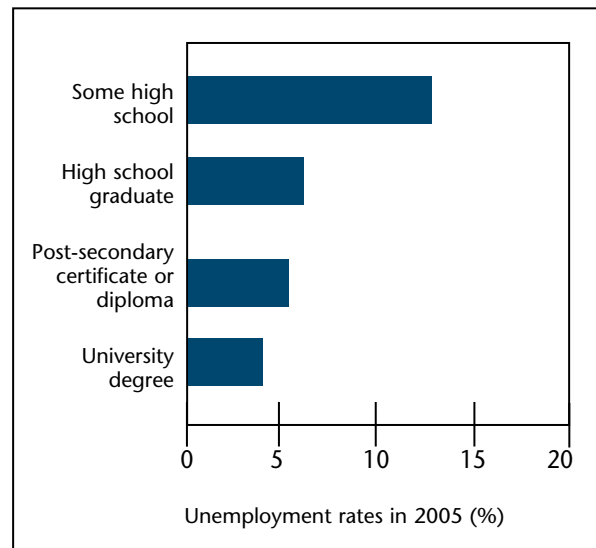
Learning is a lifelong experience. As the workplace and marketplace change, knowledge and skills will

have to change with them. The chart below illustrates an increasing relationship between unemployment and lack of schooling.

Jobs requiring unskilled labour are quickly disappearing. Many people today are becoming highly educated; others, without the necessary education, are being pushed back and aside.

Being relatively uneducated and working your way to the top is another option that is disappearing. Without an education and appropriate training, you will probably bump your head against a career ceiling (a point where you cannot rise any higher in terms of position) at an earlier and earlier point and at a lower and lower level within a company.

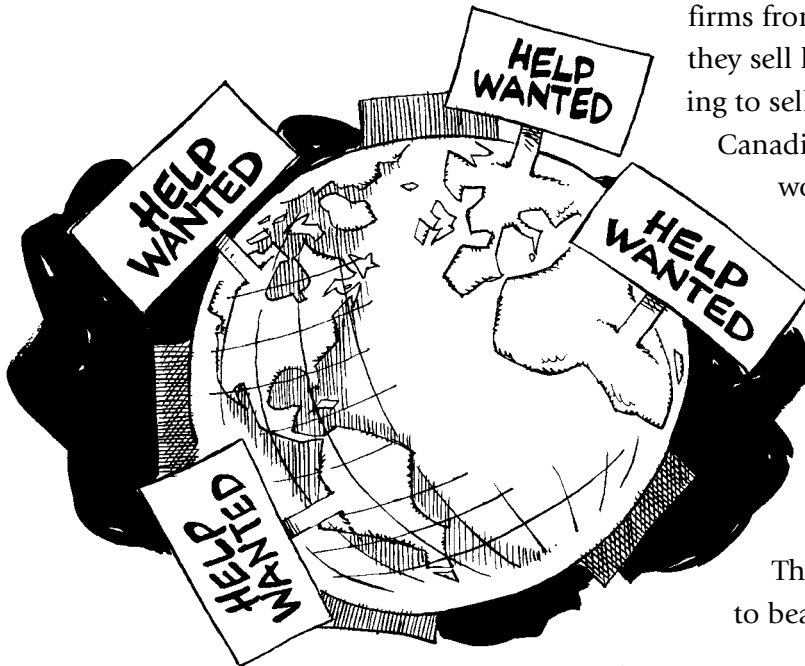
It will be important to identify the knowledge and skills required in the field in which you are interested. That isn't as easy as it sounds. Many people find it difficult to get the information they need. In fact, that ability to gather important information is a key



Source: Statistics Canada

skill in itself. A good place to start is at the federal government web site focusing on jobs, education, and training. Check it out at www.jobsetc.ca

A MORE GLOBAL LABOUR MARKET



More and more, Canadian firms have to compete with firms from other nations — both for what they sell here at home and what they are looking to sell in other countries. At the same time, Canadian workers have to compete with

workers in other countries. That means, for example, that a company may close its operation in Canada, with the loss of jobs, not because Canadians aren't working well or producing a good product. It may be because the company can produce the same quality product in another country at a lower price.

That is another pressure being brought to bear on Canadian workers.

At the same time, more and more Canadians are selling their products and services to other countries. The global economy has opened up extraordinary opportunities for Canadians and many Canadian businesses. In fact, a very significant proportion of jobs in Canada is related to products and services that we export (sell) to other countries.

In addition, at the same time as workers from other countries may come to Canada to seek employment, some Canadians are now able to look for work, not only in Canada, but in other countries as well.

In short, Canadian workers and companies face many influences that are coming from both inside and outside our borders. Canadians will be increasingly involved in a more global labour market, and a more global marketplace, and this presents both challenges and opportunities for all of us.

SHIFT FROM PRODUCT TO SERVICE PRODUCTION

Over time, there has been a dramatic shift, in Canada as well as in other countries, from producing products to producing services. It is important to note that more and more Canadians are finding work in the "service sector" as opposed to the "goods sector." There are many differences in the two sectors.

Producing products by manufacturing requires plants, factories, equipment, transportation, and so on. Production usually takes place within a place like a factory by a team of people that work closely together. The number of people employed will vary with production. If sales and production are slow, fewer workers may be required, leading to temporary layoffs and shutdowns. If sales and production are higher, more workers may be employed and more work may be made possible through overtime opportunities.

On the other hand, services are often provided through broad networks of workers operating out of smaller facilities. Think of services such as dry-cleaners, lawyers, accountants, dentists, and so on. They do not tend to work out of large centres of production. Many are involved in smaller, more independent businesses.

Manufacturing businesses, therefore, tend to be larger with more concentrated production activity. The amount of capital needed to start up and operate a manufacturing company tends to be greater than that required for many services. That is one reason why many of the new small businesses being established by entrepreneurs tend to be in the service sector.

On another note, because manufacturing activity tends to be more concentrated within a specific facility, there tends to be a greater chance that workers in that sector will be unionized and receive incomes and benefits that are negotiated collectively by union representatives on behalf of the members.

These are just some of the differences that tend to exist between the service sector and the goods sector. As was noted, there has been dramatic growth in the service sector over the last couple of decades.

Can the Shift Continue?

Although this trend has been under way for some time, and has accelerated in recent years, it is important to note that the trend cannot continue indefinitely. A strong service sector also requires a strong goods production sector. An economy cannot sustain itself, or grow, on the basis of service activity alone. Canada will require a strong core of goods production to sustain its service sector, and the stronger our goods sector the healthier our service sector will be.

This is one of the reasons why there is increasing concern over the lack of engineers and people who specialize in the fields of applied maths and sciences. Increasingly, Canadians are choosing career paths aiming at service provision — doctors, lawyers, accountants, dentists, and so on — as opposed to careers that lead toward applied skills and technology in the areas of manufacturing

and construction. Canadians will have to focus increasingly on education, training, and skills development that not only will secure the viability of our goods sector but that can expand and build it over time.

CHALLENGES TO PAST EXPECTATIONS

Canadians, and indeed people in many other countries such as the United States, have tended to expect that incomes, lifestyles, and standard of living can continue to improve. The fact is, nowhere is it written that wages, incomes, and standard of living shall always rise. If Canadians expect to continue to achieve a higher standard of living, our work will be cut out for us. It is also important to be aware that, even when incomes rise, “real incomes” can fall.

What is “real income”? Real income is what is earned after the effects of inflation have been taken into account. For example, if you receive a wage increase of 2%, but your living costs increase by 3%, your “real” income doesn’t rise. Your “nominal” income does, that is, the income you are paid as money. But, when you use your money income to purchase goods and services, you find that your purchasing power, the quantity of goods and services you can actually buy, has decreased.

For example, if the average real income of Canadians was found to be higher in 1996 than in 2006, we mean that, on average, based on our purchasing power, we were better off in 1996. Why? Among other things, our overall ability to produce goods and services wouldn’t have kept pace with our incomes. As a result, the purchasing power of our money that we receive as income would have fallen.

Our ability as a nation to produce goods and services with the resources we have and use is referred to as productivity. Specifically, productivity is defined as

“output per unit of input.”

For example, suppose you set up a hockey stick manufacturing company and, with a certain quantity and type of resources, you produce 10,000 hockey sticks. Then, suppose by combining your resources differently, you are able, with the same

resources, to produce 12,000 hockey sticks. That is increased productivity. The output per unit of input has increased.

Individuals, companies, and governments throughout Canada are working to increase our productivity performance. Those efforts have an effect on the workplace and the marketplace. Those who are able to understand the importance of productivity, and can help to increase it, will find this an advantage.

So what? Well, if 12,000 hockey sticks are produced and sold rather than 10,000, revenue will increase. That should enable those involved in production to earn more. Why? Because the resources used created more value and more wealth — value and wealth that should be shared among those achieving the higher productivity. That, as you can well imagine, is one of the issues that comes up for discussion — sometimes heated discussion — between employers and employees. Who was responsible for the higher productivity? How much was productivity increased? How should the benefits be shared? However, as much as the sharing of benefits can sometimes be an issue, the key thing to note is that increasing productivity brings benefits. By increasing productivity, Canadians can increase real incomes and improve our standard of living.

POTENTIAL FOR A WIDER SPREAD IN INCOMES

There is a potential for Canada to increasingly become a nation of “haves” and “have nots.” The shift from goods to service production has created a situation in which some “good jobs,” ones that are permanent, challenging, and fulfilling and that pay relatively well, are being replaced by jobs in the service sector that are not as good — of shorter duration, less secure, lower paying, less challenging, with fewer and lower benefits.

This is not to say there are not good service jobs — far from it. But there is a potential for wider and wider gaps in the quality of work available to people, which can lead to a wider spread in incomes.

Some people believe that, as time passes, the service sector will “mature” more. With the dramatic growth in the service sector, there is a possibility that many people who are new to it (including many new businesses) have to learn more about protecting incomes, providing benefits, and so on. Time will tell if that is the case.

Nevertheless, in a rapidly changing society, fuelled by changes in technology, globalization, and many other factors, there is a risk that some Canadians will be better able to respond to change, and take advantage of change, than others. This creates the possibility that some will do better than others at a time when governments may or may not be in a position, or willing, to help some who are in need. This is another reason why education and training is so important for Canadians today.

CHANGES IN JOB STRUCTURE

Over the years ahead, it is likely that the nature of the workplace in Canada will continue to change. These changes will include:

Full-time and part-time employment by sex and age group

	2001	2002	2003	2004	2005
	thousands				
BOTH SEXES					
Total	14,946.2	15,310.4	15,672.3	15,947.0	16,169.7
15–24 years	2,324.6	2,399.1	2,449.4	2,461.0	2,472.5
25–44 years	7,570.8	7,575.6	7,571.5	7,594.0	7,597.5
45 years and over	5,050.8	5,335.7	5,651.4	5,892.0	6,099.7
Full-time	12,242.5	12,439.3	12,705.3	12,998.1	13,206.2
15–24 years	1,314.8	1,323.1	1,344.3	1,361.4	1,370.2
25–44 years	6,637.5	6,627.0	6,624.7	6,671.2	6,684.7
45 years and over	4,290.2	4,489.1	4,736.3	4,965.5	5,151.3
Part-time	2,703.7	2,871.1	2,967.0	2,948.9	2,963.5
15–24 years	1,009.8	1,076.0	1,105.1	1,099.6	1,102.3
25–44 years	933.3	948.5	946.81	922.8	912.8
45 years and over	760.6	846.6	915.0	926.5	948.4

Source: Statistics Canada

- **Increases in the amount of part-time work**, that is, work that amounts to less than 30 hours per week

If we look way back to 1953, about 4% of the Canadian workforce was employed part-time. By 2005, this figure had increased to about 17%.

In some cases, this increase in part-time work reflects an increase in flexibility in the workplace. Part-time work meets workers’ desires to work less than full-time. This is particularly true of some parents who want to maintain a working career but also wish to spend time at home with children. Part-time work can also help those who want to go to school or obtain training while working.

In these cases, part-time work options are a good thing. In other cases, though, the increase in part-time work is a sign that some workers can’t obtain full-time work. This is referred to as “involuntary part-time work,” working part-time when you would rather be full-time. Involuntary part-time work now accounts for about 25% of all part-time work. So there are many people working part-time today who would rather be working full-time — but part-time work is still the choice for many. The majority of part-time workers tend to be youth, female, or both. Part-time work also tends to occur more in smaller firms.

Three things should be noted. First, employers are increasingly hiring part-time workers. There are a number of reasons for this. In some cases,

it lowers the total labour cost for the employer if full-time work is not really required. On average, part-time workers also tend to earn less than full-time workers. Furthermore, part-time workers do not tend to receive the benefits that are available to full-time workers (health plans, dental plans, pension plans, and so forth), which usually reduces the total cost for the employer. Part-time workers are also much less likely to be unionized. Second, there tend to be more people who want to work part-time, in spite of some of the trade-offs just referred to. And third, there are more people frustrated in their efforts to find full-time work, and they are having to settle for part-time work.

- **Increases in the number of short-term jobs, that is, jobs that last for a period of less than six months**

There is an increase in short-term work, which indicates employers are making changes in response to changing economic conditions. Furthermore, employers are contracting people's services for shorter periods of time for certain tasks as opposed to hiring someone on a permanent, full-time basis.

These shorter-term jobs tend to be taken more by younger workers who may choose to move in and out of the labour market in their earlier years while they are obtaining education and training. Short-term jobs occur more often in smaller firms where workers are less likely to be unionized and less likely to be provided with benefits such as a pension plan.

- **Own-account self-employment, that is, a person working alone without any employees**

This is the term used to refer to people working as chip wagon operators, one-truck movers, newsstand operators, and so on. Although there has been significant growth in this kind of employment over the years, it is worth noting that such workers tend to have lower earnings.

- **Temporary help agency work**

Many people use placement centres to secure work with a variety of employers over time as their services are required to replace absent full-time workers or to help out on a temporary basis when work is required but not on a permanent long-term basis. This kind of employment has increased over time, and there are now tens of thousands of Canadians finding jobs through such services. It is important to note that, in many cases, these workers are using such agencies because they are unable to find permanent jobs.

Most such jobs are clerical in nature, and a high proportion of these workers are female, wages tend to be considerably below full-time wages, and the workers usually have access to minimal fringe benefits.

These four types of “non-standard” work now represent a significant portion of all employment. Overall, they tend to be lower paying, less stable, and provide fewer benefits. Significant growth in these areas cannot be considered to be a positive thing. It is true that they provide advantages of flexibility to some who want it. However, many people are having to settle for such forms of employment because they are unable to find the permanent work they would prefer.

There is reason to believe that the trend toward such types of work may change over the years. First of all, growth in the total labour force has been slowing. This means that it is likely that better, more permanent jobs should start to open up for qualified workers who may have been frustrated in their efforts to find such employment in the past. In addition, there is a decrease in the flow of young workers into the labour market, and such jobs tend to be taken more by younger workers. Therefore, although it is likely that the numbers of workers employed in such jobs will continue to increase, the rate of growth is likely to slow.

CHANGES IN SKILL TRENDS

The kinds of skills desired by employers has been changing. A recent survey of employers showed that the skills assessed to be most desirable in prospective employees were:

- basic academic competence
- creativity and initiative
- analytical and problem-solving abilities
- adaptability
- communication skills
- interpersonal skills

Over 50% of workers in Canada are now employed in occupations that are primarily concerned with the creation or use of data and knowledge. This is particularly true in the service sector, which accounts for about two-thirds of all jobs.

The Conference Board of Canada has produced a target set of skills (identified by employers) and entitled “Employability Skills.” This list of “employability skills” appears on the following page.

Employability Skills 2000+

The skills you need to enter, stay in, and progress in the world of work—whether you work on your own or as a part of a team.

These skills can also be applied and used beyond the workplace in a range of daily activities.

Fundamental Skills

The skills needed as a base for further development

You will be better prepared to progress in the world of work when you can:

Communicate

- read and understand information presented in a variety of forms (e.g., words, graphs, charts, diagrams)
- write and speak so others pay attention and understand
- listen and ask questions to understand and appreciate the points of view of others
- share information using a range of information and communications technologies (e.g., voice, e-mail, computers)
- use relevant scientific, technological and mathematical knowledge and skills to explain or clarify ideas

Manage Information

- locate, gather and organize information using appropriate technology and information systems
- access, analyze and apply knowledge and skills from various disciplines (e.g., the arts, languages, science, technology, mathematics, social sciences, and the humanities)

Use Numbers

- decide what needs to be measured or calculated
- observe and record data using appropriate methods, tools and technology
- make estimates and verify calculations

Think & Solve Problems

- assess situations and identify problems
- seek different points of view and evaluate them based on facts
- recognize the human, interpersonal, technical, scientific and mathematical dimensions of a problem
- identify the root cause of a problem
- be creative and innovative in exploring possible solutions
- readily use science, technology and mathematics as ways to think, gain and share knowledge, solve problems and make decisions
- evaluate solutions to make recommendations or decisions
- implement solutions
- check to see if a solution works, and act on opportunities for improvement

Personal Management Skills

The personal skills, attitudes and behaviours that drive one's potential for growth

You will be able to offer yourself greater possibilities for achievement when you can:

Demonstrate Positive Attitudes & Behaviours

- feel good about yourself and be confident
- deal with people, problems and situations with honesty, integrity and personal ethics
- recognize your own and other people's good efforts
- take care of your personal health
- show interest, initiative and effort

Be Responsible

- set goals and priorities balancing work and personal life
- plan and manage time, money and other resources to achieve goals
- assess, weigh and manage risk
- be accountable for your actions and the actions of your group
- be socially responsible and contribute to your community

Be Adaptable

- work independently or as a part of a team
- carry out multiple tasks or projects
- be innovative and resourceful: identify and suggest alternative ways to achieve goals and get the job done
- be open and respond constructively to change
- learn from your mistakes and accept feedback
- cope with uncertainty

Learn Continuously

- be willing to continuously learn and grow
- assess personal strengths and areas for development
- set your own learning goals
- identify and access learning sources and opportunities
- plan for and achieve your learning goals

Work Safely

- be aware of personal and group health and safety practices and procedures, and act in accordance with these

Teamwork Skills

The skills and attributes needed to contribute productively

You will be better prepared to add value to the outcomes of a task, project or team when you can:

Work with Others

- understand and work within the dynamics of a group
- ensure that a team's purpose and objectives are clear
- be flexible: respect, be open to and supportive of the thoughts, opinions and contributions of others in a group
- recognize and respect people's diversity, individual differences and perspectives
- accept and provide feedback in a constructive and considerate manner
- contribute to a team by sharing information and expertise
- lead or support when appropriate, motivating a group for high performance
- understand the role of conflict in a group to reach solutions
- manage and resolve conflict when appropriate

Participate in Projects & Tasks

- plan, design or carry out a project or task from start to finish with well-defined objectives and outcomes
- develop a plan, seek feedback, test, revise and implement
- work to agreed quality standards and specifications
- select and use appropriate tools and technology for a task or project
- adapt to changing requirements and information
- continuously monitor the success of a project or task and identify ways to improve



The Conference Board of Canada

255 Smyth Road, Ottawa
ON K1H 8M7 Canada
Tel. (613) 526-3280
Fax (613) 526-4857

Internet: www.conferenceboard.ca/education

MORE JOB CHANGE

There is much talk today about “multiple careers” and the fact that many people have five, six, seven, or more careers over the course of a lifetime. Part of it comes down to how you define “career.” Is a career related to one kind of work and one specific job? Or is a career your entire record of work experience covering all the things you have done. If it is the latter, then we will all have one career covering a range of jobs and experience. Either way, the key point is that with all the change that is occurring, and that will occur, most people will have, on average, five to seven different jobs over the course of their working life. Again, this will create opportunities and challenges for Canadians as they plan for, and realize, their work and career-related goals.

SUMMARY

To summarize, then, the following are some of the more recent trends that characterize the Canadian labour market:

- there continues to be an acceleration in the globalization of the world economy
- this increases the global nature of Canada’s labour market and marketplace and the exposure to global influences
- there has been a slowing in the growth rate of our overall labour force
- there is increased employment in the service sector
- there is more work requiring a high level of knowledge and skill
- there are increasing priorities assigned to the importance of education and training
- there is an increasing desire among employers for employee skills related to creativity, innovation, adaptability, and problem solving
- there has been a somewhat disturbing trend toward “good jobs” and “bad jobs” in Canada, the skewing of incomes, increased regional disparity in terms of employment and incomes, and challenges to our past successes in raising our overall standard of living
- there continues to be growth in non-standard forms of employment
- there continues to be increased flexibility in work alternatives in the labour force
- there are more variations in the degree of stability afforded to various workers

The clear indication is that Canadians are going to have to adjust to changing and evolving world conditions. Increasingly, Canadians have to take greater control over their career paths and options to ensure they have the skills needed for the jobs that exist and that are evolving. Therefore, as noted earlier, it is important that all Canadians, and particularly youth, develop a career plan — not just for the early years, but a lifelong plan.

In this section, we have focused on acquiring income — sources of incomes, working for others, preparing a résumé, seeking a job, job interviews, self-employment, and factors influencing the workplace. The next section will focus on how one uses income and manages personal and household financial affairs.



Part III • WORKING WITH MONEY

Chapter

9

Taking Financial Control with Budgets and Plans

Using money wisely is a skill — and a skill that pays off. Like all resources, money can be used effectively or for the wrong reasons. It can be used for the

best purposes or it can be misused. It can be used productively, getting the most possible from it — or it can be wasted.

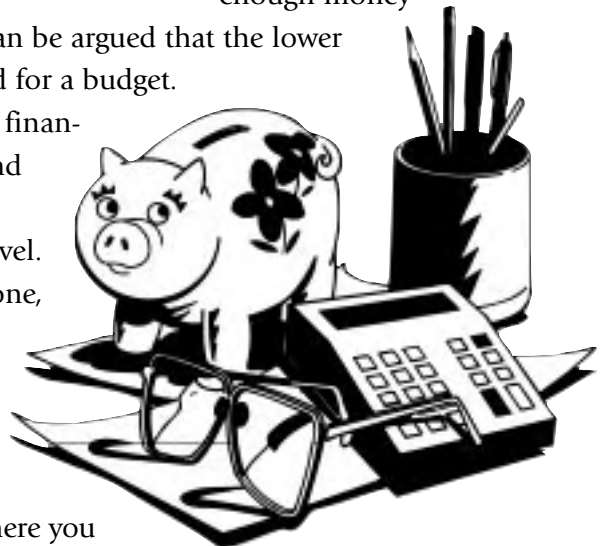
Achieving your goals and taking control of your finances usually works better with a plan. And a key part of a financial plan is a budget. Many people do not use a budget. As a result, many people get themselves into financial problems.

Many people do not keep a budget because they feel that they do not earn enough money

to justify a budget. In reality, it can be argued that the lower your income, the greater the need for a budget.

The challenge of managing one's financial affairs, making ends meet, and building up savings is usually greater the lower one's income level. Therefore, budgeting is for everyone, regardless of income level.

A budget is the key to financial control. A budget represents your decision to take control of your financial affairs, to know where you



What is a budget? A budget is simply an organized way of managing your financial affairs on a day-to-day, week-to-week, month-to-month basis. It enables you to see where your income is coming from, when it is coming in, and how it is going out. It registers your ongoing expenses — both regular expenses and those that are irregular or occasional. In doing so, it enables you to compare your income with your expenses and see whether or not you have anything left over with which to plan.

from your income. If a budget shows you are spending more than you make, that's not the budget's fault — and somebody needs to point that out.

A budget is not a strait-jacket. If anything, it can help you to achieve greater financial freedom. A budget might seem like a strait-jacket because, when first established, it may show you are living beyond your means. Most people don't like to hear that. It means having to give up some things or changing one's lifestyle. But if you are living beyond your means, it is better to know sooner rather than later. It will make it easier for you to regain control.

A budget helps you to be more informed. You may discover obvious ways to cut back, to save more. Remember, savings represent an income you pay to yourself. A budget can help you increase savings, investment, and future wealth.

Budgeting helps you to achieve longer-term financial goals. Acquiring things such as a car, a house, a cottage, a farm, a boat, a trailer, and so on requires a lot of money. So do travel expenses, education and training, weddings, and so on. Funds for such things don't usually come from regular income. They usually come from the build-up of savings and investments over time (and perhaps some loans, too). Funds for savings and investments come from the income you acquire that exceeds your expenses.

should be spending \$200 a month on food, you have to do something. You will either have to make a commitment to spend less on food or increase the amount you budget for food by taking money from some other area of your budget.

stand and where you're heading. It enables you to work out a step-by-step plan to achieve your goals. Some people regard a budget as something that imposes limitations and restrictions. Nothing could be further from the truth. Financial limitations are imposed by your income. Budgeting helps you to get the most

So a budget involves a detailed outline of income and expenses. It reveals a true picture of your financial state. And it should give you a very clear indication of whether or not you are on the road to accomplishing your longer-term goals.

If you establish a budget and discover that you are spending \$300 a month on food when you thought you

If you find it hard to start a budget, it may be a sign that you need a budget. Finding it hard to start usually means that either you don't look forward to what you'll find out or you're so out of touch that it will take quite a bit of time to get things organized. If so, don't postpone budgeting any further. The time to begin is now.

Budgeting helps you to save and build up a reserve for major purchases and investments. Let's look at some budgeting tips:

- Keep your budget flexible. Things change. Your expenses will change, your income will change. Keep your budget flexible so that it can change with you.
- Keep your budget simple. Nothing will turn you off budgeting more quickly than if you make it complicated and a lot of work. Keep it simple and make it as easy and enjoyable as possible.
- Be honest and realistic. If you aren't honest with yourself in preparing it, you are only fooling yourself. Be realistic in terms of what your expenses are and what you might have to give up, do without, or trade-off if you are going to get something else or accumulate savings.
- Keep accurate and clear records. Effective recordkeeping is an essential part of good financial planning and management. You will be amazed to find out how much time you can save when you know where things are. The following are some of the important papers and records that you should keep in a well-organized manner:

- birth certificate
- school reports and records
- awards received
- letters of recommendation or praise
- financial plan
- warranties/guarantees for items purchased
- receipts for major purchases
- social insurance card
- will
- marriage certificate
- lease/mortgage papers
- bank books
- medical records
- tax papers
- budget
- club membership papers
- insurance papers
- investment papers/statements/etc.
- unused cheques
- passport
- cancelled cheques
- bank statements

- Don't leave these important papers scattered all over the place.
- Pay yourself! Basically, this means you should make sure to save part of your income. You will not have an effective budget if you are not able to save anything.
- Experiment with your budget. Don't expect it to work out the first time that you try it. Keep a log for the first little while to monitor your expenses closely. Then adjust your budget based on your findings.
- Be prepared for trade-offs and sacrifices today to enable you to get the things you want in the future.
- Budget for the unexpected. Something surprising or unexpected always comes along.
- Reward yourself if your budget works out effectively.
- As much as you can, conduct your budgeting and financial calculations in a pleasant environment and circumstances.
- Budget for annual expenses such as birthday gifts or car insurance. Don't be caught short.
- If you find that your budget is too tight for your liking and you want to cut back, consider the following:
 - don't pay others to do what you can do — do it yourself
 - always shop with a list in order to avoid unnecessary purchases
 - cut back on entertainment
 - pursue more home entertainment
 - change transportation methods
 - give up "vices" — such as smoking
 - alter your lifestyle in ways that can save money
 - do without some things

Let's turn our attention to the parts of a budget. The first thing to do in a budget is to calculate your monthly income. That will give you a picture of what you've got to work with. The second step is to identify your current monthly expenses. Some expenses you can control (for example, entertainment). Others you can't control as readily (for example, your housing costs/rent). Although you can't really control a cost such as rent in the short run, you can always take control by moving to less expensive accommodation or getting a roommate. Remember, that's what it's all about — finding ways to take greater financial control in order to help achieve your goals and objectives. Let's look at a sample budget.

A SAMPLE BUDGET**I. YOUR INCOME: ESTIMATED FIGURES****A. Your Monthly (Fixed) Income**

Wages/Allowance	_____
Interest	_____
Other	_____
Total	_____(M)

B. Irregular Income

Income tax refund	_____
Gifts	_____
Bonus	_____
Other	_____
Total	_____

Divide the above total by 12 =	_____(N)
--------------------------------	----------

Total Average Monthly Income (M + N)	_____(O)
---	----------

II. YOUR EXPENSES: ESTIMATED FIGURES**A. Regular Monthly Expenses**

Food	_____
Transportation	_____
Recreation/Entertainment	_____
Savings	_____
Loan Payments	_____
Emergency Fund	_____
Housing Costs (including utilities)	_____
Medical/Dental	_____
Other	_____
Total	_____(X)

B. Irregular/Annual Expenses:

Insurance	_____
Gifts/Charitable contribution	_____
Tuition/School Expenses	_____
Clothing	_____
Vacation/Holiday	_____
Other	_____
Total	_____

Divide the above total by 12 =	_____(Y)
--------------------------------	----------

Total Average Monthly Expenses (X + Y)	_____(Z)
---	----------

**If the figure (O – Z) below is positive,
then you have savings with which
to work. If it is negative, you'll need
to make some changes.**

III. BALANCE (TOTAL MONTHLY INCOME – TOTAL MONTHLY EXPENSES) = _____(O – Z)

You will have two categories of expenses. First, you will have your regular fixed monthly expenses — those you will incur each month. Second, you will have your irregular expenses — those that occur on an irregular basis or once a year. For example, you may have an annual car insurance bill. You will want to plan for that expense in your budget and allocate some funds each month so that you aren't, all of a sudden, facing a big expense out of your regular monthly income. You can divide the total for irregular expenses by 12 to identify the monthly amounts needed to enable you to cover these expenses. The monthly amount to cover irregular expenses, along with your regular monthly expenses, make up your total monthly expenses. This is the figure you will compare with total monthly income to see if you are in a position to “pay yourself.” If you like, try to complete the sample budget to see how you stand financially.

CASH-FLOW MANAGEMENT

Regular monthly income and expenses are easier to budget. If you have considerable irregular income and expenses, you will likely have to undertake more cash-flow management. For example, if your car insurance is due every May, you may choose to budget a monthly amount so that you have the funds available when your insurance is due. Alternatively, you may budget a smaller amount and use an anticipated income tax refund to make up the difference.

This is the kind of cash-flow management you can undertake to try to match income with expenses. These variations in irregular income and expenses make each person's budget unique.

The main thing is to try to make sure that you live within your means and that your income matches or exceeds your expenses. Through effective budgeting, you should try to save about 10% or more of your income. It is through saving (now or in the future — but preferably both) that you will be able to achieve your financial goals. If you are unable to save anything now, work toward being able to do so in the near future. Make your budget work for you.

It isn't uncommon for people to find that their income falls short of expenses. You may be able to adjust expenses to overcome this. Alternatively, and if the shortfall has been going on for some time, this can result in the need to borrow — go into debt. Borrowing can also be part of your financial activities at

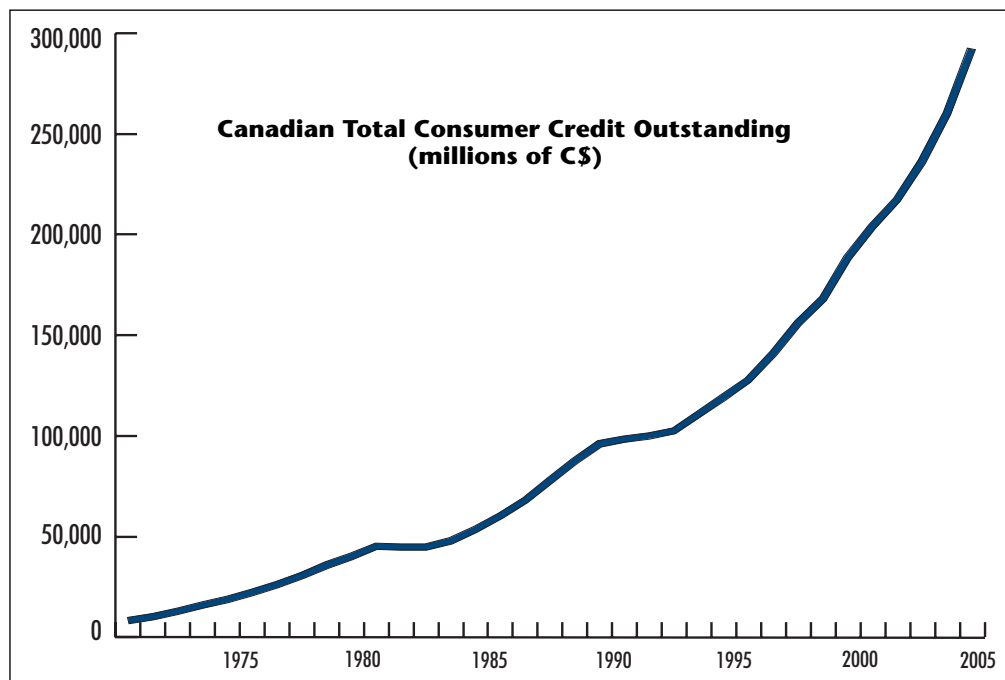
other times. For example, you may decide to borrow for investment strategies or to make a major purchase. In fact, there may be many reasons to borrow. Let's turn our attention to debt and credit and the pros and cons of credit use.

Chapter

10

Debt and Credit - A Matter of Interest

As Shakespeare wrote: "Neither a borrower nor a lender be." There are not many people who live their lives by that adage any more. The vast majority of Canadians are involved in the borrowing and/or lending of money.



Source: Statistics Canada

A debtor is someone who borrows. A creditor is someone who lends. Debt, therefore, is a liability — something that you owe. Credit is an asset — it has been loaned out and will, one hopes, be paid back.

These days, credit is quite readily available. One way in which it is available is through credit cards. A credit card is simply a means of making a payment through credit that has been previously approved by your credit card issuer. The company will have established a “limit” representing the maximum credit you have available. A credit card, then, represents a process by which to use money for purchases. The only catch is that you are, at least temporarily, using someone else’s money. When you use a credit card, some institution is providing you credit for the purchase — which of course means that you are taking out a loan and incurring a debt. You will have to pay the debt back, and this may also entail interest on the debt.

WHY BORROWING HAS INCREASED

Today people tend to be more willing to take on debt and, in many cases, higher levels of debt than people did 20 or so years ago. One reason for this is that there are more funds available for borrowing today and more readily available sources of credit.

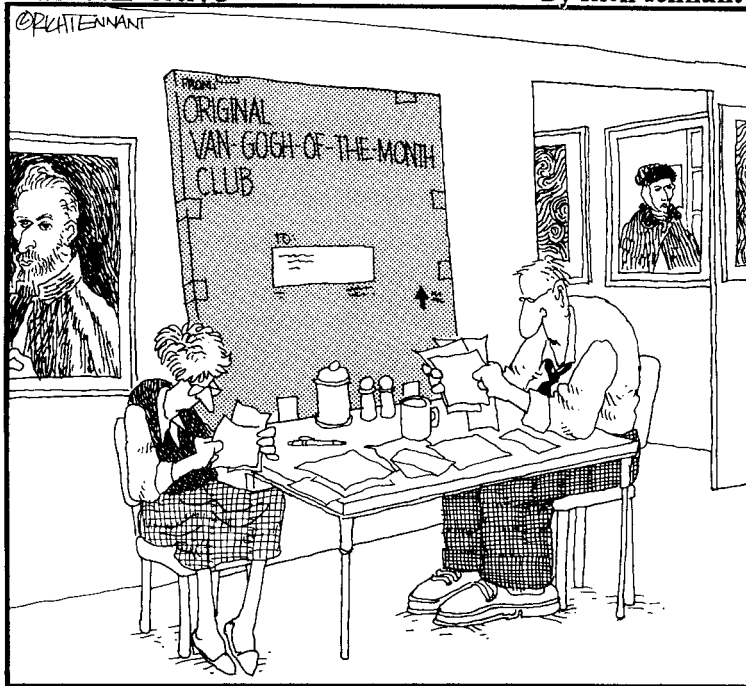
Another reason is that, by and large, people tend to be better off today. With higher incomes, people have a higher “ability to pay” or a greater ability to “carry debt.” For example, if you earn an income of \$60,000 a year and want to borrow \$5,000 for three years, you probably won’t have much of a problem because your income is such that you probably wouldn’t have trouble paying back both what you borrowed, called the “principal,” and the “interest” owing on the debt.

However, if you have an income of \$9,500 a year, you might be less willing, and less able, to borrow because you have a much lower “ability to pay” or “ability to carry the debt.” People often refer to “carrying a debt” or a “debt load.” That is because debt is usually considered somewhat of a financial burden. Not only do you face meeting your current day-to-day costs, but you also face the costs for what you bought in the past. You are, in essence, carrying past and present expenses into the future. In general, as people’s real incomes rise, their ability to pay increases, their ability to carry debt increases, and, therefore, their willingness to incur debt tends to increase.

Another reason for more borrowing today is due not only to higher incomes but also to higher prices. As prices rise, the need to borrow may increase — especially if prices rise at rates faster than incomes. Housing is an example. House prices have, on average, risen over the years to the point where very few people can buy a house today without taking on a mortgage.

The 5th Wave

By Rich Tennant



"I just don't know where the money's going."

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E-mail: the5wave@tiac.net

achieve the tax deductions that are possible (for example, borrowing for a contribution to a Registered Retirement Savings Plan). Furthermore, investment income tends to be taxed more favourably than regular income. This attracts some people to borrowing for investments to earn investment income.

Another reason for more borrowing today is the vast increase in the number of two-income households. In today's world, both partners are often working out of the home. This increases the household income and, thereby, the ability to carry debt.

Lifestyle is also a factor. It appears as though many people today want more things in their lives than people did in the past. There are many things in life that families often hope for today. These higher ambitions lead to the need for higher incomes, often require both spouses to work, and often lead to more debt. At the same time, it is also likely that many two-income households are working just to get by, let alone aspiring to "more" and "better."

For all of these and other reasons, there is more borrowing today by larger numbers of people. And people are incurring higher levels of debt. That is all the more reason for people today to have a thorough understanding of debt.

WHY DO PEOPLE BORROW?

- **Unexpected expenditures:** Maybe the car has broken down or the roof has started to leak. It is hoped that those of you who are reading this book will manage to be sufficiently prepared for these unpleasant surprises.

Another reason for more borrowing today is that, by and large, people understand debt and debt management better than in the past and therefore tend to be less nervous about it. (Some people should probably be a little more nervous, judging from the number of people who get into debt problems.) But, overall, knowledge tends to breed confidence, and this is probably true when it comes to borrowing, too.

Accompanying people's increased knowledge about debt and debt management is increased willingness to incur debt for investment purposes. In some cases, tax policies have also encouraged people to borrow for investment purposes in order to

- **The “big buys”:** Some items cannot be afforded out of current income and savings. They must be paid for with future income by taking on debt. Items in this category include such things as cars and houses.
- **Investment:** As we said earlier, some people borrow today to invest to try to increase the value of their savings. People will do this if they believe the return on the investment is worth the expense and risk involved in incurring the debt.
- **Education and training:** This is a form of investment. It is often referred to as “investment in human capital” — an investment in the improvement of your knowledge and skills. People will often borrow to pursue this type of investment because improved education and training often leads to higher paying jobs. Hence, the return from the investment can last a lifetime and is frequently worth the cost incurred.
- **Opportunities:** Sometimes opportunities present themselves that merit taking on debt to take advantage of the opportunity. For example, suppose one of your financial goals is to acquire a boat. Suppose further that you just happened to come across the deal of a lifetime — just the boat you want at a price better than you are likely to see again. You may conclude that going into debt to take advantage of the opportunity is worth the cost of the debt. Such a decision would be based on the fact that the amount saved by buying now would exceed the carrying costs on the debt. (Carrying costs refer to the total interest charges that you would end up paying on the debt.)
- **Rainy days:** A person may suddenly lose his/her job and find it necessary to incur debt. One must hope, though, that the troubled times are not so troubled that the ability to borrow is lost.

These are just some of the reasons people borrow. Some people can find very creative reasons for borrowing — perhaps reasons they shouldn’t. This is why debt must be used wisely.

We know why people borrow. Why do people (or companies) lend? There are people like parents, family, and friends who may lend to be helpful. However, for the most part, credit is received from other sources, sources that charge interest on the money you borrow.

People and companies lend because interest can be earned. If the interest received on a loan exceeds the rate of inflation, then the purchasing power of the funds can be increased. If interest couldn’t be earned on loans, or if the rate of interest was lower than the rate of inflation, very little lending would go on.

TYPES OF DEBT/CREDIT

The following is a brief list of some of the various forms of debt/credit. They tend to differ in terms of the reason for the loan.

- **Credit cards:** We have already referred to this form of debt. By and large, an institution that believes you are able to carry a certain level of debt and sufficiently responsible to pay off your debts will extend to you a credit card. This card will, in most cases, have a credit limit representing the amount of credit that the institution is prepared to extend to you. You can then use the card for payments up to the limit that has been extended.

Some credit cards operate so that you have to make a minimum monthly payment on the outstanding balance. This minimum amount will cover the institution's cost and return a profit. Remember that most credit cards such as VISA and Mastercard are issued by financial institutions. The credit that they are extending to you comes from the savings that have been placed on deposit in the financial institutions by savers. The savers are paid interest on their savings. Therefore, the financial institution must ensure that each month sufficient payment is received from the credit card holder to cover the interest paid to the saver, to cover the costs incurred in handling the transactions/accounts/etc., and to return a profit. The financial institutions earn a profit on the difference between the interest charges they incur (paid to their depositors) and the interest payments they receive from you on your outstanding credit balance.

You should be aware that if you pay your credit card bill in full by the due date, you usually do not incur any interest charges. Some institutions charge an annual fee or a fee for each transaction to cover their related expenses. Check this out when choosing which credit card to apply for.

- **Charge accounts:** This is the term used to refer to cards, virtually the same as credit cards, that are issued by retailers. You may, for example, have a "Bay

card," a "Petro-Canada card," or a "Canadian Tire card."

These cards are issued by the stores and companies to enable, and encourage, people to buy their products. They often charge relatively high rates of interest on unpaid balances.

Interest rates on credit cards tend to be higher — sometimes significantly higher — than interest rates on regular loans. For this reason, you shouldn't carry debt on credit cards for a long period of time. If you have used your credit card to the extent that it will take you more than a couple of months to pay it off, take out a regular loan to pay off the credit card balance. By doing so, you'll save a great deal of interest.

- **Consumer loans:** Loans are available from various financial institutions for a wide range of consumer purposes — to buy a car, for travel, for house renovations, for a boat, for a computer. These loans tend to be for periods from months to about 5–7 years.
- **Mortgage loans:** These are loans provided for the purchase of property. Mortgages will be explored more in a later chapter. For now, be aware that a mortgage is a loan that tends to be over a long period of time, generally



up to a maximum of 25 years. However, the terms of the loan, particularly the interest rate, have to be renegotiated at various points throughout the period of the mortgage. The total time over which the mortgage is taken out — 25 years, 20 years, 16 years, or whatever — is referred to as the amortization period.

The “term” of the mortgage refers to the period of time over which you have come to an agreement with the lender about the interest and other specifics of the mortgage.

The term may be for six months, one year, two years or anywhere up to 5–7 years. It is uncommon these days for a financial institution to be willing to negotiate the terms of a loan for any more than 5 or 7 years, although there are some possibilities. The future beyond that usually holds too much uncertainty.

- **Business loans:** Some people borrow funds to start, improve, or expand a business.
- **Installment buying:** Purchases can be paid in installments. Generally, if you purchase something through installments, you will have to pay interest charges, but you get the use of your purchase while you are paying for it.

These, then, are some of the various forms of credit/debt. Now let’s look at possible sources of credit.

SOURCES OF CREDIT

Credit can be obtained from a wide range of sources, including the following:

- **Family and friends:** Some people make a point of never borrowing from family or friends because they feel that if the debt couldn’t be repaid they would risk the relationship. However, many people do acquire funds in this manner. Perhaps the best recommendation is to make the loan/debt relationship as formal as possible.

- **Financial institutions:** This is the primary source of credit in our economy. Banks, trust companies, insurance companies, and brokers all are in a position to extend credit.
- **Mortgage and loan companies:** There are some companies that are in the business of providing loans. They tend to provide loans to those who represent higher levels of risk, those who cannot obtain credit from the financial institutions noted above. But because their clients represent greater risk, the interest rate charges also tend to be higher.
- **Retailers:** By providing charge cards, the retailers (such as The Bay, Imperial Oil, and so forth) are providing credit to those who buy their products using their charge cards.
- **Yourself:** For example, people are frequently unaware that they can borrow from the funds that have been accumulated in insurance policies. Before looking to other sources, make sure you look to see if you have any of your own funds from which you can borrow.
- **Credit unions:** In many workplaces, employees can borrow from credit unions where pools of funds have been accumulated by savings deposited by employees in return for interest.

To this point, then, we have looked at the reasons people borrow and at forms and sources of credit. Next we'll explore the cost of credit.

THE COST OF CREDIT

The cost of credit is the amount of interest that is paid on the loan. But the amount of interest that is paid on a loan is determined by more than just the rate of interest.

Another extremely important determinant is the period of time over which debt is paid back. If you borrow funds over a shorter period of time, you will pay less total interest than if you borrow over a longer period of time. Perhaps the best illustration of this is a mortgage. Look at the following three tables.

\$60,000 MORTGAGE

15-year Amortization

Interest Rate	Monthly Payment	Total Repaid	Total Interest Payment
4%	\$443.81	\$ 79,886	\$19,886
6%	506.31	91,136	31,137
8%	573.39	103,210	43,210
10%	644.76	116,057	56,057

20-year Amortization

Interest Rate	Monthly Payment	Total Repaid	Total Interest Payment
4%	\$363.59	\$ 87,262	\$27,261
6%	429.86	103,166	43,166
8%	501.86	120,446	60,447
10%	579.01	138,962	78,963

25-year Amortization

Interest Rate	Monthly Payment	Total Repaid	Total Interest Payment
4%	\$316.70	\$ 95,010	\$ 35,011
6%	386.58	115,974	55,974
8%	463.09	138,927	78,927
10%	545.22	163,566	103,566

Note that if \$60,000 is borrowed at 4% interest and paid back over 15 years, the total interest paid is \$19,886. If the \$60,000 is paid back over 20 years, the total interest payment is \$27,261. The same loan amount — \$60,000 — costs \$7,375 more if it is paid back over 20 years as opposed to 15 years. It is obvious that time is as important as the rate of interest.

You should always know the total cost of a loan. The principal is the amount that you borrow. For example, if you borrow \$1,000 for one year at 6% interest, the loan principal is \$1,000. The interest on the loan is the amount that you pay back over and above the principal. For the loan just described, the interest would be \$60. Therefore, you would pay back a total of \$1,060.

The cost of the loan will also be affected by the source of credit that you are able to use. If you are able to show a history of paying off your debt, you will probably be able to get a fairly competitive interest rate. However, if because of your credit history or financial resource situation you

can't obtain credit from the lower cost sources, you may have to go to other sources where costs are higher.

Whenever you consider taking a loan (or using credit), ask what the interest rate is and how much total interest you will be paying. Reliable creditors will not hesitate to give you honest, accurate information. And get everything in writing.

Financial institutions will often base their loan rates on something called the "prime rate" of interest. The prime rate is the rate of interest that the institutions charge to their largest, most reliable customers — often large corporations.

When you go into a bank or other institution to negotiate a loan, you will meet

with a loans officer. He or she will discuss your situation with you, take down the details of your request, ask questions related to your credit worthiness (more on this in a moment), and so forth. The loans officer will also organize a credit check — that is, a check on your credit rating (more on this, too, shortly) — and tell you the rate of interest that you will be charged for the loan. As a new borrower, you will not likely get a loan at the lowest rate available.

Don't borrow from the first place you visit unless you have some special reason (for example, maybe your family banks there and you want to as well). Be sure to comparison shop for credit. Financial institutions do compete with one another, and there is a chance that another institution may offer you a loan at a lower rate of interest. Financial institutions will often be prepared to match rates offered elsewhere.

Another important point to note is the down payment. This refers to the amount of money you can pay at the time of purchase versus how much you have to pay through borrowing. For example, suppose you are going to spend \$3,000 on a car and you have \$1,200 available. You can use the \$1,200 as a down payment and borrow the remainder. (Borrowing is often referred to as financing — you put down \$1,200 and finance \$1,800.)

Therefore, the total cost for the car will be \$3,000 plus whatever interest you have to pay on the borrowed money (that is, interest on the \$1,800). The key point is that the higher your down payment on any purchased item, the less you will have to borrow (finance) and the less your total cost will be.



For your own information, find out the following:

1. The difference between paying 3% for a \$2,000 loan over two years versus paying 5% for the same loan for two years.
2. The difference between paying off a \$3,000 loan at an interest rate of 7% over two years versus paying off the same loan over four years.
3. The difference in total cost for a \$4,000 car (a) with a \$2,000 down payment and financing \$2,000 over three years at 4% versus (b) financing the entire \$4,000 over four years at 8%.

So, let's summarize the key points so far:

- know the total cost of any loan (principal + interest)
- don't carry debt on credit cards; if possible, take out a regular loan to pay off the credit card balance
- comparison shop for the best rate
- decide on the term of the loan — the shortest term you can afford may be the best since it will cost you less overall
- put down as large an amount as you can to lower the amount you will have to borrow, the interest you will have to pay, and, hence, the total cost to you



Suppose you want to buy a brand new car for \$15,000, and you are going to finance the entire purchase. Explore the different rates offered by different sources of credit.



Within a group, discuss the influences that tend to lead to impulse buying. Discuss possible techniques that a person could use to resist impulse buying.



Suppose you are a creditor with money available to lend. Someone comes to you who wants to buy a boat for \$22,000 and borrow \$18,000 from you to do it. What information would you want to know prior to deciding whether or not to provide the loan?



Suppose that you want to prove to someone that you are a responsible individual. List things about yourself, or that you have accomplished, that would serve as evidence of your responsibility.

Above all, do not be afraid to ask questions. Your financial affairs are too important for you to worry about whether or not you sound foolish. Besides, many adult Canadians do not understand much about financial matters, and asking questions will probably earn you the respect of a creditor who will be pleased to see how thorough you are — it will be a sign that you will likely be responsible about paying the money back.

The following are some questions you should be sure to ask when taking out a loan.

- Is the interest rate on the loan fixed or does it vary?
- What are the first and last payment dates?
- Can I pay off the loan at any time? If so, is there any penalty for doing so?
- Are there fees other than interest payments?
- How frequently will interest on my loan be calculated? What happens, or what can be done, if I miss a payment or am unable to make one for any reason?

There are other questions that you may have. Don't be afraid to ask!

CREDIT WORTHINESS

If you want a financial institution to lend you money, you will have to prove that you are able and likely to pay back the loan. This is commonly referred to as your “credit worthiness.” Credit worthiness is an assessment of your ability to take on, carry, and pay back debt. The 3 Cs of credit worthiness are capital, character, and capacity.

CAPITAL

This refers to the assets you have that the creditor could draw upon if they were ever needed to pay back the loan. This would include any equity you have in a house (that part of the house that you own — the value of the house minus the mortgage), stocks, bonds, cars, and so on. As a borrower, you would probably not have any intention of using these to pay back the loan. However, if for some reason you were unable to make the payments on the loan or pay it back in full, then the creditor would like to know what assets you own that you could sell (liquidate) to obtain the financial resources necessary to pay back the loan. Assets that you use to “secure” (prove that you can pay back) a loan are referred to as “collateral.”

CHARACTER

A creditor wants to have some indication that a borrower is a responsible individual who will honour his/her debts and make regular payments. When you apply for a loan, the loans officer will meet with you and try to assess your character and how responsible and reliable you are likely to be.

Some of the questions that you have to answer on a loan application may surprise you. You may be asked how long you have worked at your current job; how long you have lived at your current address; and whether you have incurred any other debts. Are you married? Do you have dependents?

Being with an employer for quite a while, living at the same address for some time, being married, or having children tend to represent stability and responsibility. This doesn't mean that you can't get a loan if you aren't married with two kids and haven't worked and lived at the same place for ten years. It does mean that if you have changed jobs frequently or moved from place to place, you may encounter some hesitation from loans officers when you apply for a loan.

CAPACITY

The creditor will also be interested in your ability to carry debt. Do you have sufficient income to cover the monthly payments? Have you taken on a level of debt that is too high and that jeopardizes your ability to pay? How much cash do you have? How much do you owe? Your assets and your income level will be compared with your carrying costs on all other debt so that the creditor can assess whether or not to extend a loan to you.

These, then, are the 3 Cs by which your credit worthiness will be assessed. However, regardless of your credit worthiness, your credit rating can overpower it — particularly if you have a less than favourable rating.

CREDIT RATING

Many people are unaware that a credit rating system even exists. But it does. It exists because all of those who are in the business of extending credit are pleased to jointly share information about those individuals who have not been responsible about repaying their debts.

A credit bureau exists and operates on the basis of keeping a record of those individuals who have proved to be less than responsible in paying back debt. If you were to purchase something from a store on a credit card and then not pay the charges on the card, the institution that issued the card to you and didn't receive payment will notify the credit bureau. The credit bureau will record that information and make it available to other creditors that contact the bureau.

Most creditors will make ongoing and serious attempts to get the borrower to repay the loan before filing information with the credit bureau. After all, their primary interest is in getting their loan back. That is why it is always impor-

tant to contact the creditor if you are having problems repaying a debt and try to work out a repayment plan. Creditors will usually try to accommodate your situation. However, if they don't hear from you, they may simply file the information with the credit bureau.

It is important to achieve and protect a good credit rating. A bad credit rating can come back to plague you time and time again. It can be terribly disappointing to reach a point in your life when you want to do something such as buy a home only to discover that a poor credit rating stops you from getting a mortgage.

Often people who are having trouble meeting their debt obligations will hear from a collection department or agency before information is filed with the credit bureau. If you are contacted in this way about a delinquent loan, accept it as a warning and deal with the matter immediately.

Even if you don't have any intention of borrowing, you never know when the need to do so may unexpectedly arise. It is always wise to maintain an ability to borrow, which includes maintaining a good credit rating.

The following are some tips for maintaining a good credit rating:

- pay your debts
- don't sign any kind of credit contract until you have read it thoroughly, understand it, and know what you are getting into
- never sign a blank form of any kind

- always try to pay your bills on time
- contact your creditors if you are having trouble making payments
- deal with reputable creditors (they should have a good credit rating, too)
- be cautious about co-signing for a loan

This last point requires some explanation. A person who is unable to get a loan can sometimes get a loan if someone co-signs the loan. A co-signer agrees to take on the responsibility for the loan should the borrower not make the payments. This is a serious responsibility. A parent may co-sign a loan for a child if the child is still relatively young, with limited financial resources, and wanting to buy an item such as a car. Think carefully if you are asked to co-sign for a loan.

Establishing a good credit rating can be a particular challenge for young people. You can't establish a good credit rating because you can't get a loan, which would enable you to establish a good credit rating. (This is not unlike needing experience to get a job, yet being unable to get a job due to lack of experience.)

In order to establish a good credit rating, a young person might decide to get a credit card from a retailer, for example, use it when making purchases, and then pay off the bills promptly and fully. In this way, a credit rating can begin to be

established even at a relatively young age. But again, self-discipline must be exercised in using the card.

So what are the advantages and disadvantages of using credit and incurring debt?

THE ADVANTAGES AND DISADVANTAGES OF CREDIT



ADVANTAGES

- You can enjoy/use something (for example, a car, a house, a vacation, education, new clothes) as you are paying for it out of future income.
- Credit enables you to handle emergencies and unexpected costs due to illness, accident, loss of work, breakdown of a car, and so forth.
- Credit can enable you to pay more to buy goods of higher quality that will last longer and that may be a wiser consumer choice.
- You can take advantage of sales. (Just make sure that the amount you save through the sale is more than it costs you in interest.)

- Credit provides a record of your expenses. Credit card issuers provide a monthly statement, which itemizes all of your expenditures made with the credit card.
- Credit can simplify the payment of many bills by enabling you to borrow one amount to pay them all off and then carry a single debt with a single payment.



DISADVANTAGES

- Credit can encourage you to live beyond your means and get you into financial difficulty.
- Credit can mean that your future income will be tied up in paying past debts and that you will be unable to undertake new expenditures.
- Credit can be expensive since the interest must be added to the price.
- Credit can enable impulse buying, which may lead to unwise consumer choices.
- Credit cards for a particular store may lead you to do less comparison shopping since you may shop where you have the card rather than where the best deal is.
- Using credit will mean that you will have less reserve for unforeseen emergencies.

SIGNS THAT YOU MAY BE IN DEBT TROUBLE

You are...

- finding it difficult to save anything
- continually short of funds
- using your savings to pay debt costs
- near your credit limit on all or most of your accounts
- missing payments or due dates for your bills
- always making only the minimum payments on your accounts
- unaware of how much you owe
- worrying a lot about money
- borrowing money to pay off debt costs
- having to borrow money to meet your week-to-week or month-to-month expenses

WHAT TO DO IF YOU HAVE A DEBT PROBLEM



- Perhaps the most important piece of advice is to face up to your financial problems and start to do something about them. Don't try to handle it all alone. If you have close personal friends or family in whom you confide, do so and seek their advice and support. They can also help you accept the reality of a bad situation. You will probably be surprised at how many people are willing to help and co-operate to see you over a rough period or particular financial hurdle.
- Contact your creditors. Don't simply start missing payments. Most will readily try to help you get out of the hole you are in. After all, they have an interest in your ability to pay. Work out a new payment schedule with them. You will probably be surprised at how co-operative most creditors will be.
- Put all of your credit cards away to avoid getting into worse trouble.
- Consider a consolidation loan for your debts. In this way you can turn a number of payments into a single payment that may be less than the total of the other payments combined. If you are carrying debt on credit cards, the interest you will pay on a regular loan will usually be much lower than that on a credit card balance.
- Consider a second job to see you over the hurdle.
- Cash in some investments or savings to lower your debt position. The costs you pay on your debt will frequently exceed the interest you earn on your investments, and it may pay to give up the investment in order to do away with the debt.
- Stop all further borrowing. No sense digging a deeper hole.
- Seek some professional advice and counselling
- Re-evaluate your lifestyle. What can you give up to free up some money to help you pay your debts?

You'll recall that one reason for using credit is to make major purchases. In the next chapter, we'll look at some major expenses many of us will face during our lifetime.

Chapter

11

The Major Expenses

At some time in life, many people will face four major expenditures:

- financing education (or training)
- buying or leasing a car
- accommodation
- raising a child

FINANCING EDUCATION OR TRAINING



An Education Financial Strategy/Plan

Try to complete the following activity in less than two minutes. For those of you who are planning to go on to further study, this activity is designed to enable you to make a plan for your further education. Make an estimate of what your personal costs and income might be per year. The sample worksheet on the next page may be helpful.

For our purposes here, we will assume that you are considering additional education that will require funding. The same basic factors would hold if, alternatively, you are planning to pay for training.

A good education can be a very significant investment that will affect your ability to obtain financial resources throughout the rest of your life. You may believe that you have good reasons for not pursuing your education further, but make sure that they *are* good ones because there are many advantages to carrying educational credentials with you. If expense is one of the factors that is preventing further education, that is all the more reason to begin financial planning today so that you can come back to your education in the future.

SAMPLE WORKSHEET

COSTS

Basic Living Costs per Month

Accommodation (utilities included) _____

Food _____

Local public transportation _____

Miscellaneous: telephone,
personal and health care, etc. _____

Total basic living costs per month _____
(not including clothes and entertainment)

Total basic living costs for the school year = 8 months _____

School Costs per School Year

Tuition fees _____

Books and supplies _____

Moving furniture to school, etc. _____

Transportation to get home for
vacations and the summer _____

Total school costs for the school year = 8 months _____

Total Overall Costs per School Year _____

SOURCES OF FUNDS

Expected Parental Contribution per School Year _____

Your Contribution per Year

Summer's income after taxes and
living costs _____

Scholarships/awards _____

Savings/investments _____

Your total contribution per school year _____

Total Funds per School Year _____

If the total anticipated costs exceed the anticipated funds, you may have to consider applying for loan assistance. But remember that a loan is a debt you will have to repay at some point in the future.

Taking on debt to help pay for education is quite common today and may become more so in the future as costs related to education rise. This can be a wise investment, provided the education you receive helps prepare you to earn an income that can be used to repay the loan. The goal should be for the loan to help finance education that will prepare and enable the borrower to earn more lifetime income than would have been possible without the loan. That would make it a good investment.

Problems arise, however, when loans are taken to help pay for an education that, when completed, has not helped prepare the borrower to generate an income — or an income better than what would have been possible without the education. It is not uncommon for students to leave college or university with debts of \$15,000 to \$25,000. That is a significant burden with which to begin one's working life. You should also keep in mind that years of college or university have an "opportunity cost," that is, the loss of income that otherwise could have been earned from working.

That is why it is important to make the most effective education choices and decisions you can. Borrowing for an education can be a very good investment decision. But, like any investment, it will be judged by the returns and benefits it generates.

TIPS ON BUYING A CAR

For many Canadians, one of the first major purchases they will make is a car. The following are some general tips to help insure that you make a good decision with respect to the car that you buy.

- Explore various possible sources for a car.
 - dealers
 - private sale
 - cars that were repossessed and are being sold off
 - car rental companies
 - taxis and police vehicles (be aware, though, that used cars that served as taxis or police vehicles, for example, may have received pretty hard use)

Do your homework. Look around. Read up. There are laws to protect you. Get to know them. Check prices on the lots and in the papers. Know what type of car you want before you go out to buy it. Know what its approximate value should be.

- Never buy a used car without having it inspected by a mechanic.
- If you buy a used car, check:
 - for rust on the surface and under the car
 - the compression in the engine — a mechanic will do this for you and tell you how good the engine is
 - whether the car has been painted
 - whether it has been in an accident

- if there is much movement from side to side in the front wheels indicating problems with the front end of the car
 - if the tires are worn unevenly indicating a problem with the alignment
 - if the car continues to bounce for a while when you push down on it indicating there is a problem with the shocks/springs
 - whether there is much play in the steering wheel
 - how good the brakes are during a test drive
 - the smoke from the exhaust — is it white, which is normal, or is it black or blue indicating problems
 - if there are any leaks under the car; let it sit in one spot for a while, then move it and check
 - the acceleration of the car and the shifting of gears
 - how the car corners during a test drive
 - the condition of the exhaust system — rust etc.
 - wear in the interior
- Set a limit on the amount that you are going to spend for a car and stick to it.
 - If you buy a used car, make sure that there are no liens against it, that is, someone might have taken out a loan and used the car as collateral. If they did, and the lien still exists, then the car can be taken from you and sold to pay off the debt.
 - Check the history of a used car. Contact past owners if you can by tracing the history of the car through provincial records.
 - Bargain. Negotiate. Do this even if you are buying a new car — dealers will bargain.
 - Buy in the winter, if you can, when fewer cars are purchased. Demand is lower and you may be able to strike a better deal.
 - Keep up regular maintenance on a car — it more than pays for itself in the long run by helping to avoid major repairs.
 - Beware of out-of-province cars, which may have been brought in from areas where inspection regulations are less strict.
 - Read all contracts carefully.
 - Never sign an offer for a car until you are absolutely sure that you want to buy it.



- Don't be pressured into a sale. If you feel you are being pressured, back away and think about it. People are especially likely to be influenced by a friendly or aggressive salesperson.
- Check any warranties that are offered to see who backs them — the manufacturer? the dealer? an insurance company?
- Check the reputation of any rust-proofing company.
- Don't buy a used car without seeing proof of ownership of the vehicle.
- Check the consumer reports publications and other books to research the record and reputation of the car you are considering.
- Be aware of the operating costs of a car, which include:
 - fuel
 - oil
 - tires
 - repairs
 - licences
 - registration fees
 - insurance
- Make sure that any car that you test drive is insured (and that you are, too).
- Listen to the engine, not the radio — you can do that later.
- Get a receipt for any sale, and make sure that it states any equipment on the car that is to be included that might be removed by the current owner.
- Should you get a new or used car? Do you have a choice?
 - used cars are cheaper
 - used cars depreciate (that is, lose their value) less quickly than new ones
 - used cars usually cost less to insure
 - new cars usually need fewer repairs, and they are often covered by warranties
 - used cars often aren't backed up by a dealer who you can go back to if you have a problem
 - used cars usually cost more to operate
 - you don't know how a used car has been handled or driven by previous owners
- Make sure that you really need a car. What are the options (bicycle, public transportation, etc.)? Is it worth the expense?
- Enjoy your car if you get one, and drive safely!



ACCOMMODATION

MOVING OUT

Moving out on your own away from family can be a difficult adjustment. In addition to the financial obligations you take on, there are often many emotional aspects associated with it. Here, we will just give our attention to some of the considerations both financial and otherwise that you should keep in mind.

Will you move out on your own or with one or more roommates? If you move in with a roommate or two, who will they be? Living with friends, as you've probably heard, is not as easy as one might think. It is a lot different living with someone than going to a show or out to dinner with him/her. It is usually a good idea to establish the house rules and guidelines at the outset.

Consider the following possible conflicts:

- differences in work/study habits
- differences in neatness/cleanliness
- differences in terms of organization
- differences in eating habits
- differences in tastes/entertainment /TV/music
- problems with use of the phone
- differences in friends
- competition for the bathroom

The following are some other things to consider.

- Decide whether you will seek furnished or unfurnished accommodation. Which would be cheaper for you? Do you have any of your own furniture?
- Are utilities (oil/gas/electricity/water/cable) included in the rent, or do you have to pay for any of them?
- How close will you be to school or work? Does the location add to, or save on, transportation costs?
- If you are moving out to go to school, do you want to live on campus or off? If on, can you get into residence? If off, can you afford it? Does it cost more or less?
- What services are provided by the landlord? What are your responsibilities?
- Check, where possible, your provincial landlord/tenant agreements so that you are familiar with all conditions and your rights.

- If you have a car, is parking available? If not, is parking available nearby? If so, do you have to pay extra for it?
- What is the neighbourhood like? Safe? Attractive?
- What are the neighbours like? Quiet? Noisy? Friendly?
- Check things such as the plumbing, wiring, and appliances. They can become very important to you once you move in. Besides, you also want to ensure that they are safe.
- Is there any storage space available if you need it? Does it cost?
- Check your provincial rent control policy, if any, to see if it affects your situation and the rent that you pay.
- Do not rent a place sight unseen. This may sound like a crazy notion, but there are actually situations in which the demand for rental property is so high, and relative supply so low, that people will rent a place over the phone without looking at it.
- Check to see what access your landlord has to your place. Usually a landlord can only enter for an emergency or after giving you prior notice of 24 hours or so.
- Check the security of the property.
- How much notice do you have to give before leaving?
- Be aware that you may incur moving costs — unless you are lucky enough to have friends with a truck or a trailer as well as strong backs.
- Be prepared to pay the first and last month's rent. This is a common practice. The landlord holds the last month's rent as protection. However, you should be paid interest on that money.
- Make a list of the utensils, dinnerware, small appliances that you will have to obtain. These costs can add up.

These are just some of the things to keep in mind when you decide to move out. Although not as costly as the purchase of a home, that first move out can bring many pressures, stresses, challenges, problems, and expenses. Plan it well. Speaking of purchasing a home, let's take a look at that big step.

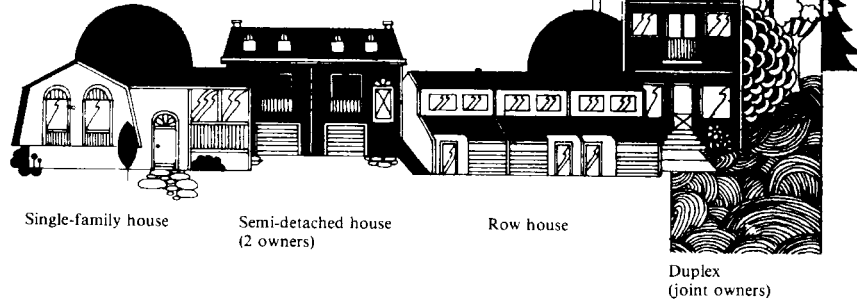
PURCHASING A HOME

As was mentioned earlier, this is a step that many Canadians never take. But for those who do or will, and this may include you, here are some of the important things to note.

TYPES OF HOMES

One of the major decisions you will have to make concerns the type of home to buy. The following are possibilities:

- **Detached house:** a house that stands on its own unattached to any other building
- **Semi-Detached:** a house that is attached on one side to another house
- **Townhouse (Row House):** a house that is attached to another house on both sides



Source: *Protect Yourself*, vol. 8, no. 1, December–January 1980.

- **Duplex:** a house in which there are two separate living areas, for example, one upstairs and another downstairs (triplexes have three living areas, fourplexes have four) — may be detached, semi-detached, or attached on both sides
- **Condominium:** an apartment that you buy rather than rent
- **Mobile home:** many areas in Canada have mobile home parks where people live in mobile homes
- **Co-op:** situation in which you purchase a property in conjunction with others; for example, you may own an apartment that is part of a co-op where the members of the co-op own and manage the building

You will have to decide what type of housing you prefer and what type you can afford. Unfortunately, the two don't always go together. Generally, detached houses cost more than semi-detached. But there is another factor that affects price that is as important as (perhaps more important than) the type of house, and that is location.

House prices will vary dramatically according to the location of the properties. If the property is in a highly desirable, high-demand area, the price will generally be bid up quite high. When you begin your search for a house, the hot areas will soon become apparent.

Let's look a little more closely at the financial aspects of buying a home.

MORTGAGES

You've probably heard this awesome word — probably followed by sounds of moans and groans. A great many homeowners have a mortgage. A mortgage is simply a loan that you take out to use toward buying a home. It is a debt that

you have to pay back. And for many Canadians it is quite a high debt, hence the moans and groans.

Consider as an example a house that costs \$240,000. If you are like most Canadians, you wouldn't have \$240,000 that you could use to pay cash for your home. You would have to borrow money to pay for it. That is, you would have to take out a mortgage.

Let's start with a couple of points at the outset. It is not as difficult to borrow large sums of money toward a mortgage as you might think. The main reason is that the creditor, the financial institution that can loan you the funds, is pretty assured of getting the funds back. Why? Because the funds are invested in an asset — the house. If you don't keep up the payments on the house, the house could be sold to get the funds to pay back the mortgage.

That is why financial institutions will want to send an "appraiser" out to check the property you are planning to buy prior to giving you the loan. They want to make sure that you are not paying more for the house than it is worth — and to ensure that there would be at least enough value in the property for them to be able to get their funds back.

There may be a limit to the amount that financial institutions will provide for a basic mortgage, for example, 75% of the purchase price. In our example, a mortgage could be provided for \$180,000 (75% of \$240,000). However, it is often possible these days to obtain a larger mortgage (above 75% of the value). Investigate this possibility whenever you consider taking out a mortgage for more than 75% of the purchase price of a property.

What's the Maximum I Can Borrow?*

<i>When Mortgage Rates are:</i>	<i>Multiply Your Pre Tax Annual Income by this Figure to Determine the Maximum You May be Able to Borrow</i>
4%	4.6
5%	4.2
6%	3.8
7%	3.5
8%	3.2
9%	2.9
10%	2.7
11%	2.5

Let's assume that in our example the purchaser has managed, through effective planning, to accumulate \$40,000 and has taken out a \$200,000 mortgage to buy the \$240,000 home. Paying off a \$200,000 debt is a lot harder than paying

*Source: *Personal Finance For Dummies® For Canadians* by Eric Tyson and Tony Martin. Copyright © 1995 by Eric Tyson and Tony Martin. All rights reserved. Reproduced here by permission of IDG Books Worldwide, Inc. ...For Dummies is a trademark under exclusive license to IDG Books Worldwide, Inc., from International Data Group, Inc.

off a \$3,000 debt. It also usually takes a lot more time. By making reasonable payments, you should be able to pay off a \$3,000 debt over a few years or less. But what about \$200,000? People can take a mortgage out for a 25-year period. That is, they will make payments over a 25-year period. (You can understand why people celebrate when they have finally paid off their mortgage.)

You can now appreciate that taking so long to pay back a debt means that the amount of interest that is paid is considerable. Therefore, when, or if, it comes time for you to take out a mortgage, if you can pay it off over a shorter period, do so. It will save you a great deal of money.

If you take a mortgage out for a 25-year period, the 25 years is referred to as the amortization period. And, since a mortgage is a loan, you have to pay interest. Probably you are also aware that interest rates change quite frequently. So even though you are going to pay the loan back over 25 years, creditors will be unlikely to guarantee that you will always pay the same rate of interest over the 25 years. They will want to negotiate your mortgage interest rate over a particular “term” — a six-month term, a one-year term, two years, three years, four years, and so on.

It's not very common these days for an institution to provide a loan for more than five to seven years. After the term has ended, you renegotiate the interest on the mortgage for another term. This continues until the mortgage is paid off.

So when you take out a mortgage, you need to make a number of decisions.

- How large a mortgage do you need? (The actual amount you borrow, as with any loan, is called the principal.)
- From whom will you borrow? (Again, as with any loan, shop around. Institutions will compete for mortgage business.)
- Over what period will you amortize the loan (that is, how long will it take to pay off the loan)?
- What interest rate will you pay? This will vary according to the term of the mortgage that you choose. Usually the longer the term, the higher the interest rate. In general, if you think interest rates are likely to decline, you may want to go for a short term (for example, six months). This will let you renegotiate when you want to take advantage of the anticipated lower rates. Remember, though, that interest rates might go up instead. If you think rates will rise, you might want to lock in for a few years at the current rate (for example, take a five-year term).
- How frequently will you make payments? You may pay monthly, bi-weekly, bi-monthly, or weekly. Pay as frequently as you can. You can save a great deal of money by paying on a weekly or bi-weekly basis.
- Will you take out an “open” or “closed” mortgage? An open mortgage allows you to pay off your mortgage at any time. A closed mortgage means you



**MORTGAGE
CHOICES**

can't get out of the mortgage until the term is up unless the lender agrees (and the lender will usually charge you a significant penalty). You should be sure to ask about prepayment privileges. Most institutions let you pay off a certain percentage of your mortgage (for example, 10%) each year.

There are a few other things you need to know about buying a home. The degree to which you own your home (versus how much of it the mortgagee holds) is referred to as your "equity." If you pay \$40,000 toward an \$140,000 home, then you have \$40,000 worth of equity. If the value of that home should rise, to say \$160,000, then your equity increases. You still owe the balance of the mortgage, but your equity has increased by \$20,000. The more quickly you pay off your mortgage, the more equity you have in your home.

It is in this way that some people use housing as an investment. You have probably seen examples. Someone will buy a relatively run-down house for a modest or low price. They then fix it up and sell it for a higher market price and keep the gain. Others will buy a first home in an area where they think housing prices will rise in the future. They will stay in the house until prices rise, sell it, take the gain, and move to a new house. (But surprises occur when prices fall. It's by no means a sure thing.)

If you buy a home, live in it as your principal residence, and sell it later at a higher price, you do not pay tax on the money you make. However, if you buy a house, rent it to someone, and sell it later for a higher price, the increased value is considered capital gain, which is taxable income.

Finally, be aware that there are a lot more costs to running a house than just the mortgage, for example, taxes, utilities such as water and hydro, repairs, heating, home insurance, and general upkeep.

This may go a long way toward explaining why you didn't get that pony you asked for when you were growing up, or that new bike, or maybe why you can't have a computer today. The financial burden of paying for a house is a heavy one. It also involves a lot of trade-offs. As we said, a house is the largest investment that many Canadians make in their entire lives. If one day you decide to purchase a house, do all you can to make sure that you make a good buy.

Spending is only one thing we do with our money, though. You will also hope to be able to save some money. If you do, what you do with your savings becomes important. If you just put them under a mattress, inflation may reduce the purchasing power of your money over time. There are many options for what people can do with their savings. One common use is to "invest" to try to earn a return, increase the level of savings, and increase the purchasing power of the funds saved. Let's turn our attention now to the topic of investment.

Chapter

12

Putting Money to Work - Investing

J.H. Morley said:

"In investing money, the amount of interest you want should depend on whether you want to eat well or sleep well."

Another man with initials in his name, J.P. Morgan, said the following about buying and selling investments:

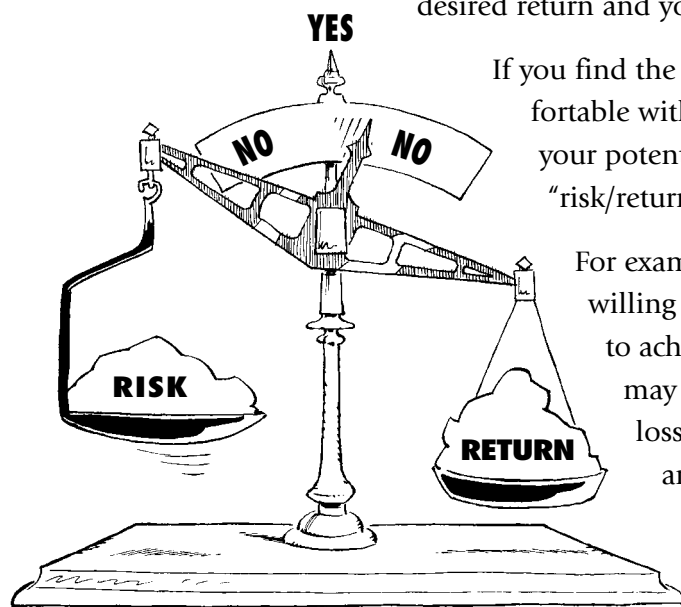
"Sell down to your sleeping point."

These two quotes are meant to show that investing your hard-earned financial resources can bring both benefits and risk, and there is an interesting relationship between the potential "return" of an investment and the "risk" associated with an investment. In fact, there is a "balance" that must be reached. What does that mean?

Suppose you are going to buy and sell stocks as one of your investments, and you are doing this through a broker. Furthermore, suppose you tell your broker that you would like to achieve the following:

- When the stock market rises, you want your investment to do better than the market by 20%. Therefore, if, over the next year the stock market rises 15%, you want your stocks to rise by 18% (20% more than 15%).
- Then, if the market should fall, you want your stocks to fall 20% less. Therefore, if, over the next year, the stock market falls 15%, you want your stocks to fall by 12% (20% less than 15%).

Is this a reasonable wish on your part? The answer, unfortunately, is no. Your potential returns, and your potential risk, have to be in balance. If you want your investment to do 20% better on the “upside,” you have to accept the risk that your investment may fall by 20% on the “downside.” Therefore, your desired return and your accepted risk have to be in balance.



If you find the risk of a 20% loss is more than you are comfortable with, then you will have to lower the target for your potential return. That is, you have to find your “risk/return” balance point.

For example, one person may, for various reasons, be willing to accept the risk of a 25% loss in order to try to achieve a 25% gain. Another person, however, may only be comfortable with a potential 10% loss in return for a possible 10% gain. And another person may not want any risk of loss at all. The trade-off for that person will be that there will also be little or no chance of much gain.

J.P. Morgan, therefore, was advising that you shouldn’t accept more risk than you are comfortable with, a level of risk that lets you sleep at night without concern and anxiety.

So what is your “risk/return” balance point? What risk are you willing to accept in relation to the target return you hope to gain? The answer to this question reveals a lot about the kind of investor you are and the type of investments that are probably most suited to you.

Your risk/return balance point will be affected by many factors, factors such as:

- your age (for example, younger people tend to be better able to accept higher risk than older people)
- how much you have to invest (for example, those with more money to invest are usually in a position to accept more risk)
- your goals and how much you are hoping to earn from your investments in order to realize your goals
- your time horizon, that is, how long before you need the money (if you need the money from your investments in two years for education, you will likely

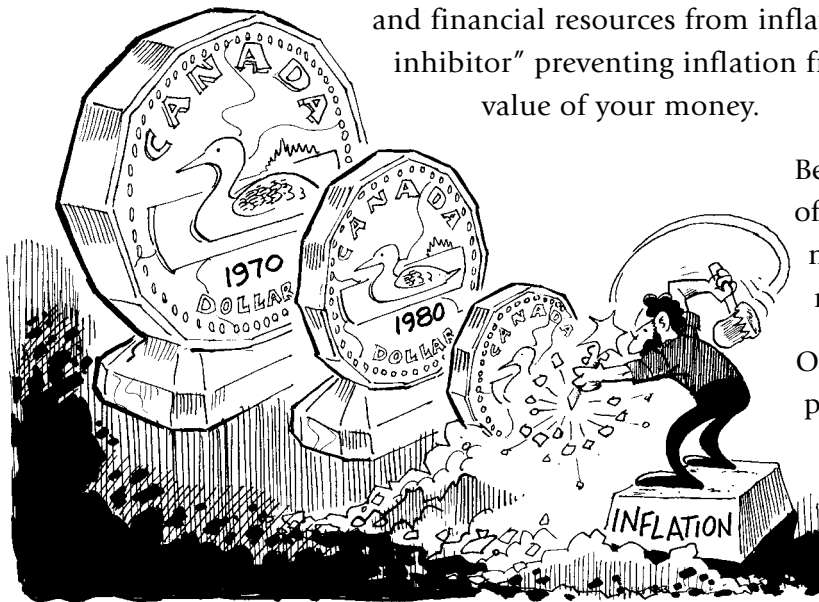
Investment involves putting funds to work to try to increase their value over time and improve your ability to achieve your financial goals.

accept less risk than someone who doesn’t need the money until retirement in 35 years)

The primary purpose of investment is to put to work funds that you don't need today. In doing so, these funds can bring benefits to you in the future. They can help you to realize your goals.

As we noted, one of the biggest threats to the value of funds held as cash is inflation. Inflation erodes the value and purchasing power of money.

Therefore, one goal of investment is to protect the value of your assets and financial resources from inflation. Investment, then, is like a "rust inhibitor" preventing inflation from eating away and eroding the value of your money.



Before we explore the role and process of investment in more detail, let's take a moment to look more broadly at the role of investment in the economy.

Our economy is faced with the task of producing goods and services in response to people's needs and wants. Entrepreneurs and businesses use available resources to produce goods and services that people need and want. We distrib-

ute what is produced via a price system. Every good or service has a price; if you are willing and able to pay that price, then you can acquire it. The standard of living in our society will depend on the wealth that we create in our economy and the degree to which people are able to acquire the wealth that is produced.

As more products and services are produced by our economy, more wealth is generated. This growth or output usually brings with it more jobs, higher incomes, and an improved standard of living.

But where does this opportunity for more products and services and economic growth come from? That's where investment comes into the picture. The funds for investment to fuel business activity and expansion come from people's savings.

By borrowing these savings for investment, new resources are discovered, businesses are expanded, new techniques are devised, new technology is developed, new training programs are provided, and so on. In essence, the money saved by savers in our economy is placed into investments that allow the productive capacity of the economy to grow. In this way, our economy is able to develop and grow over time and increase the level of wealth available in our society.

Understanding this can help you understand why investing your funds can lead to an increase in their value. If funds are put to use in investment — and investment helps to increase the level of wealth that is produced — then those funds, by helping our economy produce more wealth, also become more valuable.

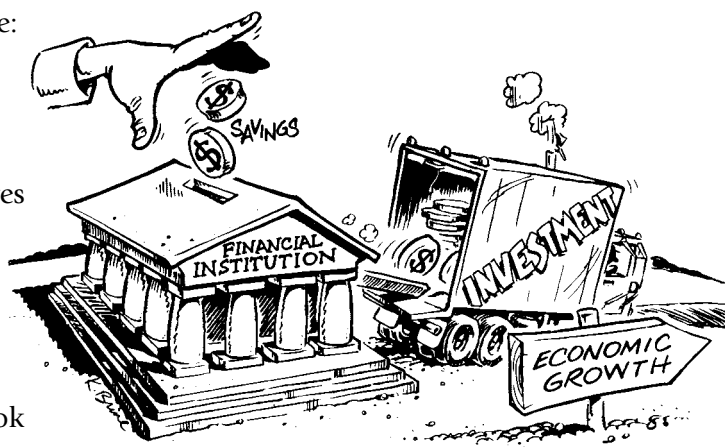
In general, there are two forms of investment. One form is a direct investment into some activity — to actually take a stake in the ownership of the venture. This is called equity investment. Another way is to simply provide a loan and earn interest on the loan. This is referred to as a debt investment. The following are some investments that fall into each of these two categories.

Equity investments include:

- stocks
- real estate
- certain mutual funds*
- collectibles such as paintings, jewellery, cars

Debt investments include:

- savings accounts
- term deposits
- insurance
- bonds and debentures
- mortgages
- certain mutual funds*
- treasury bills



Let's take a minute to look at the criteria that are important to consider when making investments.

INVESTMENT CRITERIA

A little saying that you can keep in mind when considering investments is the following:

"SURE REQUIRE GOOD LUCK TODAY KID"

The first letter in each of these six words stands for one of the criteria important to consider when investing. They are:

- S afety/risk
- R eturn on the investment
- G rowth potential
- L iquidity
- T ime management involved
- K nowledge of the investment opportunity

*A mutual fund is where investors pool their funds together to be managed as a fund by professional investors. Investors buy units of a fund at a certain price. They earn a capital gain if the unit price increases. They experience a capital loss if the price of the unit falls. There is a wide range of mutual funds that differ by the investments made with the money in the fund. For example, some mutual funds invest in Canadian stocks, some invest in U.S. stocks, some invest in government bonds, some invest in a variety of assets in various countries throughout the world.

As we noted, the safety, or the level of risk, involved in the investment is an obvious factor to consider. Don't get involved in risky investments if they make you anxious — or if you can't accept the loss if the investment should lose value, at least in the near term. A key point to note here is the link between the "variability" of an investment and your time horizon.

As we mentioned, by time horizon we are referring to when you will need the money from the investment. Do you need it in three years, five years, ten years, twenty years, twenty-five years, or more? The time horizon will depend on your goals and the use to which the investment funds will be put — this could include education, training, a house, children, travel, retirement, and so on.

The variability of an investment refers to the extent of the potential swings in an investment's value. For example, a set of stocks may range from gains of 35% to losses of 35%. However, as the stock market has shown, an investment portfolio (collection) of some 20 or more stocks will tend to achieve an average annual return of about 14% — at least that is what history has shown since about 1928.

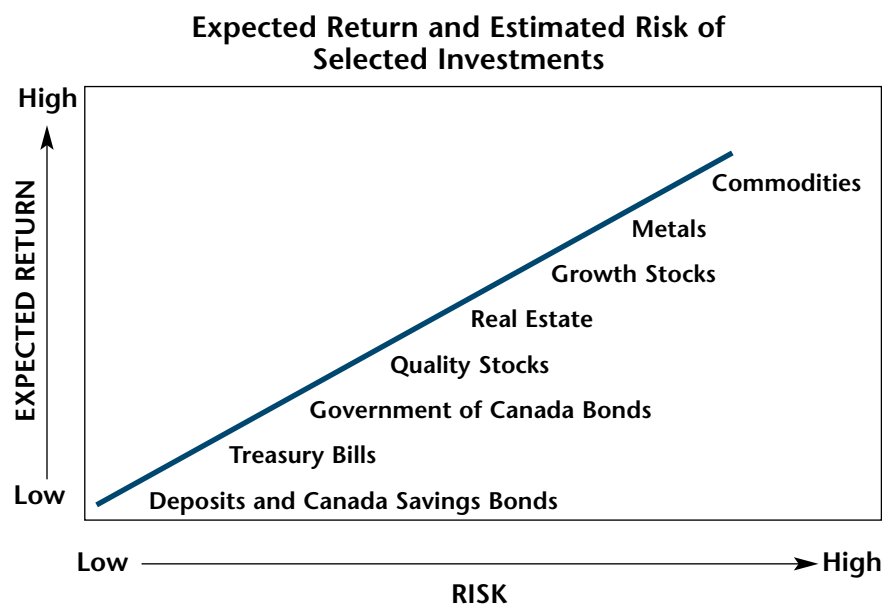
Therefore, if you could buy a portfolio of 20 stocks and hold them for, say, 20 years, history shows you should average a return of 14%. However, if you need those investment funds in five years, the market may have returns of +22%, +5%, -10%, -15%, and -7%. Your average return in this example would be -1% a year ($-5 \div 5$).

Why? Because the market tends to move in cycles. Ideally, you want to be able to leave such an investment in the market for enough time to achieve the long-term average. You don't want to find that you have to take your investments out of the market at a bad time — a time when you'll face a loss.

Be aware that riskier investments will have a higher "variability" with wider swings in value. If you want to make those kind of investments, it's better if you have a longer time before you need the money — then you can wait out any of the "bad times" and cash out your investments in the "good times."

Various investment options will have various levels of risk. The diagram on page 112 shows a variety of investment options along with the level of risk with which they are often associated.

This may be an appropriate point at which to explain the term "portfolio." When a person invests, he/she is said to establish a portfolio. Portfolio refers to the collection of investments a person has.

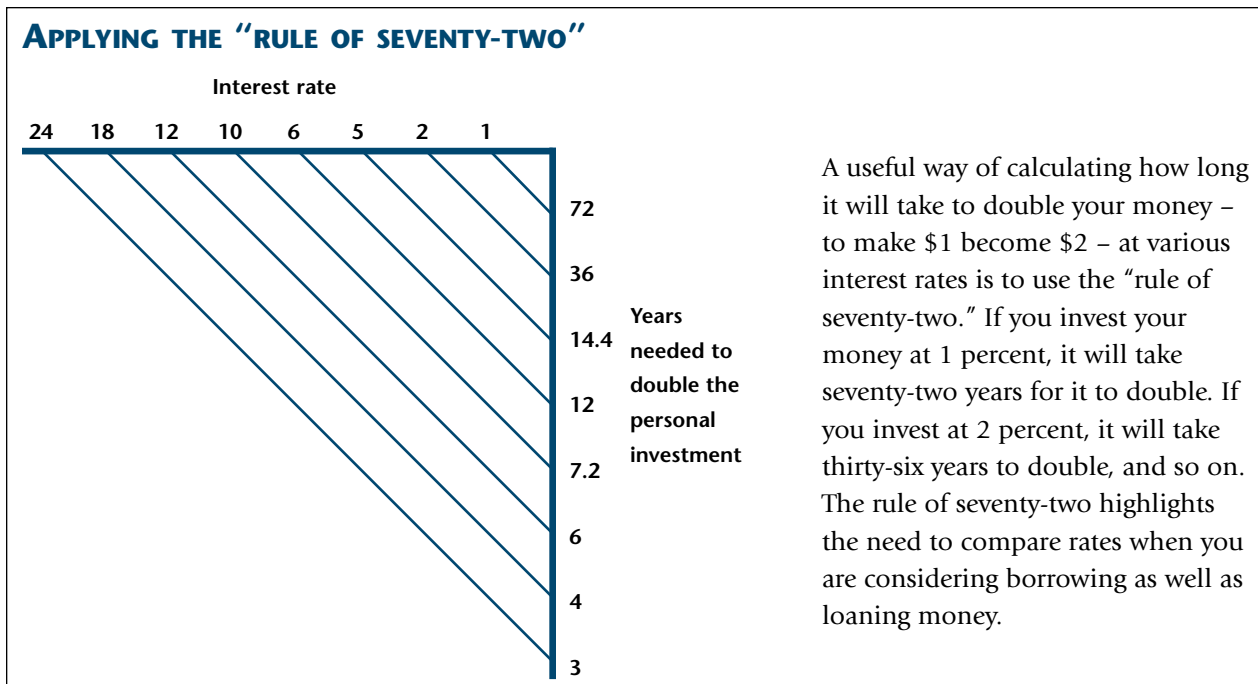


Frequently, investors are advised to “diversify” their portfolios, that is, to include in their portfolio a number of different types of investments. The goal is to achieve, within your portfolio, your personal risk/return balance. For example, you may have some investments that are quite risky (with a potentially high rate of return), others that have moderate risk, and others that are low risk. To diversify a portfolio can also mean to hold investments in different countries. For example, you may hold Canadian investments, U.S. investments, Asian investments, European investments, and so on. Why do this? Well, if the investments in Canada should be in a “downturn,” the Asian investments may be in an “upturn.” Therefore, the investments can help balance each other and reduce your risk of a loss.

Some investments offer a fixed rate of return. That is, they will guarantee to pay a specific amount of interest — a fixed income. A savings account deposit is an example, as is a bond, a term deposit, and so on. These forms of investment will tell you in advance what rate of return you will earn.

Other types of investments, and investments that tend to be more risky, don’t offer a guaranteed fixed rate of return. Instead, your return will depend on the success of the venture into which the investment was made. Purchase of common stock is such an example. Your return through dividends (your share of the profits) will depend on the success of the company. The better the company does, the higher the return. Obviously, the opposite applies as well.

The growth potential of the investment is another important criterion. Will the value of the investment improve over time? An investment that pays a fixed rate of return obviously has little growth potential in its value. An



Source: Thexton, James D. *Made in Canada: Economics for Canadians*. 2nd ed. 1988. Copyright © Oxford University Press (Canada). Reprinted by permission of Oxford University Press Canada.

investment in a stock or a house, though, may be another matter. The value of this type of investment may rise (provide you with a capital gain) or fall (providing you with a capital loss).

The liquidity of the investment should also be considered. Liquidity refers to how easily/quickly an asset can be converted into cash and how certain its value is. A savings account is an example of a highly liquid asset — it can be turned into useable cash quickly, easily, and with a certain value. A five-year term deposit is not a very liquid asset. Your investment is locked up for five years; should you need the cash, you would have to get it elsewhere.

It is always important that an investment portfolio have some investments that are quite liquid, just in case something unforeseen comes along and you find yourself in need of cash.

The time involved in looking after an investment is also a matter of concern. If you invest in a savings account or a term deposit, little of your time is required to oversee the investment. An investment in a business or in a house, for example, may require a good deal of your time. You need to decide how much time you have available and/or are willing to spend looking after your investments. The potential return on the investment may also affect your willingness to invest more of your time in managing the investment. Alternatively, you may use the services of a financial services company to provide the time and expertise to manage your investment (for a fee).

Lastly, your knowledge of the investment is also important. It is unwise to invest in any investment that you don't understand. Effective investment is linked to knowledge and understanding. Of course, a little luck never hurt either. But, as a rule of thumb, understand what you are investing in, and don't invest in something simply because others have.

At this point, there are a few other things that we should cover related to investment. A key thing to consider is the concept of opportunity cost. Opportunity cost is the next best alternative that is given up when you make a choice. In making investment decisions, you should always keep your opportunity cost in mind. What is the next best thing that you could be doing with that money? What are you giving up? If you think about this, and then still decide to go ahead, then you can be sure that at least you did what you truly wanted to do, even if it doesn't pan out.

A few quick tips on investment:

- Tip number one is to be very cautious about investing on a "tip."
- Check out every investment carefully and fully understand it.
- Don't panic; keep your head and avoid irrational decisions.
- Seek professional advice and assistance.
- Keep inflation in mind when making your investment decisions.
- Invest even small amounts; you will be surprised how they can add up.
- Diversify when you can; don't put all of your investment eggs in one basket.
- Never make investments that you don't understand.
- Keep in mind what J.P. Morgan said: "Sell down to your sleeping point," which basically means, avoid investments that cause you too much anxiety; invest where you feel happy and comfortable. Find your risk/return balance point.

In summary, money that you have available, over and above your current needs, can be put to work and invested — in anything from a savings account to a stock. Indeed, any money you have, but don't need today, should be put to work to help protect, if not increase, its value. Investing is something that should be considered by everyone, not only those with great wealth. Investment is not only good for the financial health of the individual or household; it also fuels the growth and development of our whole economy. So, be prepared to be an investor at whatever scale is possible for you — and at whatever age you are.

Just think about it. Suppose if you had \$100 at age 15, and you were able to invest it for 40 years at an average return of 5% a year. After 40 years, your \$100 would be worth over \$700. Investment can work to your advantage, bringing benefits and helping you to achieve your goals. Invest when you can, and what you can — but do so wisely and make investments that are comfortable for you.

That brings us to the end of this section on investment. It also brings us to two areas in which young people usually have little interest — insurance and retirement. But these are important subjects, and you should understand some of the basics.

Chapter

13

Protecting Your Assets - "Insuring" You Understand

Nothing is more frustrating than working very hard to achieve something, achieving it, and then losing it. The same is true in the world of our financial affairs. It can be very sad (sometimes tragic) if all of a sudden things for which we have worked so hard are destroyed or taken away. As individuals grow older, they usually become concerned with helping to ensure their loved ones are cared for, and can keep up a lifestyle close to their present one, in the event of death or disability. Also, most people hope to retire some day and have a lifestyle in retirement that will be comfortable.

This brings us to two last things to consider — insurance (protecting assets and loved ones) and retirement (achieving a comfortable and desired lifestyle once there is no longer regular income coming in from working). People tend to focus on these issues later in life — often too late. The reality is that the earlier one considers these areas, the better prepared one can be and the more likely goals will be achieved. Let's look at insurance first.



INSURANCE

Insurance is a means to reduce, eliminate, and/or share risk. It involves making payments to a company (along with many others who want insurance) to

assume some portion or all of your risk. You make payments to cover you in the eventuality that something may happen that will impose a financial cost or loss on you. The company, meanwhile, hopes that you will not have to make a claim against your policy. In the end, the company would be pleased if the best product they provided to you was peace of mind. But the company accepts the fact that events may transpire that will lead to the company having to cover financial costs (perhaps significant financial costs) on your behalf. The insurance company will cover such costs from the revenues it earns from all those who have policies and make payments (premiums) to the company to acquire the insurance protection. The insurance company aims to make a profit by receiving more in revenue than it has to spend to cover the costs of claims.

In this way, the insurance company “pools the risk” of many policyholders and accepts the risk on behalf of those policyholders. Why might you seek insurance protection? What might you have that could be at risk?

Such risks could include:

- physical assets (for example, a home, boat, jewellery, and so on)
- income/cash flow (for example, insuring your ability to obtain an income in case you become disabled)
- life and health (for example, loss of life or health can lead to loss of one of your greatest assets — your ability to earn an income)
- dependents
- peace of mind

Insurance can play a role in virtually all of these.

TYPES OF INSURANCE

There are primarily two types of insurance — general insurance and life and health insurance. General insurance refers to insurance policies that cover property and physical assets. Life and health insurance policies, not surprisingly, cover life and health.

General insurance policies can be taken out to cover a car, house, boat, furnishings in a house, jewellery, clothing such as fur coats, and so forth. For the most part, general insurance is usually available to cover most physical, property assets.

The cost of a general insurance policy (how much your premium is monthly, semi-annually, or annually) will depend on a number of things including:

- the value of the asset you are protecting
- the risk of something happening to the asset
- your personal record with respect to your assets, their loss, and previous insurance claims
- how frequently the asset is used
- the type or style of the asset (for example, insurance for a sports car will probably cost more than insurance for a less racy vehicle because history has shown that sports cars are involved in proportionately more accidents)
- the area you live in (for example, possessions in a house in a high crime rate area may cost more to insure than possessions in a house in a low crime rate area)

Life and health insurance is what you will acquire to (a) provide for others in the event you should die (life insurance) and (b) provide for yourself and others in the event you become sick or disabled and you are unable to earn an income (disability insurance).

With respect to life insurance, there are two general types — term insurance and permanent insurance. Term insurance is cheaper and is designed to protect those things that are more temporary in nature. For example, suppose you had children and wanted to ensure that, should you die, their education would be paid for. That would be a temporary need for insurance since once the children were beyond school age the insurance protection would no longer be needed. Therefore, you would arrange for term insurance that would expire when the children reached a certain age. The insurance is temporary. The payments are temporary. And the cost is often relatively low.

Permanent insurance (such as “whole life” policies) are just that — permanent. They last for life. Whereas term insurance *might* be paid (for example, if you die), permanent insurance *will* be paid.

Permanent insurance is for permanent protection. For example, suppose you want to ensure that estate taxes are covered when you die. (The government receives taxes levied on the estate of a person when he or she dies). That means you want that insurance *when* you die, not if you die within a certain period. You want *permanent* protection. That is when you would consider permanent insurance, which is more expensive than term.

So remember, insure things that are important to you — and insure them with the right kind of insurance.

Now, let’s turn our attention to the other area of concern in later life — retirement.

RETIREMENT

Pablo Casals, the famous Spanish cellist, once said that: “To retire is to begin to die.” Casals obviously saw retirement as an unwanted change that brought with it a shift in focus from preparing to live to preparing to die. No one could say that this is a positive description of retirement.

However, maybe a great deal depends on how we define retirement. Perhaps society made a mistake in establishing the concept of “retirement” in the first place. In early civilizations, without the concept of formal retirement, many privileges came with age, and there was no fixed date after which you suddenly became “retired.” Today we tend to define retirement quite specifically. Some define it as age 65. Others define it as when you “stop working.” And so on.

If you are at a relatively young age, the prospect of your retirement probably seems to be in the distant future. You probably feel that today and the next few years of your life hold out enough challenges that deserve your attention. If so, that is an attitude that runs counter to your own effective financial planning, and we should try to do something about that now. The wise financial planner always keeps one eye on today, one eye on the near future, and a third eye on the distant future. (Okay, so physically that may be quite a challenge. But, financially, it’s a must.) One day, those distant years will be today, and the “todays” of your future will probably be much better if you plan for them.

It is probably worth noting a key point here. Regardless of the importance you may assign to the consideration of those future years at this point in your life, statistics show that you may spend 20 to 30% of your life in so-called retirement. That’s a pretty substantial amount of your time. Furthermore, wouldn’t it be nice to think that, throughout the course of your life, the better years will

always be lying ahead. With the advances that are taking place in health care and medicine, who knows, maybe that portion of your life spent in retirement will actually increase. A third or more of your life is not something that you want to leave primarily to fate. Let’s see how you can start to take control by effective planning. Let’s look ahead to those future years.



Write a definition of retirement. When you have done so, read on.

How did you define retirement? Did you define it in terms of age, in terms of working or not working, in terms of self-reliance and independence? There are many possibilities.

For our purposes here, though, and for the purposes of effective planning, we are going to break some new ground and develop a new concept and

definition for what we will call your “retirement point.” For our purposes, we’ll define a retirement point as:

that point in life when you achieve financial independence (you do not have to work for income earned either from self-employment or from working for others) so that you can live the lifestyle of your choosing with income from savings, investments, pensions, and so forth.

Hence, we are saying that you reach your retirement point when you have sufficient financial resources in place, and working for you, that you could be happy with the lifestyle that they would provide for you without working any further. According to our definition, reaching your retirement point does not mean that you necessarily stop working. Striving to reach your retirement point is aiming to place yourself in control and to have options and choices available to you. You no longer have to work, but you may decide to do so. Your available cash flow from investments, savings, and so on would support you without further income requirements.



Identify the possible sources of income that could be available to support you in retirement.

A major determinant of whether or not you are successful and able to achieve your retirement point will be how you define your own retirement point and the standard of living you target for yourself. If you would be content living on an annual income of \$25,000 a year, your retirement point would be more readily achieved than if you hope to achieve \$75,000 a year.

The following are some of the more common sources of retirement income:

- pensions
- registered retirement savings plans (RRSPs)
- annuities
- investment income
- savings
- employment income
- insurance policies
- sale of assets

We have already discussed savings and investment, but let’s look briefly at a few of these with which you may not be familiar.

PENSIONS

One source of income is pension income. A pension plan is a pooling of funds that accumulate from the monthly payments of those who hope to draw on that fund in their retirement. Over the course of a person’s working years,

he/she will make payments usually into one or more pension plans — including a government pension plan called the Canada Pension Plan (CPP), which we’ll discuss in a moment. Payments made into private pension funds (such as a pension fund at a company) are pooled with those of many others. The pooled funds are invested in efforts to expand the size of the fund. Then, upon retirement, an individual will hope to draw a monthly payment from that pension fund to help support retirement.

Many companies offer pension plans as a benefit to their employees. While you work at the company, you may make payments into a pension plan to which the employer will also contribute. The longer you work with the company, the more payments you make into the plan and the higher will be the benefits that you receive from the plan when you retire. If you work with a company, make sure that you become familiar with the company’s pension program, if there is one, and know your benefits and the eligibility requirements that might exist.

Canada Pension Plan/Quebec Pension Plan

Throughout your working life, you will see deductions on your paycheque referred to as CPP (or QPP in Quebec), which is your Canada Pension Plan (or Quebec Pension Plan) contribution. By contributing to this, you are eligible to receive a pension from the government when you reach age 65. (At the time this book was written, the maximum benefit payable at age 65 was \$10,134 a year, but extensive changes have been made in recent years that increased the contributions Canadians have made to the fund in order to ensure that it can continue to provide pensions to the many Canadians who will reach age 65 over the next 20 years.) Indeed, the Plan will also provide payments to some who have not contributed to the plan but who, in the opinion of the government, deserve a pension.

OTHER GOVERNMENT BENEFITS

Old Age Security (OAS) is available at age 65, subject to residency requirements. OAS benefits are subject to a “clawback,” which reclaims payments from higher-income recipients.

The Guaranteed Annual Income Supplement is payable to pensioners who have little or no income other than the OAS.

REGISTERED RETIREMENT SAVINGS PLANS (RRSPs)*

Putting money into a registered retirement savings plan (RRSP) is possibly the wisest move any income earner can make. RRSPs were introduced by the

*Extract from “Registered Retirement Savings Plan” by Hetti Pfeiffer. In *Protect Yourself*, January 1982.

government in 1957 to encourage individuals to save for their retirement years and to supplement government and company pension plans. RRSPs are operated by banks, trust companies, caisses, and insurance companies or can be self-administered. All of them invest your money in a variety of eligible investments, in the hope that your money will grow.

At retirement, the money can be used to purchase an annuity, which will provide a regular source of income, or a RRIF (a Registered Retirement Income Fund), which can include a variety of investments but from which a minimum amount must be withdrawn every year.

The money that is placed in an RRSP grows very quickly because, unlike regular savings and investments, it is untaxed as long as it remains in the plan. In addition, the amount deposited in an RRSP reduces your taxable income now.

Deposits to an RRSP can be made at any time during the year and in the first 60 days of the following year to benefit from the tax deduction. However, the earlier in the year your contributions are made, the sooner your money starts working for you untaxed and the larger your RRSP will be when you retire. Some RRSPs can now be started with as little as \$100 at any time during the year and additional contributions can be made at your convenience. They really are within the reach of most income earners.

You can withdraw funds from an RRSP account, but the funds withdrawn become immediately taxable as income. Some people plan to take money out of their RRSP during a year when income will be less (for example, during maternity leave, when laid off, when going back to school). Remember, though, that it will be hard to make up the funds removed from an RRSP. And consider carefully the amount you need and will have to pay tax on.

RRSPs are a necessity for most people if they want to maintain their desired lifestyle in retirement. Not all RRSPs are equal; before signing, compare the plans offered at different companies. Once a plan has been chosen, check its performance regularly.

There are many excellent publications available that provide detailed information about the types of RRSPs available. As with any investment, it is important to spread money among different types of investments in order to reduce risk and maximize potential returns.

THE SALE OF ASSETS

Any assets that you acquire over the course of your life should be reviewed as to whether they are assets you will always hold, assets that you will alter over time, or assets that you will eventually sell outright. Examples of assets to con-

sider include: housing, other real estate holdings that you do not live in, land that you may own, a cottage, a boat, a trailer, furniture, collections, automobiles, and so on. An asset such as an automobile may be one that you will alter. You may sell a large car and buy a smaller car — one that addresses your needs but that isn't as costly to buy or operate. You may decide to sell an asset such as a cottage or boat outright and use the income for other purposes.

In planning for retirement years, you should have an “asset strategy,” that is, a plan concerning which assets you will keep, which you will sell, and which you will alter.

INHERITANCES

For many people, it can be assumed that by the time they reach their age of retirement, most of the wealth they are going to inherit in their lives will already have been realized. Therefore, it is more feasible to factor inheritances into retirement planning than for any earlier stage of financial planning. It is for this reason that, regardless of one's hesitation to think about it, any known inheritances should be factored into retirement planning.

SUMMARY

These, then, represent some of the more common sources of income for the retirement years. This is probably a good point at which to make an important distinction. In planning for your retirement years, you will want to give attention to two different aspects of your life — (a) your standard of living and (b) your quality of life.

Your standard of living will be determined primarily by your income. Standard of living is used to assess your access to, and your ability to acquire, material goods and services. In general, the higher your available income, the higher the standard of living that is available to you.

Quality of life, however, may be factors such as where you live, the air you breathe, the pace of life you live, your health, your level of worry and anxiety, how easy it is for you to get to your cottage or to the park, how frequently you are able to see your children (and, yes, your grandchildren), the books you have to read, and so on. Quality of life refers to the enjoyment and pleasure you get from life that cannot be measured in dollars and cents.

In planning for your retirement, you will probably be wise to think first about the quality of life that you hope to lead in those later years. Then, with that goal in mind, look at which of those goals will depend on a certain level of income that you will need to acquire/generate.

For example, if you hope to spend a great deal of time at a lakeside cottage, the first thing you better do is figure out how to get the cottage. If you hope to do a considerable amount of travel, that, too, will depend on income.

Therefore, think about your desired quality of life before turning your attention to income and standard of living considerations. Who knows, you may find that what you hope to achieve out of life in those later years may not entail a great deal of wealth and income. On the other hand, it might, and for those of you in that category the earlier you get started on your retirement planning the better.

Chapter

14

That's All, Folks!

If you're reading this there is a strong likelihood that you have now been through all the material presented in this book. If so, what's your reaction? Are you encouraged? Motivated? Inspired? Eager? Or are you still wondering whether taking control of your personal financial affairs is for you? As we conclude, the following are some general final tips to consider.

SOME GENERAL TIPS



- Take care of the things you own, it saves the cost of replacement.
- If you are still at home, consider asking your parents if you can participate in any way in the household budgeting.
- Before you buy anything, pause and think! What's your opportunity cost? What's the benefit? Is it worth the expense compared with your other options?
- If you have a credit card, take care to prevent someone from retrieving any record of it and forging something in your name (it is also important to take great care so that you do not lose your cards).
- Always make sure that the total on a credit card slip is filled in before signing.
- If you borrow from your parents, consider doing it in an official manner to give yourself some experience in paying off loans.
- Don't overlook your collection hobbies as a possible investment (look at what some of the old Superman comics are worth today).

- Keep all warranties and guarantees.
- Don't be influenced by packaging, it is the product that you use.
- Buy things in their off-season, such as skis in April.
- Read instructions on clothing etc. carefully so that you don't ruin them accidentally.
- Know your rights in the marketplace; complain if you have a legitimate beef and let the vendor have a chance to rectify the problem and maintain your future business.
- Resist peer pressure.
- Avoid impulse buying.
- Shop with a list; as often as you can, know what you want to buy before you go out to buy it.
- Recognize that there is a high price to pay for style and fads.
- Beware of "freebies;" "there is no such thing as a free lunch" (somebody, somewhere always pays; the question is who and why).
- Comparison shop.
- Make sure that you save part of your income.
- If you are ever in doubt — wait! think about it (be a fatalist — if you don't get it now and it's not there later, then it was never meant to be).
- Budget for the unexpected.
- Face the truth, even when it's bleak; be honest with yourself in your financial affairs.
- Pay your bills on time but not before they are due.
- Always work to "make the right buy" for you.

We hope that you have come to the conclusion that now is a good time to start to put your financial affairs in order (if you haven't already done so) and to organize your financial affairs so that they work for you and in support of you rather than against you. If you organize your money matters today, you will be better able to plan your future financial affairs as your income rises, costs rise, and money matters become more complicated. The last thing anyone wants is to delay this process until problems arise. The key is to try to prevent problems from ever occurring.

Life is short — though we hope not too short. But it is ours to enjoy as best we can. Walks in the forest, swimming in the lake, watching a sunset, and many

other aspects of life that you may enjoy will be there and available to you free of charge — we hope. But for those other things that you may want in order to help make life more enjoyable for you and for others who may become part of your life, try to plan for them. Work to avoid financial worries and problems. Put your financial house in order, and build your future financial affairs on a strong foundation. After all, when opportunity knocks, you'll want the door to your financial house to be standing. Good luck — and happy planning!

