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# A Guide to Financial Literacy



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“—  
An investment in knowledge  
pays the best interest.  
— Benjamin Franklin —”

Financial literacy is the understanding and effective use of various financial skills, including personal financial management, budgeting, and investing. It's the foundation of your relationship with money and a lifelong journey of learning.

Financial literacy is the key to making good financial decisions that impact your quality of life. It includes understanding taxes and managing debt, as well as making informed decisions about mortgages, insurance and investments.

This ebook aims to provide you with a starting point for becoming financially literate. By the end of this guide, you should have a better understanding of personal finance, the Canadian financial system, and the tools and strategies needed to manage your finances effectively.



# Understanding Financial Literacy

The pillars of financial literacy are banking, budgeting, saving, credit, debt, adequate insurance coverage, and investing. When you're well-versed in these topics, you have the knowledge to make informed decisions about your money and manage financial risks.

With improved decision-making capabilities, comes better financial stability and reduced stress related to financial matters. Financial literacy enables you to manage your money effectively, avoid excessive debt, prepare for financial emergencies, and achieve your financial goals, all of which contribute to your overall economic health.

## **The current state of financial literacy in Canada**

The state of financial literacy in Canada has been improving, but there is still a significant portion of the population that lacks basic financial knowledge. Young adults, in particular, often exhibit lower levels of financial literacy, which can impact their ability to manage student loans, credit, and early career earnings effectively.

Efforts to improve financial literacy in Canada have been gaining momentum, with various initiatives aimed at enhancing financial education across all age groups.

The Financial Consumer Agency of Canada (FCAC) plays a leading role in promoting financial literacy through programs and resources designed to help Canadians build their financial skills. Schools are increasingly incorporating financial education into their curriculums, recognizing the importance of equipping students with practical financial knowledge early on. Community organizations, employers, and financial institutions are contributing to this effort by offering workshops, seminars, and online resources.

## **Key statistics and trends**

Recent statistics show that 39% of Canadians struggle with debt management and 46% lack adequate savings for emergencies. Moreover, 43% of Canadians were targeted for financial information through financial scams in 2024.

Trends, however, indicate a growing awareness and focus on financial education, with 47% of Canadians describing themselves as financially knowledgeable, with more resources being allocated to improve financial literacy across all age groups.<sup>1</sup>



# Personal Finance Basics

Personal finance is where the theory of financial literacy turns into practical financial decision-making about how you manage your money and plan to meet your financial goals.

## Setting financial goals

Setting your financial goals is the first step in achieving financial well-being. Goals can be short-term (e.g., saving for a vacation) or long-term (e.g., retirement savings). The SMART goals framework (Specific, Measurable, Achievable, Relevant, and Time-bound) helps set clear and attainable financial objectives.

Financial goals provide direction and motivation, helping you prioritize your spending, saving, and investing. Clearly defined financial goals make it easier to stay focused and make informed decisions that align with your long-term vision.

## Managing income and expenses

Effectively managing income and expenses is key to financial stability and growth. It involves regularly monitoring your earnings, tracking where your money goes, and adjusting your spending habits as needed.



Understanding paychecks, including deductions and taxes, is essential for managing income. Reducing expenses involves identifying areas where spending can be cut, such as unnecessary subscriptions or dining out, to allocate more funds toward savings or debt repayment.

By understanding your cash flow, you can make strategic decisions that optimize your financial health.

## Budgeting

Creating a budget is crucial for managing your finances effectively. By creating a budget, you can allocate resources to essential needs, savings, and discretionary spending, ensuring that you live within your means. A well-planned budget helps prevent overspending, reduces financial stress, and puts you on a path to achieving your financial goals.



## CHAPTER II CONTINUED

### Types of Budgets

There are various types of budgets. Tools and apps like Mint or YNAB (You Need a Budget) can simplify the budgeting process.

- Zero-based budget

In this type of budget, you calculate your monthly income and subtract all your monthly expenses and savings, making sure the final result is zero. This style works best for an experienced budgeter with consistent monthly expenses.

- Envelope system

This style of budget is similar to the zero-based budget but uses cash. Fill an envelope for each expense with cash in the amount allocated for that item. When the cash is gone, you have no resources left for that expense unless you borrow from other envelopes. Don't borrow too often though, or it can leave you short.

- The 50/30/20 budget

For this budget, 50% of your monthly income is allocated for necessary expenses like groceries and rent, 30% for discretionary expenses like dining out and hobbies, and 20% for savings and debt repayment. This style of budgeting is more flexible than the zero-based budget and envelope system, but it does require you to prioritize needs over wants.



# Banking and Financial Services



A bank account is typically the first financial account that you'll open. Bank accounts can hold and build the money you'll need for major purchases and life events. Many financial transactions require you to have a bank account, including:

- Using a debit or credit card.
- Using payment apps like PayPal.
- Writing a check.
- Buying or renting a home.
- Receiving your paycheck from your employer.

## Types of financial institutions in Canada

Canada has various financial institutions, including traditional for-profit retail banks, not-for-profit credit unions owned by their members, and online banks. Each type offers different services and benefits, with credit unions often providing lower fees and better interest rates and online banks offering lower fees but higher interest rates.

## Types of bank accounts

Checking accounts are ideal for daily transactions. You can deposit money at the branch, at an ATM, through direct deposit, or through e-transfer. You can withdraw money at the branch, at an ATM, by writing a check or using your debit card. Checking accounts generally have monthly fees associated with them based on the balance you carry.

Savings accounts are better for storing money and earning interest. Traditional savings accounts tend to pay a lower interest rate, but they can be ideal for saving for short-term needs like buying a car or going on vacation. High-yield savings accounts usually pay a higher rate of interest but often require you to make larger deposits and carry a minimum balance, and they tend to have higher fees.



## CHAPTER III CONTINUED

### Understanding interest rates and fees

At their most basic, interest rates represent the amount a borrower pays a lender to borrow money. Interest rates can significantly impact your savings and debt. Understanding how interest is calculated helps you make informed decisions about loans and savings.

From a borrowing perspective, many factors are considered in determining interest rates, including bank policy, the demand for loans, the availability of lending capital, and inflation. High interest rates can mean paying more interest on mortgages, student loans, and credit card bills.

From a saving perspective, higher interest rates can mean higher returns on high-interest savings accounts and GICs.

Another factor to keep in mind when choosing your banking institution and type of account is fees. Banks charge fees for various services and transactions. Common bank fees, such as monthly account maintenance fees or ATM fees, can often be avoided by choosing the right account and banking practices.





# Credit and Debt Management

## Understanding credit

Credit is the ability to borrow money or access goods and services with the understanding that you'll pay for them later. Building and maintaining good credit involves timely bill payments and managing debt levels.

## Types of credit products

Various credit products are available, including credit cards, lines of credit, and personal loans. Each product has its own terms and conditions, and it's essential to understand these before signing up.

Credit cards and loans allow you to borrow money without pulling cash from your bank account. This can be helpful for large, unexpected purchases. But carrying a balance every month means you'll owe interest.

On the other hand, using credit wisely and paying your balances on time helps you establish a credit history and a good credit rating. Building a good credit rating is important because it can get you more favorable interest rates on car loans, personal loans, and mortgages.

## Managing debt

Effective debt management strategies include prioritizing high-interest debt, such as credit card balances, which can minimize the overall interest paid over time.

The debt snowball method, which focuses on paying off smaller debts first to build momentum, and the debt avalanche method, which targets high-interest debts first for maximum savings, are also popular approaches.

Additionally, consolidating debts through a lower-interest personal loan or balance transfer can simplify payments and reduce interest costs.

Seeking professional advice from credit counseling services can provide tailored guidance and support, helping you create a realistic debt repayment plan and negotiate with creditors if necessary.



## CHAPTER IV CONTINUED

### Compound Interest

Compound interest is interest that applies not only to the principal balance of an investment or a loan but also to the accumulated interest from previous periods. In other words, compound interest involves earning or owing interest on your interest.

The power of compounding helps a sum of money grow faster than if just simple interest were calculated on the principal alone. And the greater the number of compounding periods, the greater the compound interest growth will be. For savings and investments, compound interest is your friend, as it multiplies your money at an accelerated rate. But if you have debt, the compounding interest can make the amount you owe increasingly difficult to pay off.



# Saving and Investing

## Importance of saving

Saving money is crucial for financial stability and security, providing a safety net for unexpected expenses and future needs. It allows you to handle emergencies without resorting to debt, ensures peace of mind, and lays the foundation for achieving your long-term financial goals like purchasing a home, funding education, or retiring comfortably. Ultimately, saving is a key component of a healthy financial strategy, giving you independence and a sense of control over your financial future.

## Investment basics

Investing is a fundamental component of building wealth and achieving long-term financial goals. Investing involves allocating money to various financial assets with the expectation of generating income or profit over time.

At its core, investing involves purchasing assets like stocks, bonds, real estate, or mutual funds, which can increase in value or generate income through dividends, interest, or rent. The key to successful investing is understanding the balance between risk and reward, as different assets carry varying levels of risk, which can influence the potential returns.

Typically, higher potential returns come with higher risk. Diversification, or spreading investments across different asset classes and sectors, is a key strategy for managing risk and protecting investments against significant losses.

## Retirement planning

Saving and investing for retirement are critical components of a comprehensive financial plan. They ensure that you have the financial resources to maintain your lifestyle when you stop working.

Planning for retirement involves understanding and using different savings vehicles, such as Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), and government benefits like the Canada Pension Plan (CPP) and Old Age Security (OAS). The key to successful retirement saving is consistency—regular contributions, even in small amounts, can accumulate significantly due to the power of compounding interest.

Investing plays a vital role in retirement planning by providing the potential for your savings to outpace inflation and grow over the long term. While saving provides the foundation, investing allows you to build on that foundation by putting your money to work in the stock market, bonds, real estate, or other assets.

You want to find a balance between meeting financial needs and preserving assets for the future. A diversified investment portfolio tailored to your risk tolerance and time horizon can help generate a steady income stream and mitigate the impact of market fluctuations.



# Taxation in Canada

## **Canada's taxation system**

The Canadian tax system includes federal and provincial taxes, such as income tax, sales tax, and property tax. Understanding the differences and how each tax applies to you is crucial for effective tax planning.

Canada's tax system is designed to promote fairness and equity. Progressive taxation principles ensure that those with higher incomes contribute a larger share of their earnings. Tax credits and deductions help alleviate the tax burden on individuals and families.

The Canadian system supports the funding of essential public services and the overall economic stability of the country.

## **Filing taxes**

Filing taxes in Canada is a systematic process that individuals and businesses must follow annually to report their income and calculate their tax obligations. The tax year in Canada runs from January 1 to December 31, and tax returns are typically due by April 30 of the following year. To file taxes, individuals need to gather various documents, including T4 slips (which report employment income), receipts for deductible expenses, and any other relevant financial records. The Canada Revenue Agency (CRA) provides several methods for filing taxes, including online through the CRA's My Account service, using certified tax software, or by mailing a paper return. Filing online is the most popular method due to its convenience and faster processing times.

## **Tax planning strategies**

Tax planning is a crucial financial strategy that involves arranging your financial affairs to minimize tax liabilities and maximize after-tax income. Effective tax planning requires understanding various tax laws and available deductions, credits, and exemptions. Strategies may include contributing to tax-advantaged accounts like Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), optimizing investment income through tax-efficient investment vehicles, and strategically timing income and deductions. Additionally, taking advantage of tax credits for education, healthcare, and dependent care can further reduce taxable income.

# Insurance and Risk Management



Insurance plays a critical role in personal and financial stability by providing a safety net against unforeseen events and financial losses. In Canada, insurance helps individuals and businesses manage risks associated with health, property, life, and income.

## Types of insurance

Health Insurance, including provincial plans and supplementary private coverage, ensures access to necessary medical services and protects against high healthcare costs.

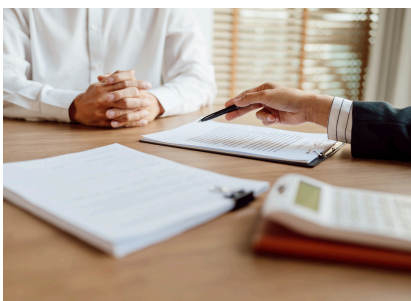
Life Insurance offers financial protection to beneficiaries in the event of the policyholder's death, providing funds for expenses and financial security.

Property Insurance, such as home and auto insurance, safeguards against damage, theft, and liability, ensuring that losses can be recovered and assets are protected.

Disability and Critical Illness Insurance are designed to provide income replacement and financial support in the event of illness or injury, ensuring that you can maintain your standard of living and meet financial obligations.

## Risk management strategies

In Canada, risk management strategies involve identifying, assessing, and prioritizing risks, followed by implementing measures to mitigate them. This can include purchasing appropriate insurance policies to transfer risk, maintaining an emergency fund for unexpected expenses, and adopting safety practices to reduce the likelihood of accidents or damage.





# Housing and Real Estate

## Renting vs buying

Deciding between renting and buying depends on personal circumstances and financial goals.

Renting offers flexibility and fewer responsibilities, making it an attractive option for individuals who anticipate moving frequently or who prefer not to deal with property maintenance and repairs.

Renting can also be more affordable in the short term, as it typically requires a lower upfront cost compared to purchasing a home, which involves a down payment, closing costs, and ongoing expenses such as property taxes and insurance. However, renters do not build equity in their living space, which means they miss out on potential long-term financial benefits associated with home ownership.

On the other hand, buying a home in Canada is often viewed as a valuable investment that can lead to financial security and wealth accumulation. Home ownership allows individuals to build equity over time as they pay down their mortgage and benefit from potential property value appreciation.

## Real estate investment

Real estate investment in Canada can be a lucrative way to generate income and diversify an investment portfolio. Investors can choose from various types of properties, including residential, commercial, and industrial real estate. Rental properties are a common investment choice, providing a steady stream of rental income while potentially appreciating in value over time.

Real estate investment trusts (REITs) offer another option, allowing investors to buy shares in a portfolio of income-generating properties without directly owning or managing the properties themselves.

However, real estate investment also carries risks, such as market fluctuations, vacancy rates, and property management challenges, making it essential for investors to conduct thorough research and consider their risk tolerance.



## CHAPTER VIII CONTINUED

### **The home buying process**

The home buying process in Canada typically involves several steps: determining affordability and securing mortgage pre-approval, working with a real estate agent to find a suitable property, making an offer and negotiating the purchase price, conducting a home inspection, finalizing the mortgage, and closing the deal. Buyers also need to consider additional costs such as legal fees, land transfer taxes, and potential renovations or repairs.

### **First Home Savings Accounts and The Home Buyers' Plan (HBP)**

In Canada, various incentives and programs are available to those saving for and/or buying their first home.

The First Home Savings Account (FHSA) is a new savings tool introduced in Canada in 2024 to help first-time homebuyers save for their first home. The FHSA combines the benefits of both a Tax-Free Savings Account (TFSA) and a Registered Retirement Savings Plan (RRSP), allowing you to save up to \$40,000 tax-free toward the purchase of your first home. Contributions to an FHSA are tax-deductible, meaning they can reduce your taxable income for the year, similar to an RRSP. Additionally, any investment growth within the account, as well as withdrawals made for purchasing a home, are tax-free, offering significant advantages for first-time buyers looking to enter the housing market.

The Home Buyers' Plan (HBP) is another government program designed to assist Canadians in buying their first home. The HBP allows you to withdraw up to \$35,000 from your RRSP, tax-free, to put towards the purchase of your home. If you're purchasing with a partner who also qualifies as a first-time homebuyer, you can both withdraw from your respective RRSPs, giving you access to a combined \$70,000. The catch is that the money withdrawn must be repaid to your RRSP within 15 years to avoid it being added to your taxable income. This program is particularly beneficial for those who have been diligently saving for retirement but need additional funds to cover the costs of buying a home.

Together, these programs are powerful tools that can help make homeownership more accessible, particularly in Canada's challenging housing market.

# Consumer Protection and Financial Rights

## Understanding your financial rights

In Canada, you have rights designed to protect you in your dealings with financial institutions and services. These include the right to clear and transparent information about financial products and services, ensuring that you can make informed decisions. Financial institutions must provide detailed information about fees, interest rates, and terms and conditions associated with their products.

Additionally, you have the right to privacy and the protection of your personal financial information. Financial institutions are required to follow strict regulations to safeguard your data and are obligated to obtain consent before sharing this information.



## Protecting yourself from fraud

Protecting yourself from financial fraud is crucial in an increasingly digital and interconnected world. One key strategy is to remain vigilant and skeptical of unsolicited communications, whether they come by email, phone, or text message. Scammers often use phishing tactics to obtain personal and financial information by pretending to be legitimate entities. Never share personal information, such as Social Insurance Numbers, bank account details, or passwords, with anyone who contacts you unexpectedly. Verify the identity of the person or organization through official channels before providing any information.

Monitor your financial accounts regularly. Review bank statements and credit reports for unauthorized transactions or suspicious activities. In case of suspected fraud, report it immediately to the bank or relevant financial institution. Additionally, you can use services provided by the Financial Consumer Agency of Canada (FCAC) and the Canadian Anti-Fraud Centre to report fraud and seek guidance on protecting yourself.

# Resources and Tools



If you're ready to start your journey to financial literacy, there are numerous resources available to you. The [Financial Consumer Agency of Canada \(FCAC\)](#) website has an abundance of information available.

## Helpful books

- [The Wealthy Barber](#) by David Chilton
- [Financially Free](#) by Ande Frazier
- [The Simple Path to Wealth](#) by J.L. Collins
- [Smart Women Finish Rich](#) by David Bach
- [The Millionaire Next Door](#) by Thomas J. Stanley
- [The Little Book of Common Sense Investing](#) by John C. Bogle

## Engaging podcasts

- “You Need a Budget”
- “Debt Free in 30”
- “Stress Test”
- “Mastering Money”
- “Everyone’s Talkin’ Money”

## Apps and tools

Apps like Mint and YNAB (You Need a Budget) help you track spending, create budgets, and manage debt with ease. Credit monitoring tools like Credit Karma are valuable resources, while educational platforms like Khan Academy and Coursera offer various free courses on personal finance.

## Professional advice

Sometimes, seeking professional financial advice is your best course of action. Financial advisors offer personalized guidance tailored to your unique financial situation. While tools and apps provide general knowledge, a financial advisor can help you understand complex financial concepts, create a strategic plan, and navigate specific challenges. They can demystify the jargon, ensure you're making informed decisions, and provide insights that you might not gain from self-study alone.

## CONCLUSION

Financial literacy is a lifelong journey. Continuing to learn and adapt to changing financial landscapes is crucial for long-term financial health and success.

By applying the knowledge and strategies outlined in this ebook, you can take control of your financial future. The next step is to put these principles into practice, continually seek out new information, and stay proactive in managing your personal finances.

If you need support, our experienced team of advisors can help!





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