

## **Newcomer Finances Toolkit**

# **Investments**

## **Worksheets**



**Ottawa Community Loan Fund • Fonds d'emprunt Communautaire d'Ottawa**  
22 O'Meara St., Causeway Work Centre, Ottawa, ON K1Y 4N6 Tel: 613-594-3535 Fax: 613-594-8118

[www.oclf.org](http://www.oclf.org)

# Table of Contents

<i>Investments</i>	<u>1</u>
<i>Registered Retirement Savings Plans</i>	<u>2</u>
<i>Registered Education Savings Plans</i>	<u>4</u>
<i>Tax-Free Savings Account</i>	<u>7</u>
<i>Registered Disability Savings Plan</i>	<u>8</u>
<i>Investment Scams</i>	<u>9</u>

## Investments

There are many kinds of **investments** (using money to make more money). Some investments have more **risk** than other investments, because you can make more money but you can also lose your money.

Many people have investments in guaranteed investment certificates, bonds, mutual funds, stocks, and real estate (buildings and land).

You can have a mix of investments.

Choosing an investment depends on when you need the money and how much risk you want to take.



When you buy a **guaranteed investment certificate (GIC)**, you leave the money in it for a fixed time period (like a year or 5 years).

You get more interest than for a savings account. You can't lose the money you put in and you will get the interest on it at the end of the time period.

Your GIC investments are covered by deposit insurance, so if the bank has a problem and closes, you get your money back (up to the deposit insurance limit).

When you buy a **government or corporate bond**, you get interest every year. You can sell the bond before the end of the time period.

Bonds are not covered by deposit insurance, so if there is a problem, you could lose your money.

When you buy **mutual funds**, you are buying a mix of investments.

There are many kinds of mutual funds.

The value of the mutual fund can go up or down. If the value is up when you sell, you make money. If the value is down, you lose money.

Mutual funds have management fees and other fees.

Mutual funds are not covered by deposit insurance, so if there is a problem, you could lose your money.

When you buy **publicly-traded stocks**, you are buying part ownership of a company.

Companies can pay dividends on their stocks when they make a profit.

The value of the stock can go up or down. If the value is up when you sell, you make money. If the value is down, you lose money.

Stocks are not covered by deposit insurance, so if the company closes, you could lose your money.

## Registered Retirement Savings Plans

A Registered Retirement Savings Plan (RRSP) is an account to save money for when you **retire**.

When you **contribute** (put money in) to an RRSP, you can take the amount you contribute off your **income** so you pay less income tax now.

You get **investment** income on the money in the RRSP.

Investment income is from interest, **dividends** (money you get when you own **shares** in a company that makes a **profit**), or **capital gains** (money you get when you sell an investment for more than you paid for it).

### Paying Tax

You don't pay tax on the investment income in the RRSP while it is still in the RRSP.

You can take the money out, but you pay tax when you take the money out. If you wait until you retire to take the money out and you have less income, you will pay less tax.

### Opening an RRSP

You can open an RRSP at a bank, a credit union, a trust company, a caisse populaire, or with an investment or mutual fund dealer.

The amount you can contribute depends on your earned income.

Each year, the Canada Revenue Agency (CRA) will tell you the amount you can contribute to an RRSP on your Notice of Assessment for your income tax return.

You can have guaranteed investment certificates (GICs), bonds, mutual funds, and publicly traded stocks in your RRSP.

You can also have cash in your RRSP. You can put the cash into an RRSP savings account that pays interest.

You can set up a spousal or common-law partner RRSP.

You decide who will have less income when you retire.

The person who contributes to the spousal RRSP takes the contribution amount off his or her income now.

When the money is withdrawn, the spouse or partner pays the income tax. Because that person has less income after retirement, he or she pays less income tax.

### **Questions to ask:**

- Does it cost anything to open this RRSP?
- Will I have to pay any fees? How much, and what are the fees for?
- How can I invest the money in the plan? Can the value of the investments go down?

### **Lifelong Learning Plan**

You can withdraw up to \$20,000 tax-free from your RRSP to pay for training or education for you or your spouse or common-law partner (not for your child).

You can withdraw up to \$10,000 each year.

You must be a Canadian resident (according to CRA – not a CIC resident).

You must be a full-time student in a qualifying program (except for some people with disabilities, who can be part-time students).

You have 10 years to repay the money.

The CRA will tell you how much you need to repay every year and when you have to start.

### **Home Buyers Plan**

You can withdraw up to \$25,000 tax-free from your RRSP to buy or build a house if you are:

- A person who has not owned a house that you lived in for at least the last four years
- A disabled person getting a more accessible home, **or**
- Getting a more accessible home for a disabled person in your immediate family, **or**
- Giving money to a disabled person in your immediate family to buy or build a more accessible home.

You must begin to repay the money into your RRSP two years after withdrawing the money.

You have 15 years to repay the money.

## Registered Education Savings Plans

In Canada, you have to pay for education after high school and it is expensive.

A Registered Education Savings Plan (RESP) is an account to save money for education after high school.

You can open an RESP for a **beneficiary** – a child or an adult (yourself or someone else).

Parents, grandparents, guardians, other relatives, or friends can open an RESP for a child.

You don't need a bank account to open an RESP.

You can open an RESP with a bank, a credit union, a caisse populaire, a trust company, a certified financial planner, or a group plan dealer.

Some RESP providers charge fees, and some do not.

You can't take the amount you contribute to an RESP off your income for taxes.

You need to have your own Social Insurance Number (SIN) and one for the beneficiary (for example, your child).

Even a baby can get a Social Insurance Number and it is free.

You can put up to \$50,000 in an RESP. You can put in as much as you want every year.

The interest you get in the RESP is tax-free until it is withdrawn.

The beneficiary (student) pays tax on the money when it is withdrawn.

If the beneficiary has a low income (like most students), then he or she won't pay much tax.

There are **three kinds** of RESP plans:

1. **Family Plan:** You can name one or more children as beneficiaries. The children must be your children, grandchildren, brothers, or sisters. If one child decides not to study after high school, the other children can still use the grant money.
2. **Individual Plan:** You can set up a plan for any person, including yourself.
3. **Group Plan:** You can name only one child as a beneficiary and the child does not have to be related to you. Your savings are pooled with other people in the plan. The amount of money each child gets depends on how

much money is in the group account and how many students of the same age are in school that year. Usually you have to make regular payments into the plan. Each plan has its own rules. Read these rules carefully.

### **Canada Education Savings Grant**

When you open an RESP for a child up to 17 years old, the government will add grant money to your savings.

The child must be a resident of Canada (according to CRA – not a CIC resident).

The amount of grant money depends on how much you put in and on your family income.

The grant money is deposited into the child's RESP account.

There are special rules for children between 15 and 17 years old.

The government will deposit up to \$7,200 altogether for one child.

### **Canada Learning Bond**

If you get the National Child Benefit Supplement with your Canada Child Tax Benefit, you can get the Canada Learning Bond. If you are not sure, call the CRA at 1-800-959-8281.

The child must be born after December 31, 2003.

The government will pay \$500 into your child's RESP when you open it, and \$25 to help pay for opening the RESP.

The government will make payments of \$100 a year until the child is 15, as long as you continue to get the National Child Benefit Supplement.

The total Learning Bond money could add up to \$2000 for each child.

You don't need to make any payments into the RESP to get this bond.

Make sure your RESP provider offers the Canada Learning Bond.

Tell the RESP provider to apply for the CLB for your child.

### **Using the RESP**

Students can start getting money from the RESP as soon as they are enrolled in a qualified educational program after high school (apprenticeship, trade school, CEGEP, college or university).

Students can go to school full-time or part-time (at least 12 hours per month).

**Questions to ask:**

- Does it cost anything to open this RESP?
- Do I have to put in money to open the RESP?
- Do you offer the Canada Learning Bond?
- Will I have to pay any fees? How much, and what are the fees for?
- Do I have to put in regular payments?
- What happens if I miss a payment? Do I lose my investment?
- How can I invest the money in the plan? Can the value of the investments go down?
- Can I withdraw money if I need it? Are there penalties for early withdrawals?
- Can I transfer the RESP to another beneficiary or another RESP provider? What is the cost to transfer?
- What happens if my child does not continue studies after high school?
- What happens if my child goes to school part-time?
- Which educational programs can the money in the RESP be used for?
- What happens if I close my RESP early?
- Can I switch plans?
- How long can I keep the plan open?



## **Tax-Free Savings Account**

A Tax-Free Savings Account (TFSA) is a new kind of savings account. With a TFSA, you don't pay taxes when the investment income is still in the TFSA or when you take the money out of the TFSA.

You must be 18 years old or more.

You must have a Social Insurance Number.

You must be a Canadian resident (according to CRA – not a CIC resident).

You can open a TFSA at most banks, credit unions, caisses populaires, trust and loan companies, and life insurance companies.

You can have cash, guaranteed investment certificates (GICs), bonds, mutual funds, and publicly traded securities/stocks in your TFSA.

Check what fees will be charged, like account opening fees, transaction fees, and monthly maintenance fees.

Read the contract before you sign. If you don't understand something, ask them to explain.

You are the only person who can contribute to your TFSA.

You can't take the amount you contribute to an TFSA off your income for taxes.

You can contribute up to \$5000 to a TFSA in 2009.

If you contribute less than \$5000 in 2009, then you can carry forward the unused amount to future years.

If you contribute more than your limit, you will be taxed 1% a month until you take out the extra money.

You can withdraw your money anytime and use it for anything you want.

When you withdraw money, your annual contribution limit will increase by the amount you withdrew, but only for the next year's contribution.

For example, if you withdraw \$500 from your TFSA in 2009, you will be able to contribute an extra \$500 in 2010.

### **Questions to ask:**

- What are the fees for opening and maintaining the account?
- Are there any other fees?
- Who do I contact if I have a problem or a question?

## **Registered Disability Savings Plan**

You can open a Registered Disability Savings Plan for a person who is eligible for the Disability Tax Credit.

You can't take the amount you contribute to an RDSP off your income for taxes.

The beneficiary won't pay tax on the contributions.

The beneficiary will pay tax on investment income and money from the Canada Disability Savings Grant and the Canada Disability Savings Bond.

The person who starts the RDSP (the **holder**) doesn't have to be a resident of Canada.

The beneficiary must be a resident of Canada (according to CRA – not a CIC resident).

The beneficiary must have a Social Insurance Number and must be under 60 years old when contributions are made into the plan.

Other people can make contributions to the RDSP too.

### **Canada Disability Savings Grant**

When you put money into a Registered Disability Savings Plan, the government will put in money too.

The government will put in up to \$3,500 in one year for families who have less than \$75,000 income.

The government contributes up to \$70,000 altogether for one person.

### **Canada Disability Savings Bond**

The government will put money into a Registered Disability Savings Plan for low-income families.

The government will contribute up to \$1,000 per year and up to \$20,000 altogether for one person.

You don't need to make a contribution to get the Canada Disability Savings Bond.

## Investment Scams

Some investments look good, but they are **scams**.

A scam tries to trick you to get your money.

In one scam, someone tells you that a stock will go up in value.

When many people buy the stock, the value goes up. The scam artist sells the stock and makes money.

Then the stock goes down and you lose your money.

You may get an email that tells you to give your bank account information to receive a payment.

You may get a telephone call that tells you to pay a fee to collect a big prize.

Someone may tell you about a special investment that is only for your religious community or your ethnic group.

Some of these scams look for newcomer investors, since newcomers may not know about the kind of scam.

Newcomers may not complain because they don't know about the laws to protect investors.

### Safety Tips

- Never give your personal information to someone who calls you or sends you an email. Only give your information when you call or visit your bank or broker.
- Don't trust people just because they are part of your community or speak your language. Some people may take advantage of your trust.
- If it sounds too good to be true, it is. If someone tells you an investment is guaranteed and will make you lots of money, it could be a scam.
- Check any information you get online. Many people lose money because they believe people in online discussion areas.
- Check to make sure that the broker and investment are registered with your province's securities commission before you invest your money.
- You can get advice about an investment from a lawyer, an accountant, a registered financial advisor, or someone else that you trust before you put in your money.
- If you think you have invested money in a scam, tell the police right away since the people behind the scam will take your money and disappear. You can make a complaint to your province's Securities Commission.