



Office of the Superintendent  
of Bankruptcy Canada

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Bureau du surintendant  
des faillites Canada

Un organisme  
d'Industrie Canada

# The Financial Guide



Teenagers:  
Thirteen- to fifteen-years-old

Canada



Protecting the  
Integrity of the  
Insolvency System

Protéger l'intégrité  
du système  
d'insolvabilité

This publication is also available electronically on our Web site: <http://osb-bsf.ic.gc.ca>

Cette publication est disponible en français.

## *Note to teachers*

You are hereby authorized to make photocopies of any part of this booklet.

## *Contributors*

Julie Barrette

Vivian Cousineau

Catherine Dupont

Geneviève Lavigne

Patrick Veilleux

## *Graphic Design*

Roger Langlois

## *Cover page illustration*

Mathieu Hains

Stéphane Perrault

## *Editing/Translation*

Manon Brunet

Anny Robert



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## About the OSB

The Office of the Superintendent of Bankruptcy (OSB) is the Government of Canada agency responsible for overseeing the Bankruptcy and Insolvency Act (BIA), and ensuring that the act is responsive to market needs. The OSB keeps a public record of all bankruptcies, proposals and receiverships. It sets standards and guidelines for bankruptcy trustees and ensures compliance.

Bankruptcy trustees work with individuals and companies who are faced with insurmountable debt. There are two basic options for debtors. A proposal may be filed with creditors to set up a repayment schedule. Or if this isn't possible, an application is made for bankruptcy protection under the BIA. In the case of a bankruptcy, the trustee sells a debtor's assets to pay creditors.

## About Debtor Education

Over the past 25 years, we have witnessed an explosion in the amount of credit offered to Canadian consumers. This growth in the use of credit has been accompanied by a sharp increase in consumer use of insolvency procedures. Several studies have demonstrated that many consumers have a poor understanding of credit and the harmful consequences of excessive debt. That's why the OSB is dedicated to teaching consumers of all ages about the importance of financial planning, the appropriate use of credit, and ways to avoid or emerge from excessive debt. For more information about dealing with debt, visit: [www.osb-bsf.ic.gc.ca](http://www.osb-bsf.ic.gc.ca)

## About This Guide

This guide was developed by Laval University Consumer Studies students and University of Ottawa Civil Law students, all of whom are involved in the OSB Student Program. The guide contains activities and advice relevant to teens from 13 to 15 years of age. These young people are significant consumers in a constantly growing market. Like adults, they don't always make wise choices, but they learn quickly from their mistakes, in large part because their resources are so limited. If you don't think they will want to discuss these issues with you, begin by talking about your first job, what you had to do, and how proud you felt when you received your first pay cheque.

Organize a workshop for your teens and their friends so they can prepare their résumés and practise interview techniques. Do mock interviews with them. Consult our job search workshop called "Work It!" on our Web site at [www.osb-bsf.ic.gc.ca](http://www.osb-bsf.ic.gc.ca) or order a copy at the address listed on the following page.

Tell them how you paid for your education, about renting and furnishing your first apartment, etc. Explain how you chose your current work and the difficulties people generally encounter when trying to decide on a career. Help them understand the many options that are available to them.

Most important of all, listen, and be an objective guide. Don't obsess over their mistakes, or they'll eventually stop consulting you. Try to become a reliable resource for them in financial matters.

# The Financial Guide

Teenagers: Thirteen- to fifteen-year-olds

## *In this series:*

The Financial Education Cartoon Strips IC 54272B  
The Financial Guide for Five- and Six-Year-Olds IC 54397E  
The Financial Guide for Seven- and Eight-Year-Olds IC 54398E  
The Financial Guide for Nine- to Twelve-Year-Olds IC 54399E  
The Financial Guide for Post-secondary Students IC 54273E  
The “Decisions” Educational Game (eight- to eleven-year-olds)  
The “Work It!” job search workshop

If you would like to receive any of these publications, or would like additional copies of this booklet, please contact the OSB Corporate Secretary at the following coordinates:

Vivian Cousineau  
OSB Corporate Secretary  
365 Laurier Ave West, 8th Floor  
Ottawa, Ontario  
K1A 0C8  
(613) 941-2694  
Fax (613) 946-9205  
e-mail: [cousineau.vivian@ic.gc.ca](mailto:cousineau.vivian@ic.gc.ca)

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# Introduction

This document is intended for parents of teenagers between the ages of 13 and 15. Early adolescence is the bridge between childhood and the adult world. Financial responsibilities are a big part of this adult world. With the help of this guide, you will be able to provide your teenagers with relevant and specific answers to their financial questions, thereby helping them to become financially independent adults.

The best way to develop sound money management skills in your teenagers is to lead by example, i.e., to offer them a model they can follow. Teenagers are heavily influenced by their peers, but they also learn a lot from their parents' financial habits.

How you pass on your values and what you teach is up to you. Different techniques work better for different people. You know yourself, as well as your teenager, so as you read this guide, keep in mind your own situation and adapt the advice and the suggested exercises to better meet your family's needs.

## Before you start

It's important to find the right way to get your message across. They need to know that you're there to help. Talk with them, not at them. Remember that a teenager's development is an ongoing process. You don't have to follow a schedule and there is no set time frame.

Don't feel badly if you are reluctant to discuss money with your teenager. Many people are uncomfortable discussing finances. If you need an icebreaker, have your teenager read this material. After a few days, ask for some feedback.

This guide will give you the tools you need to help your teenager grow into a responsible money manager.

## Healthy communication

A positive tone works best with this age group. Talking about money and family finances in a negative way will probably cause them to lose interest. Lectures also tend to bore young teenagers. A positive approach will turn financial discussions into a constructive exercise that improves communication.

You may feel that finances shouldn't intrude on family life. But no one can hide from the reality that today's society revolves around money. Teenagers need to learn about budgeting, financial management and credit from a trusted, impartial source. Do your teenagers a favour by taking the initiative and helping them to adopt good financial habits that will last a lifetime.

Perhaps the most important thing to remember when reviewing this material with your teenagers is to do your best to treat them as equals. Stuck between childhood and adolescence, this age group doesn't appreciate a heavy-handed approach. And don't forget to maintain your sense of humour.

### *Give teens the chance to make mistakes*

No matter how hard you try as a parent, your kids will make mistakes. That's okay as long as they learn from the experience. Remember, a 14-year-old making a \$10 mistake at the mall is better than a 20-year-old making a \$10,000 one at a used car dealership.

Your teenagers won't learn from their mistakes, however, if you let too many bad decisions go by without pointing them out. And it would be even worse to fix their mistakes on your own without even telling them about it. Wanting to help your teenagers out of financial difficulty is perfectly understandable, but learning to deal with the consequences and assume responsibility for their own choices is a critical part of their education.

### *Where do teens get their money?*

Up to now, your teen got most of their money, if not all of it, in the form of allowances, birthday gifts or as payment for small jobs. Adolescence is when they can start to earn money for regular work. Some will find a part-time job, while others will do casual work such as babysitting or mowing lawns.

This experience should be positive for your teens. They are not going to become financially independent overnight, and will still need your help. If you've been providing full financial support to your teens and then cut them off the minute they start making some money, they won't see the point in earning their own money. Motivation is the key to adolescents' initiation to the world of work. If they adopt a negative attitude towards work at a young age, it will undermine their integration into the working world.

### *Making room for learning*

Give your teens a chance to learn naturally without trying to force them. As a parent, concentrate more on guiding them in the right direction than on trying to accelerate the process. Be imaginative, and have fun.

### *Using this guide*

This guide covers basic concepts such as budgeting, salary, credit and inflation. Consumption patterns and individual financial values are also discussed, as are financial responsibilities and finding a job. There are also individual sections on being a smart consumer and making your money grow. Tips on choosing a career are found in the last section.

Before you read on, however, ask your teenagers the following open-ended questions designed to help you gauge their financial knowledge and attitudes toward money.



## **"Money and you"**

1. What does money mean to you?
2. A. What does it mean to have a lot of money?  
B. How much is a lot?
3. What is a debt?
4. What happens when you can no longer pay back what you owe?
5. A. Do you manage a bank account?  
B. Was that your choice?
6. Do you have a job?
7. How much money would it take for you to be able to stop working?
8. Where does your spending money come from?
9. Where do you spend most of your money?
10. What are income taxes?
11. Are you thinking about going to university?
12. A. What kind of work would you like to do?  
B. How much money would you like to earn?
13. What do you think about when you hear the following words:
  - a. budget
  - b. credit
  - c. inflation
  - d. investment
14. What percentage of your money do you save?
15. Do you like to talk about money?
16. Is there anything you would like to know about money?

## Values

### Desires versus needs

**M**odern living often leaves us with more money than time. Add the Internet, advertisements and peer pressure, and we end up with a lot of young people who have difficulty distinguishing between needs and desires. Of course, they have the ability to understand money matters. But they still need guidelines and someone who is willing to invest some time in their non-academic training.

### The real cost of things

The cost of fulfilling their needs and desires can come as a shock to young teens. You should bring your teenagers along with you when you go shopping or run errands. This will allow you to show them how to evaluate prices and calculate real costs. Taxes and service fees can also be worked into the conversation, along with comparing products with how they are featured in advertisements.

If your teenagers are with you when you buy things, they will learn how much they really have to pay for goods and services. They will also develop a more critical approach to advertisements, especially when it comes to assessing prices based on instalment plans or promotions featuring different products of lesser quality. Understanding how prices are determined will also help your teenagers to effectively evaluate the opportunity cost of a purchase.

### Opportunity costs

Opportunity costs refer to what you are giving up by choosing something else. This economic evaluation method is used everyday all over the world. You probably use it without even realizing it.

Post-secondary studies are often used as an example. Students give up the opportunity to earn income while they are in school, knowing that they will make up for it with higher earning potential after graduation. This means that the opportunity cost of a university education is minimal.

Considering opportunity costs can help teach your teenagers to think very carefully when making financial decisions.

### Developing consumption patterns

Even if it seems like they are growing up faster than any other generation before them, teenagers are still developing the basic attitudes and perceptions that will form the basis for life-long consumption patterns.

It is often at this age that teenagers find their first jobs and start earning an income. Their goals are not typically to save or to invest for long-term financial security. For the most part, parents are still taking care of their teenagers' needs and are still assuming responsibility for most of their purchases. For young teenagers, though, earning money means acquiring purchasing power. Now they can buy the things that used to require their parents' permission. It's one more step towards independence.

It's important for parents to remember that teenagers are still learning how to spend money. Help them focus on the rationale behind the purchases or demands they make. Point out how advertisements and marketing campaigns play an important role in decisions about spending. Discuss with them the notion of needs versus desires. For example, "luxury costs" refer to the extra cost of paying for something they want, rather than need.

## The relative cost of things

One way to look at prices is to consider them in terms of hours worked. Regardless of age or income, price is always relative. By evaluating the cost of material goods versus the effort required to obtain them, teenagers are better able to determine if a particular goal is worthwhile. This will help them out when they need to choose between options. In addition, understanding relative costs will help them to determine the true value of a desire and whether it is worth satisfying.

These notions still relate to opportunity costs - the cost of a good relative to other goods. Here are some scenarios in which a young teenager could use the concepts of relative cost and opportunity cost to evaluate a financial opportunity:

- Is it worthwhile to mow four lawns a week for five weeks to buy a bike?
- Would I prefer to buy a CD or a shirt?
- Do I want to spend my savings on a pair of popular name-brand shoes, or would it be better to buy less expensive shoes and use the money left over to buy a backpack and a hat?

Your teenagers are the only ones who can answer these questions by assessing what they value most. They will learn that while our needs and desires may be unlimited, our resources are not. It is important that they understand clearly that our decisions can't always be just about our desires; they also have to take resources into account.

## Sharing expenses

Until now, your teenager has probably not had to deal with any financial responsibilities, obligations or expenses. But as teenagers grow older, they should begin to cover part of the costs involved in satisfying their desires.

Once your teenagers have a source of income and can assume a portion of their expenses, you can gradually begin transferring financial responsibilities to them. Don't make your teens pay for all of their expenses right away, though, or they'll wonder why they are bothering to work. Instead, they should begin by paying for treats and other luxuries. Gradually transferring financial responsibility will help them develop financial management skills.

The following example will help teenagers understand opportunity costs, get them used to distinguishing between needs and desires, and assist them in establishing financial priorities.



### Situation scenario

Vincent, 14, is getting ready to go back to school. He earned money over the summer by mowing his neighbours' lawns with his father's lawn mower. His parents are also giving him \$150 to go shopping.

He wants a new pair of running shoes, a new pair of pants and a backpack. With the money his parents are offering him, he could buy all three. However, Vincent wants popular name brands — \$100 running shoes, \$60 pants, and a \$50 backpack.

Vincent has to decide what is most advantageous for him: having those three popular name-brand articles, or choosing one or two articles from a less popular brand so he won't have to use his earnings. To make his decision, he will have to consider the opportunity cost of using his own money for a name-brand version of something that he could buy with his parents' money. Vincent will evaluate what else he could use his money for if he decides to work within his parents' \$150 budget.

The concepts of sharing expenses and the cost of luxury can be applied to most purchases. This is a great way to help your teens assume responsibility and develop a more rational approach to consumption patterns. This in turn will lead to a greater sense of pride and self-esteem.

### Working with a goal in mind

For teenagers, income means purchasing power. Explain to your teens that if they want more money to buy a product or service, they will have to put in more effort, which requires a certain amount of self-discipline. This introduces the concepts of savings, budgeting and planning. And, once the savings goal has been reached, your teenagers will have to decide, with the help of the opportunity cost theory, if something they were saving for is worth all the work that was put into earning the money.

### Shopping

Of course, teenagers between the ages of 13 and 15 may not have fully developed a sense of thrift and price comparison. They need to guard against acting on impulse. Encourage shopping around and comparing prices as a way to get more for their money and their work. Start by taking a look at television and newspaper ads and flyers with your teens. Comparing prices helps show how a little discipline and patience can go a long way.

## Being Aware

The independence we associate with adolescence also brings challenges. As young teenagers start to make decisions on their own, they need the skills to make wise choices. One critical skill is developing an awareness of advertising.

Advertising plays an important role in every economic activity. Many of the products we see advertised are practical and trustworthy. Some of them are even essential. The key is for teenagers to make informed choices and decisions so they don't buy products based solely on advertising.

## Marketing and advertising

Advertisers take an almost scientific approach to studying human behaviour. Marketing agencies know how to reach their target audiences and they spend large amounts of money to create new markets or expand existing ones. They emphasize image, fun, popularity and a way to be better. Whether it's on billboards, television, posters or magazines, advertising is omnipresent in the lives of teenagers.

There are regulatory and control systems in place, but advertisers still try to make people believe that they must have a certain product. As adults, many of us have probably been sorely tempted to make this kind of purchase, and with any luck, have learned from our mistakes.

Teenagers will also make mistakes. But if they are well prepared, they will be more sceptical about advertising. At the very least, if they ever buy something purely because of advertising or magazines, they will be able to understand why they did so and learn from it.

It may be difficult to explain marketing strategies and techniques to young adolescents. A good way to start is simply by helping them to be aware of the number of advertisements there are around them. Count the number of ads you see during a TV show or that you find in your teenager's favourite magazine. Becoming aware of the marketing tools being used will highlight the fact that companies think of teens as customers whose money they want.

## Internet

The Internet is a way to communicate, shop, and entertain ourselves with music, games and downloaded movies. It's also a lucrative arena for marketing and advertising.

Advertising on the Internet is the least expensive and most effective technique for exposing goods and services to the largest possible number of people. Internet ads can take the shape of balloons that appear on screen, large-scale e-mails, flashing sponsorships, or sponsored search results.

Most companies are legitimate and offer useful and reliable goods and services. However, there are also advertisers, companies and individuals that are not trustworthy and are ready to take advantage of people. Some of these companies can get around the security software, firewalls and censor ware that parents add to their computer systems.

Young adolescents may be particularly susceptible to unscrupulous Web marketing. It's estimated that teens spend, on average, a little bit more than five hours per week surfing the Internet. Talk with your teenagers about how to recognize and deal with Internet advertising.

### Advertising to watch for

The following is a short list of tactics to which young teenagers may be exposed. Discuss them with your teenagers so that they know how to recognize them.

- **Internet:** don't click on windows that pop up on your screen to congratulate you for winning a prize on condition that you visit a Web site and provide a credit card number. Never provide important personal information over the Internet, unless you are absolutely sure the Web site is secure and run by a reputable organization.
- **Mail:** never respond to a letter that says you have been chosen as a finalist in a draw you didn't enter, and that you must call a 1-900 number to find out if you've won.
- **E-mail:** be careful when dealing with music or movie clubs that offer some CDs or DVDs for free on condition that you agree to buy a certain quantity at the list price. The commitment can be long and the selection is often limited.
- **Television:** watch for ads offering free stuff. You will inevitably be asked for your credit card number if you call in.

# Basic concepts

## What is a budget?

A budget is a management tool that allows you to optimize the use of your resources so you can achieve your goals and satisfy your needs. In other words, it is a way of organizing your expenses according to your income so that you can fulfill your obligations.

A budget is a way of managing your finances regularly by keeping track of where your money comes from and what you do with it. This planning also allows you to ensure that you are living within your means.

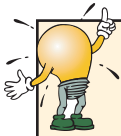
To explain the importance of budgeting to your young teenagers, start off by introducing a few basic concepts and definitions.

**Net income:** The portion of your income that you get to spend after paying taxes and covering expenses. Think of it as your disposable income.

**Fixed expenses:** Regular and predictable expenses such as rent or the cable bill.

**Variable expenses:** Expenses that come up regularly, but with varying amounts. Examples include heating and electricity bills.

**Incidental expenses:** Expenses that occur irregularly, like medical expenses or gifts.



### A sample budget

Mary has a net monthly income of \$2,000. By budgeting, she is able to fulfill her financial obligations first and then satisfy some of her desires. In order to do so, she gives priority to her fixed expenses, and then decides which wishes she can satisfy.

Employment income (net)	\$2,000
Rent	\$400
Food	\$400
Bills (telephone, cable television, electricity, etc.)	\$200
Vehicle (payments, insurance, gas, etc.)	\$600
Contingency fund (medical, etc.)	\$100
Entertainment and outings	\$200
Total expenses	\$1,900
Savings	\$100

Remember, a budget is a tool that can help young teenagers become financially responsible. Good planning helps people organize their expenses so they can avoid going into debt. But budgeting isn't a magic cure for irresponsible money management. Even with a budget, it still takes discipline and smart financial decisions to stay out of debt. Consider 15-year-old Mark's budget. This example helps demonstrate several important concepts: budget, planning, setting objectives and savings.



### Mark's Budget

Mark's parents give him an allowance of \$20 per week. In exchange, he helps out with household chores. Last year, Mark's aunts and grandparents gave him \$160 in birthday money.

His parents say that his allowance is enough to pay for going out and for occasional expenses. Since he has decided to buy popular name-brand clothing and a video game, Mark knows that he will need to save. He prepares his monthly budget based on income of \$100 per month (52 weeks of allowance x \$20 + \$160 in birthday money = \$1,200 per year). He intends to save money every month.

Income	\$100
Going out	\$40
Bus pass	\$25
<b>Savings</b>	<b>\$35</b>

Mark's goal is to save \$35 per month for two months so he can buy a \$70 video game.

Encourage your teens to do the following activity.





## Suggested activity: Preparing a realistic budget — What choices would you make?

You are now a young adult starting out in the job market. You have succeeded in finding employment in a large organization that offers a lot of possibilities for advancement. In accepting the position, you agree to move to a large city for one year. You have found an apartment close to the office. Thanks to your parents, you have managed to furnish the apartment at no cost.

### **Income:**

Your net salary paid every two weeks: \$1,300

### **Fixed expenses:**

Savings: 10% of your net salary, so \$130 per paycheque

Rent: \$850 per month, including heat, lighting, hot water, etc.

Personal expenses (snacks, newspapers, laundry, grooming, etc.): \$8 per day

The telephone costs you \$35 per month.

### **You have four options for cable:**

No service: \$0

Basic service: \$35.99 for a selection of television channels

Economy package: \$45.99 for a wider choice in television channels

Unlimited package: \$55.99 for a wide choice of channels + Internet access

### **You have the following three options for transportation:**

#### **New car:**

Monthly payment: \$393 per month

Insurance: \$120 per month

Gas and upkeep: \$120 per month (\$30 per week)

Parking: \$120 per month

#### **Used car:**

Monthly payment: \$183 per month

Insurance: \$75 per month

Gas and upkeep: \$160 per month (\$40 per week)

Parking: \$120 per month

#### **Public transportation:**

Bus or subway pass: \$40 per month

### **Meals:**

#### **Meals at home:**

Breakfast: \$1.80

Lunch: \$2.80

Dinner: \$5.00

#### **Restaurant meals:**

Breakfast: \$4.95

Lunch: \$8.00

Dinner: \$20.00

### **Plan your month. Indicate:**

- your daily food expenses (restaurant or at-home meals)
- your gas and upkeep payments (4 per month)
- sporting events and cultural and social outings (at least 2 per month)
- gifts to friends and family (at least 1 per month at \$20)
- gifts to yourself (at least 2 per month at \$20 each)
- clothing purchases (at least 3 per month at \$25 each)

List your choices in the following calendar.

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	2 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	3 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	4 Pay: \$1,300 Savings: \$130 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	5 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	6 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:
7 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	8 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	9 Telephone: \$35 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	10 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	11 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	12 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	13 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:
14 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	15 Cable: Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	16 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	17 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	18 Pay: \$1,300 Savings: \$130 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	19 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	20 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:
21 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	22 Public transportation pass or car and insurance payment: Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	23 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	24 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	25 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	26 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	27 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:
28 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	29 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:	30 Rent: \$850 Car parking: \$120 Personal expenses: \$8 Breakfast: Lunch: Dinner: Other:				

Prepare your statement by listing your totals on a daily basis. For example, if you have, on the first day of the month, \$8 in personal expenses + \$1.80 for a breakfast you had at home + \$8 for lunch at the restaurant + \$5 for dinner at home and no other expenses for the day, put \$22.80 in the "Expenses" column.

Monthly statement				
Date	Item	Expenses	Income	Balance
1				\$100.00

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Teenagers: Thirteen- to fifteen-year-olds

Monthly statement (continued)				
Date	Item	Expenses	Income	Balance

You must have a balance of at least \$100 at the end of the month to begin the next month. Based on the choices you have made, how much money do you have left at the end of the month to deal with occasional small purchases like compact disks, or more important purchases like a television, a trip, etc.?

## Earning money

Young adolescents know what a job is. But it's important that they fully understand how different jobs compensate people for their work. The following list shows how different types of job provide different types of income.

(Note: Jobs for adolescents are discussed later. For now, family-related earnings are the main focus.)

**Wage labour:** A fixed amount of money is paid to employees each year in monthly, biweekly or weekly payments. The paycheque doesn't vary depending on the number of hours worked. Salary is determined when the person is hired, and that amount is paid throughout the duration of the employment.

*Examples:* public service employees, teachers, professional athletes, etc.

**Hourly rate employment:** People are paid for each hour they work.

*Examples:* convenience store cashiers, factory workers, etc.

**Contract work:** People are paid for a specific task. The employer and the worker agree on a sum of money to be paid once the work is completed.

*Examples:* contractors, freelance writers

**Commission work:** Employees are paid in proportion to overall company sales or paid a percentage of the sales they make. Commission earnings can be combined with other types of salary, such as an hourly wage plus commission. Commission work is found in the sales field in particular.

*Examples:* retail sales clerks, real estate agents, etc.

## Interest

The interest on borrowed money is the price people pay to have immediate access to money they don't have. For example, people rarely have enough cash to buy their first house. That is why they go to a financial institution to borrow the required funds. In exchange, the institution charges a type of fee, called interest, on the borrowed money. It is one of the ways in which banks and financial institutions make money. Borrowers get the money to buy their homes, and every month they reimburse a part of the borrowed sum plus interest.



### Calculating interest on a credit card bill:

Amount due:	\$100
Elapsed time:	1 month
Annual interest rate:	13%

$\$100 \times 13\% =$  \$13

$\$13 / 12 \text{ months} =$  \$1.08

$\$1.08 \times 1 \text{ month elapsed} =$  \$1.08

The amount that is owed went from \$100 to \$101.08 because of the interest charged.

### How much interest do we pay?

An interest rate is the amount paid for a loan, expressed as a percentage of the borrowed sum. It is determined when the loan is made. It can remain the same (fixed rate) until the loan is paid, or it can be a floating rate, which moves up and down based on the interest rate set by the Bank of Canada. Interest rates are usually fixed annually, but compounded monthly (compound interest).



### Compound interest

Compound interest is the interest calculated on the capital and on the accumulated interest. Lets say you deposited \$500 in your savings account and that the annual interest rate is 5% compounded on a monthly basis. You would therefore get a small amount of interest each month. The following month, the interest will be calculate on \$500 + the interest from the first month.

$$\$500 \times 5\% \div 12 = \$2.08$$

At the end of the first month, the bank will put \$2.08 in your account. Your new balance will be \$502.08. This amount will be used to calculate the interest at the end of the second month.

$$\$502.08 \times 5\% \div 12 = \$2.09$$

At the end of the second month, the bank will put \$2.09 in your account. Your new balance will therefore be \$504.17. This amount will be used by the bank to calculate the interest at the end of the third month.

Continue to do the calculations as listed above. At the end of 12 months, what would your account balance be?

**Answer:** see page 36 for the solution.

### Credit

Young adolescents already understand that credit is a way of getting goods and services now and paying later. But it's critical to go into more detail about credit so that they avoid falling into a cycle of debt.

Obtaining credit means receiving a loan. The borrower must repay the funds, with or without interest, before a fixed date or be obliged to pay additional interest. Different companies have different repayment methods. Three common forms of credit are credit cards, instalment plans and mortgage loans.

#### Credit cards

A credit card can be a very useful financial tool that makes everyday life easier. One of its advantages is that it allows the holder to use a good or service immediately while distributing payments over time. It also enables people to establish a good credit rating so they can borrow more significant amounts in the future. It can act as an emergency source of money, and having a preset spending limit may keep people from spending more money than they can afford.

However, it's important to use credit cards wisely. There is always the danger of theft, fraud and administrative error. But the biggest danger comes from not paying off credit cards right away. Unpaid balances can grow very fast once high credit card interest rates are factored in. Rates of 19% and higher are not uncommon.

The best way to use credit cards is to pay them off every month. Otherwise, the interest charges add up quickly. Take a look at the following example to see how this can increase the actual cost of credit purchases.



## Situation scenario

Julie buys an MP3 player for \$200 with her credit card. The interest rate is 19.5%. In the first scenario, Julie decides to take a year to repay the amount she owes. In the second scenario, she takes two years to reimburse the amount.

Amount borrowed:	\$200	Amount borrowed:	\$200
Interest rate:	19.5%	Interest rate:	19.5%
Monthly payments:	\$19	Monthly payments:	\$10.25
<b>Total cost:</b>	<b>\$221.16</b>	<b>Total cost:</b>	<b>\$242.52</b>

Taking longer to pay off credit cards means you pay more in the long run.

Debt comes in many forms, and most people have debts at certain points in their lives. Some debts, like a house mortgage, are warranted. Others, like paying for a shopping spree with a credit card, are not. Remember, the higher the credit card debt, the harder it is to become debt free. Many people fall into the vicious cycle of paying off the debts on one credit card with the help of another credit card – a very dangerous practice from a financial point of view.

## Instalment plans

Instalment plans are another way of obtaining goods or services without having to pay for them immediately. Instalment plans are most often divided into monthly payments. For example, a furniture store sells a home entertainment centre if the buyer agrees to pay a certain amount of money each month until the payment is complete. The contract drawn between the buyer and the store establishes the payment conditions, but in general, as soon as a payment is missed, the store can repossess the item.

A variation on instalment sales is the “no money down, don’t pay until...” option. In this case, borrowers agree to pay the full amount at a future date. If they pay on time, there is no interest. But if payment is late, interest is charged from the date of purchase. The interest rates on these plans are very high.

Advertisements for instalment plans often mention that there are no additional fees and no interest. Usually, however, the selling price has been increased so that the retailer makes a higher profit to compensate for the time it has to wait until the full balance of the item has been paid. Of course, the buyer still has the advantage of enjoying the item immediately.

## Mortgages and other loans

A mortgage is an agreement, usually with a bank or other financial institution, to make regular payments on a loan. If the payments aren’t made, the financial institution has the right to repossess the property.

Besides lending money to help people buy homes, banks and other financial institutions also lend large sums for car purchases or home renovations.

The following example illustrates this notion.



### Car loan

Jacob wants to buy a car. It costs \$12,000, and he only has \$2,000. He borrows \$10,000 from the bank, which he has to pay off in five years at 8% interest.

The bank demands that Jacob use his car as collateral. This means that if Jacob does not pay the bank regularly, the bank can repossess his car and sell it to cover the loan.

Here's how much this loan will cost Jacob.

Loan:	\$10,000
Yearly annual rate:	8%
Monthly payments:	\$202.14
<b>Total cost of loan:</b>	<b>\$2,128.54</b>

How do we get to \$2,128.54? Add the amounts in the interest column.

Payment number	Payment Amount	Principal	Interest	Remaining Principal to be paid
\$10,000.00				
1	\$202.14	\$136.56	\$65.58	\$9,863.44
2	\$202.14	\$137.45	\$64.69	\$9,725.99
3	\$202.14	\$138.36	\$63.78	\$9,587.63
4	\$202.14	\$139.26	\$62.88	\$9,448.37
5	\$202.14	\$140.18	\$61.96	\$9,308.19
6	\$202.14	\$141.10	\$61.04	\$9,167.09
7	\$202.14	\$142.02	\$60.12	\$9,025.07
8	\$202.14	\$142.95	\$59.19	\$8,882.12
9	\$202.14	\$143.89	\$58.25	\$8,738.23
10	\$202.14	\$144.83	\$57.31	\$8,593.40
11	\$202.14	\$145.78	\$56.36	\$8,447.62
12	\$202.14	\$146.74	\$55.40	\$8,300.88
13	\$202.14	\$147.70	\$54.44	\$8,153.18
14	\$202.14	\$148.67	\$53.47	\$8,004.51
15	\$202.14	\$149.64	\$52.50	\$7,854.87
16	\$202.14	\$150.63	\$51.51	\$7,704.24
17	\$202.14	\$151.61	\$50.53	\$7,552.63
18	\$202.14	\$152.61	\$49.53	\$7,400.02

Payment number	Payment Amount	Principal	Interest	Remaining Principal to be paid
\$10,000.00				
19	\$202.14	\$153.61	\$48.53	\$7,246.41
20	\$202.14	\$154.62	\$47.52	\$7,091.79
21	\$202.14	\$155.63	\$46.51	\$6,936.16
22	\$202.14	\$156.65	\$45.49	\$6,779.51
23	\$202.14	\$157.68	\$44.46	\$6,621.83
24	\$202.14	\$158.71	\$43.43	\$6,463.12
25	\$202.14	\$159.75	\$42.39	\$6,303.37
26	\$202.14	\$160.80	\$41.34	\$6,142.57
27	\$202.14	\$161.86	\$40.28	\$5,980.71
28	\$202.14	\$162.92	\$39.22	\$5,817.79
29	\$202.14	\$163.99	\$38.15	\$5,653.80
30	\$202.14	\$165.06	\$37.08	\$5,488.74
31	\$202.14	\$166.14	\$36.00	\$5,322.60
32	\$202.14	\$167.23	\$34.91	\$5,155.37
33	\$202.14	\$168.33	\$33.81	\$4,987.04
34	\$202.14	\$169.43	\$32.71	\$4,817.61
35	\$202.14	\$170.55	\$31.59	\$4,647.06
36	\$202.14	\$171.66	\$30.48	\$4,475.40
37	\$202.14	\$172.79	\$29.35	\$4,302.61
38	\$202.14	\$173.92	\$28.22	\$4,128.69
39	\$202.14	\$175.06	\$27.08	\$3,953.63
40	\$202.14	\$176.21	\$25.93	\$3,777.42
41	\$202.14	\$177.37	\$24.77	\$3,600.05
42	\$202.14	\$178.53	\$23.61	\$3,421.52
43	\$202.14	\$179.70	\$22.44	\$3,241.82
44	\$202.14	\$180.88	\$21.26	\$3,060.94
45	\$202.14	\$182.07	\$20.07	\$2,878.87
46	\$202.14	\$183.26	\$18.88	\$2,695.61
47	\$202.14	\$184.46	\$17.68	\$2,511.15
48	\$202.14	\$185.67	\$16.47	\$2,325.48
49	\$202.14	\$186.89	\$15.25	\$2,138.59
50	\$202.14	\$188.11	\$14.03	\$1,950.48
51	\$202.14	\$189.35	\$12.79	\$1,761.13
52	\$202.14	\$190.59	\$11.55	\$1,570.54
53	\$202.14	\$191.84	\$10.30	\$1,378.70
54	\$202.14	\$193.10	\$9.04	\$1,185.60
55	\$202.14	\$194.36	\$7.78	\$991.24
56	\$202.14	\$195.64	\$6.50	\$795.60
57	\$202.14	\$196.92	\$5.22	\$598.68
58	\$202.14	\$198.21	\$3.93	\$400.47
59	\$202.14	\$199.51	\$2.63	\$200.96
60	202.28	\$200.96	\$1.32	\$0.00

The amounts in these examples might seem alarming to young teenagers. It's important that you take the time to explain the difference between good debts, such as those to buy a house, and bad debts, such as those to pay for a shopping spree.



## Inflation

Inflation is an ongoing increase in the average price of most goods and services. A good way to explain inflation is to talk about what things cost when you were a teenager. Put these costs in perspective by talking about how much people used to earn.

An increase in inflation means less bang for a buck. Over time, as the cost of goods and services increases, the value of a dollar falls, because people can't purchase as much with that dollar as they could before.

Not only does inflation mean that prices are going up, it's also a sign that interest rates may be about to increase. This is because lenders want to be compensated for inflation with a higher interest rate on the money they lend. Imagine someone lending \$100 to a borrower who agrees to pay back \$105 in a year. The \$5 is the interest the lender will earn. But suppose inflation is going to mean that the \$100 will only be able to buy \$97 worth of goods in a year. That means the lender will want to earn at least \$8 in interest.

### **What causes inflation?**

When the economy is growing rapidly, people buy more products and services. Often, the demand is greater than the supply. Too much money chases too few goods, so prices go up. Inflation also occurs when production costs increase, or when the value of the Canadian dollar is falling as compared with the currency of other countries.

## Financial Responsibilities

**A**lthough young teenagers may not yet be concerned about financial responsibilities, they are beginning to realize that they will soon have to earn money. This transition period is a critical point in their development. It's important to guide them in the right direction, while giving them the chance to discover the world of financial responsibility by themselves.

### Earning money

Of course, teenagers must earn money before they can budget or share expenses with their parents. Teaching financial responsibility is easier if you use a positive approach. Here are some examples:

**Maintain a positive attitude:** Work is not always fun, and sometimes you may wonder why you are in a particular job or career. But your attitude towards work will influence your teenagers. Emphasize your positive work experiences. Discuss your successes or interesting projects. Offer encouragement, tips and help for their summer job search. Show them that experience will make them more independent and self-sufficient.

**Use positive reinforcement:** So far, your teenagers have probably had it pretty easy, with no financial responsibilities, obligations or expenses. If they have a job, it means they have shown initiative and resourcefulness. Reward them by letting them have the freedom to spend their money pretty much as they want. Asking them to share some expenses, by paying for certain non-essential items, will help instil responsible spending habits. Expecting them to cover all their expenses is unrealistic and will discourage them from working.

### Managing a budget

The concepts of earning money and spending it seem to go hand in hand. Discuss the concept of managing a budget with your teenagers who are earning an income or an allowance. Please refer to the [What is a Budget?](#) section (page 9) for more tips.

### Legal responsibility

Many young adolescents have difficulty grasping the legal responsibility that comes with mortgage loans and credit cards, as well as their impact on disposable income. Emphasize the responsibilities associated with these kinds of loans, but don't use scare tactics or suggest, for example, that the family home is in danger of being repossessed.

### Income tax

Young teenagers know that taxes exist, but most of them don't know how the Canadian tax system works. If you are comfortable talking about your income, show your teenagers the impact that taxes have on earnings by going over one of your pay stubs with them. Start with gross income and then show the various deductions that lead to net income.

Teenagers are often exposed to negative comments and attitudes about taxes. It's important to discuss the benefits of the tax system with them. Go for a ride or a walk around your community to show them the infrastructure (bridges, roads, etc.) and services (schools, hospitals, public transit, etc.) that the government subsidizes or finances with taxes.

## The job search

**F**inding a job can be tough for 13- to 15-year-olds, because they usually don't have much work experience. They need to be very determined and motivated when looking. It's important that parents support them in their job search, as well as guiding them in their choice of a part-time job. It's also critical that teens not let part-time jobs interfere with school. In fact, many parents decide that it's best for teens not to work during the school year, and only work during the summer when school isn't in session.

Young teenagers shouldn't expect high-paying jobs. Most jobs typically have minimum age requirements of 15 or 16 years. But 13- to 15-year-olds are also interested in working, because they associate work with money. That's why it's the ideal time to introduce job search skills. Even if formal employment is a year or two away, young teenagers can benefit from learning these skills and thinking about how to prepare for the job they want. For example, if the idea of becoming a summer camp counsellor appeals to them, they could spend a summer volunteering at a camp or taking first aid and swimming courses to help increase their chances of getting a job later on.

## The steps in finding a job

### 1. Applying for a Social Insurance Number (SIN) card

Your teens can obtain application forms from your local Social Development Canada office. To find out where the nearest office is located, call 1 800 O-Canada (1 800 622-6232). In addition to filling out the form, they must provide a document proving their identity and status in Canada, such as an original birth certificate or a certificate of Canadian citizenship. It should take no longer than six weeks to receive a SIN card.

To apply online, visit: <http://www.sdc.gc.ca>

### 2. Learning to know and promote themselves

Getting your teenagers to focus on their skills and interests can help narrow the job search. It will also help them to market themselves and increase their self-confidence. Take a few minutes to assess their skills, qualities and strengths. You will help them find out what they have to offer and how an organization would benefit from hiring them.

### 3. Remaining realistic

For teens aged 13 to 15, the greatest advantage of having a job, aside from the money earned, is the experience they acquire. It is also a sign of maturity and responsibility, and adds substance to the résumé.

### 4. Presenting themselves to potential employers

Whenever possible, teenagers should present themselves in person to a potential employer. They should bring their cover letter and résumé, and ask to speak to the manager or owner. They should not be shy. Tell them to ask whether the employer is hiring and if they can apply for a job. What they should keep in mind is that the worst thing that can happen is that they will be turned down. They should persevere and present themselves to as many employers as possible.

### Preparing a cover letter

If your teenager is unable to meet with the manager or the owner, or if he or she applies for a job through the mail or online, a cover letter is the first point of contact with the company. It must be prepared with care, since the letter gives potential employers their first impression, and will often determine whether they spend any more time looking at the application.

#### Goals

When helping your teen prepare a cover letter, you should explain its three main objectives:

1. **Show interest in the organization and its activities.** It is important to do some research to give substance to the message.
2. **Sell themselves.** Teenagers should briefly describe their skills and qualities as well as how they could contribute to the company.
3. **Availability.** Propose times when they would be available to meet to discuss job opportunities.

#### Format

The cover letter is an important part of the job application. While your teenagers shouldn't expect to be hired based solely on a cover letter, an unprofessional one will probably mean they won't get the job.

Despite their age and limited experience, young adolescents must show professionalism and organizational abilities if they want to be hired. A potential employer's only way to evaluate your teenager is through the cover letter and résumé. Here are some tips for a good cover letter:

- It should be no longer than one page.
- It should be typed in a normal font.
- There shouldn't be any spelling or grammatical errors.
- It should address a specific person (e.g. Mr. or Ms. Doe).
- The tone should be neutral and respectful.
- It should be modified for each job so as to appear sincerely enthusiastic about the organization. Employers should not get the impression that they are receiving a form letter.
- Your teen can ask a few people to review the letter to check for any mistakes and ensure that it reads smoothly.

#### Content

The cover letter is not an expanded version of the résumé, but rather an introduction to it. Teenagers should stick to the one-page rule. Another rule of thumb is to divide the letter into four paragraphs:

1. Introductory paragraph: mention the position being sought as well as how they learned about the opening, if applicable. A thank you for the opportunity to apply should be included.
2. A paragraph that stresses individual qualifications and skills and links them to the requirements of the position.
3. A paragraph that highlights what they have learned about the organization and how the thought of working for the organization motivates them.
4. A closing paragraph thanking the employer for his or her attention. This is where they can indicate their desire to meet the manager or the person who is in charge of hiring.

The following is a sample cover letter:

Applicant's Name  
Address  
Phone Number

Company Name  
Name of the person in charge of hiring  
Title  
Address

Date

Dear Mr. or Ms. (Name of the person who is in charge of hiring),

With reference to your advertisement in the *Local News* on August 28, I wish to apply for the position of clerk at your video store.

I believe I have the necessary skills and abilities for this job. I am organized, resourceful, personable and a fast learner. I am also fluent in both official languages.

Your company excels at customer service, a field in which I would like to pursue a career. I am also very eager to become part of a winning team like yours. Joining your organization would give me a chance to develop useful skills that will help in pursuing my long-term career goals.

If you are interested in meeting with me, I am available for interview weekdays after 3:30 p.m. or any time on the weekend.

I look forward to hearing from you.

Signature

Encl. (résumé)

### Preparing a résumé

There are many ways to write a résumé, but certain ground rules must be respected.

#### The résumé should be divided into themes

The information should grab the employer's attention and be clear and specific. Everything must be organized, because employers don't have a lot of time to read résumés. Themes usually follow a logical order:

- **Personal information:** Key elements such as name, address, telephone number and e-mail address.
- **Education:** The most recent studies should appear first, followed by the year, and the name and location of the institution.
- **Work experience:** the skills and qualifications developed through previous jobs or volunteer work. Emphasize the tasks that were performed.
- **Achievements:** This is optional, but useful if the candidate did a work term or has participated in special extracurricular projects.
- **Fields of interest:** This section mentions sports and leisure activities, giving employers the opportunity to learn more about the candidate. For example, team sports prove that the candidate is able to work on a team.
- **References:** Indicates that references will be provided upon request. These are not included in the résumé, but are listed on a separate document.

#### General tips

A résumé, especially for a teenager, should be no more than two pages. Adapt each résumé to the specific job.

- It should be clear and concise.
- No clichés.
- Accuracy and honesty are musts.
- Only information that is useful to the employer should be included.

If you would like to organize a job search workshop for a group of teenagers, consult our workshop material called "Work It!" You can download it from the OSB Web site at: [www.osb-bsf.ic.gc.ca](http://www.osb-bsf.ic.gc.ca) or you can request a copy from the OSB Corporate Secretary whose address can be found on page ii of this guide.

# Day-to-Day Money Management

## Banking services

**B**anks help protect and organize people's money. When you open a bank account for your teenagers, you can choose from a vast array of services, from banking with a teller, to automatic teller machines (ATMs), to telephone or online banking.

Explain to your teenagers the different benefits that bank accounts provide on top of keeping their money secure. Also, mention that bank accounts offer small interest payments.

## The right account for your teenagers

Banks offer numerous accounts and services. It is important that you choose one that suits your teenagers right now. In a few years, their needs will probably change and they will require a different service. Then it will be time to change bank accounts.

Most financial institutions offer specialized services or discounts for young people. For example, an institution may provide a free monthly statement or offer not to impose primary service charges. Many accounts offer a set number of transactions for free. Shop around. Before choosing, stop and ask the following questions:

- How many transactions does my teenager expect to make each month?
- Which is more important: saving or easy access to funds?
- Is ATM access required?
- Will it be easier to save money if there is no ATM access?
- Will purchases be made with an ATM card?

## Different types of bank account

Most financial institutions offer two basic categories of account:

### Chequing accounts:

A chequing account is ideal for making many monthly withdrawals or payments. Easy access and a high number of transactions at a fixed cost are among the main benefits. This type of account gives you access to your funds through ATMs, purchases, direct payments, at the branch, by telephone or online. Most chequing accounts typically offer lower interest rates than savings accounts.

**Beware:** Teenagers must develop the discipline to make sure they have a positive balance in their accounts when they write cheques or make withdrawals.

### Savings accounts:

If the goal is to save and few withdrawals are expected, this account may be the best choice. Banks usually offer higher interest rates for this type of account than for chequing accounts.

**Beware:** Normally, you are only allowed to make up to two withdrawals per month. There are service fees for additional withdrawals.

For more information, please visit: [www.cba.ca](http://www.cba.ca)

### Service fees

ATMs have simplified our lives, but your teenagers must be aware of the cost of every transaction. Some ATMS charge more than others.

A monthly fee or special student service package will provide an account with no fee on transactions, but will limit the number of withdrawals (cash withdrawals, purchases, bill payments, cheques, etc.) that can be made each month.

Fees start to increase either when the number of transactions allowed is exceeded or when a transaction is carried out at an automatic teller machine from a financial institution other than the one in which the account is held. When the ATM of a different financial institution is used, a network access fee is applied. These fees generally range from \$1.25 to \$2.00 per transaction.

Independent ATMs are found in places like restaurants and convenience stores. They are owned by private companies rather than financial institutions. Service fees are much higher than with financial institutions. They are generally made up of convenience fees and network access fees. This means that a \$20 withdrawal at an independent ATM may cost \$2.50 to \$4.00, as opposed to a free withdrawal at an ATM owned by your financial institution.

### Credit Cards

Teenagers can't apply for credit cards until they reach the age of majority, which is either 18 or 19, depending on the province. However, even younger teens can benefit from learning about credit cards. This will help them use their first credit card more responsibly.

You can explain the concept of credit cards by going over your statement with your teenagers. Show them how you now have to pay for the purchases you made three weeks ago. Emphasize the connection between what gets put on the credit card and what has to come out of your bank account to pay for it. Also, note how much interest you have to pay each month, if such is the case.



# Making Your Money Work for You

**M**ost young teenagers don't have money to invest. Introducing them to some basic investment concepts now may help them to start thinking about using their money for long-term goals, not just immediate purchases.

## Savings

What an adult chooses to save for and what a young teenager saves for are usually quite different. Younger teenagers tend to be more focused on saving for something they can enjoy fairly immediately, like clothing and computer games. The importance of saving goes beyond such short-term objectives.

Try to emphasize saving with a goal in mind. It is much easier (and more practical) for young teenagers to work and put some effort into saving when they do so for a specific purpose. The saving habit is also more likely to take root if your teenagers see saving as a way to get what they want.

There are a number of different ways to introduce the idea of savings and encourage teenagers to put money aside. For example, you could start with matching every dollar they deposit into their savings accounts.

You can also help your teenagers manage their money and savings by asking them to set aside 10% of all their income. Each month, assess their savings to show them how much money they have put aside. The amount will gradually increase, and you will be able to discuss their goals.

Mentioning that money deposited in an account will also earn interest is another way to encourage saving. But don't overemphasize this aspect, because with most bank accounts paying less than 2.5% in annual interest, this is hardly a persuasive argument.

## Investments

Most young teenagers understand that you can invest money by buying and selling stocks and bonds. Discuss the definitions below to help your teenagers learn about investing. The goal is to help them understand that investments can work for them and earn higher returns than money in a savings account.

Most teenagers won't be interested in investing. But for those who are, encourage them by explaining that they have one important advantage over other investors time. The longer they can keep their money invested, the more time it will have to grow.

Your teenagers may appreciate the concept behind the investing principle known as the "Rule of 72". Dividing an investment return rate into 72 will tell you approximately how long it will take for the investment to double. For example, \$1,000 that earns an average of 7% a year will be worth \$2,000 in 10.3 years ( $72 \div 7 = 10.3$ ).

### Definitions

**Investing** means making money available to companies, governments or financial institutions with the expectation of earning a return on it. Investments can generate one or a combination of three types of return: interest, dividends and capital gains.

**Interest** is a set or floating amount that an investor is paid on a specific date or set of dates. It's expressed as a percentage of the overall investment. Typically, interest is earned on investments like bonds and term deposits. Compound interest is interest on interest. For example, when a bank pays you interest, that amount is added to the account balance. If you make no withdrawals or deposits until the next interest payment the following month, that payment will be calculated based on the balance that includes the bank's deposit into your account.

**Dividends** are paid by companies to shareholders. For each share you own, you receive a sum of money. Dividend amounts are determined and paid at the discretion of the company. They are not guaranteed, and companies only pay them when they are earning profits.

A **capital gain** (or loss) is the difference between what you pay for an investment and what you make when you sell it. If you buy a stock for \$10 and sell it for \$10.50, you will make a \$0.50 capital gain. If you buy a stock for \$10 and sell it for \$9.50, you will have a \$0.50 capital loss.

Ask your teenagers to try the following activity.

The goal of this exercise is to understand how the stock market changes over time.



### Introducing the Stock market

To help you understand how the stock market works, use a fictional amount of \$10,000 that you will invest.

Using the economic section of a current daily newspaper, choose three different companies that have listed stock. To make wise choices, look up the companies on the Internet. Try to obtain information on their business operations (number of employees, brief history, mission, product or services, etc.)

Decide how much you will invest in each of the three companies (for a total of \$10,000). In the space provided below, fill out the information once a week for one month. We have offered an example so you can get a sense of how to use the form.

The following table will help track trends.

Company Name: ABC			
Week	Value of Share	Increase from last week	Decrease from last week
0	\$1.50 (this will be your purchase price)	N/A	N/A
1	*\$2.00	\$0.50	N/A
2	\$1.25	N/A	\$0.75
3	\$1.35	\$0.10	N/A
4	\$1.70 (this will be your selling price)	\$0.35	N/A

\* Best time to sell since this is the highest your stock was worth.

The following table will indicate the gain or loss following the sale of stocks.

Date	# of shares purchased	# of shares sold	Value per share	Total value	Gain or loss
Company: ABC					
01/03/2006	2,350	N/A	\$1.50	$(2,350 \times \$1.50) = \$3,525$	N/A
29/03/2006	N/A	2,350	\$1.70	$(2,350 \times \$1.70) = \$3,995$	Gain of \$470 $(\$3,995 - \$3,525)$ $(2,350 \times \$0.20)$

Now do this for the three companies you have chosen.

Company Name:			
Week	Value of Share	Increase from last week	Decrease from last week
0			
1			
2			
3			
4			

Company Name:			
Week	Value of Share	Increase from last week	Decrease from last week
0			
1			
2			
3			
4			

Company Name:			
Week	Value of Share	Increase from last week	Decrease from last week
0			
1			
2			
3			
4			

Date	# of shares purchased	# of shares sold	Value per share	Total value	Gain or loss
<b>Company:</b>					
		N/A			N/A
	N/A				
<b>Company:</b>					
		N/A			N/A
	N/A				
<b>Company:</b>					
		N/A			N/A
	N/A				

Did you get a return on your investment? \_\_\_\_\_

Which company should you NOT have invested in and why? \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Is there another company you should have invested in? \_\_\_\_\_  
 \_\_\_\_\_

Look at the monthly trends.  
 When would it have been best to sell your stocks? \_\_\_\_\_

It is difficult to predict when a stock will be at its highest worth. This is why it is the job of a broker to track stock market company trends to see when would be the best time to sell stocks in order to maximize his clients gains.

You can do this activity again, but this time sell some of your stocks before the month is over and buy new ones from other companies. See how much of a return on your investment you get from these trades.

### Types of Investments

The following is a basic list of the various kinds of investment. It doesn't include investments like income trusts and real estate. To learn more, contact your financial institution.

Investment	Description
<b>Savings account</b>	<ul style="list-style-type: none"> <li>• Account with a financial institution</li> <li>• Interest rates generally low</li> <li>• High liquidity (easily cashable)</li> <li>• Very secure for short-term savings</li> </ul>
<b>Term deposit or guaranteed investment certificate (GIC)</b>	<ul style="list-style-type: none"> <li>• Investment for a pre-determined period with a financial institution (usually between one month and ten years)</li> <li>• Available in multiple denominations</li> <li>• Higher interest rates than savings accounts</li> <li>• Very secure</li> <li>• Funds are frozen for a fixed period of time</li> <li>• Penalty if investments are cashed in before the due date</li> </ul>
<b>Bond</b>	<ul style="list-style-type: none"> <li>• A recognition of debt, certifying a loan to a government or company</li> <li>• Only offered at certain times</li> <li>• Available in multiple denominations</li> <li>• Fixed interest rates for a determined period</li> <li>• High liquidity</li> <li>• Very secure if issued by a government or company with a high credit rating. But bonds, particularly those issued by companies, can end up being worthless under certain circumstances.</li> </ul>
<b>Treasury bond</b>	<ul style="list-style-type: none"> <li>• Short-term investment (one month to one year)</li> <li>• No fixed interest rate, but rather a face value</li> <li>• Bought at a discount (a lesser value than face value), resold at face value at the expiration date. The difference between the two makes up the return.</li> <li>• Very secure</li> </ul>
<b>Shares (stocks)</b>	<ul style="list-style-type: none"> <li>• Issued by companies: Investors become shareholders (part owners) of the company by buying shares of the corporation.</li> <li>• Two principal types of share: common and preferred. Common shares are less secure than preferred shares.</li> <li>• Stock prices and their returns vary widely; there is no guaranteed rate of return.</li> <li>• Usually very liquid</li> </ul>
<b>Mutual fund</b>	<ul style="list-style-type: none"> <li>• An investment portfolio managed by professionals</li> <li>• Mutual funds allow small investors to have access to a wide variety of investments.</li> <li>• Investors buy units, and those units are mingled with the money of other investors.</li> <li>• Mutual funds can be made up of almost any type of investments.</li> <li>• Risk factor ranges from low to high</li> <li>• Variable gains</li> </ul>

## Investment plans

The Government of Canada provides incentives for Canadians to save through two main types of investment plan:

### Registered Retirement Savings Plan (RRSP):

- A government plan for retirement savings.
- Your RRSP investment is deducted from taxable income, reducing the amount of tax you pay.
- Taxes are payable when the funds are drawn. Since income is usually lower in retirement, the tax rate is lower.
- An RRSP can hold almost any type of investment.
- Your RRSP investment limit appears on your Notice of Assessment from the Canada Revenue Agency (CRA).
- For more information visit the CRA: [www.cra-arc.gc.ca/tax/individuals/topics/rrsp/menu-e.html](http://www.cra-arc.gc.ca/tax/individuals/topics/rrsp/menu-e.html)

### Registered Education Savings Plan (RESP):

- A government plan to help save for eligible post-secondary education programs.
- Up to \$4,000 can be invested each year, and the investment grows tax free.
- The Canada Education Savings grant from the Government of Canada is paid directly into an RESP. It adds 20% to the first \$2,000 in contributions made to an RESP. This means the grant can be as much as \$400.
- Almost any investment qualifies to be included in an RESP.
- For more information, visit Human Resources and Skills Development Canada: [www.hrsdc.gc.ca/en/gateways/nav/top\\_nav/program/cesg.shtml](http://www.hrsdc.gc.ca/en/gateways/nav/top_nav/program/cesg.shtml)

### Choosing a Career

Young teenagers can benefit from thinking about a career long before they are ready to begin working. Even if they don't start in a career-related job, knowing what they aspire to be can help them choose what to study in high school.

#### Step 1: Help your teens develop a general picture of their abilities.

To help your teens find a job that suits them, help them choose the path that best suits their interests and abilities. Before they can make the right choice, teenagers have to know themselves very well. They must consider their:

- personality traits
- relationships with others (team player?)
- interests
- skills

#### Step 2: Help them make a list of all possible occupations.

List all the jobs that your teenagers can name. Then ask them to search on the Internet, in magazines and elsewhere to complete the list. Encourage creativity – there is something for everyone in almost every field. Ask your teenagers to reflect and to take the time to learn more about certain fields. You may see a preference start to emerge.

#### Step 3: Match possible occupations with personal characteristics.

Of course, not every occupation interests everyone. Certain aspects, skills or work conditions may be less desirable. Try to guide your teenagers in choosing their studies and help them make a list of all the occupations that correspond to their current interests. Keep an open mind and be creative when discussing specific fields or jobs.



## Step 4: Help them come up with a game plan.

Establish the steps that need to be taken in order to work in each of the professions or occupations of interest listed in Step 3.

Start at the end. For each profession or occupation, list all the steps that need to be taken in reverse chronological order. For example, to become a chartered accountant (CA):

- They must work in a 24-month internship position at a chartered accountant's office under the supervision of an internship supervisor;
- In order to be eligible for the internship, they have to pass the national exam (Uniform Final Examination) and then complete the professional development program;
- To access this professional development program, they must have a recognized university degree or equivalent, such as a business or commerce degree with a concentration in accounting.
- Find out which courses they need to take in high school so they can apply for the right programs at the university of their choice.

You can take the same steps for all the professions or occupations that interest your teenagers. It's a good way to illustrate the amount of preparation and training required for a career. The result may be increased interest, a change of heart or even total disinterest. What is important is that you develop a clear picture of every career choice. This isn't so your teenagers can immediately choose the careers they would like to have for the rest of their lives, but so they can learn to make practical career choices based on facts.

Answers to the exercise on page 16.

At the end of month	Amount on which the interest is calculated	Interest	New balance
1	\$500.00	\$2.08	\$502.08
2	\$502.08	\$2.09	\$504.17
3	\$504.17	\$2.10	\$506.27
4	\$506.27	\$2.11	\$508.38
5	\$508.38	\$2.12	\$510.50
6	\$510.50	\$2.13	\$512.63
7	\$512.63	\$2.14	\$514.77
8	\$514.77	\$2.15	\$516.92
9	\$516.92	\$2.16	\$519.07
10	\$519.07	\$2.16	\$521.23
11	\$521.23	\$2.17	\$523.40
12	\$523.40	\$2.18	\$525.58

**Answer:** The account balance after 12 months would be \$525.58.



