

Lesson 2: Financial Resources



You probably spend at least some of your time thinking of ways to earn money to fulfill your needs and achieve some of your goals.

The old saying *money can't buy happiness* is true. But it is also true that a lack of money creates problems. Being unable to pay bills, to take holidays, to save, to pay for an education, or to afford a home is frustrating and unpleasant. A lack of money causes deep anxiety and can have a huge impact on your well-being. It could lead to depression or the breakup of a relationship. If you cannot afford to eat properly, you could end up with health problems. Money cannot buy happiness—but earning and managing it effectively can help.

It is possible to control your personal financial affairs and avoid money problems. After all, if you don't take control, who will? You can spend your money wisely to get the most from what you have. You can begin to save and invest at a young age; even small amounts will build over time into significant savings. You can avoid debt problems. You can set goals that you are likely to achieve. Now is the best time to take control of your finances, and the best way to take control is to be prepared.

In this lesson you will explore the connection between sources of money and stages of the life cycle. You will also examine the Statement of Earnings for a paycheque, and you will compare financial institutions.

Sources of Money and the Life Cycle



Your sources of money—your income—are connected to where you are in your life cycle. For example, as a child you may have received an allowance or gifts of money from relatives. Perhaps your parents helped you open a savings account and your money began to earn interest. As you matured, you may have taken a summer job or you may have made a profit selling your 4-H calf. Allowances, gifts, interest from savings, wages, and sales of farm produce are all possible sources of income.

You might know people in your community who have other sources of income. For example, you might know citizens who receive payments from provincial or federal government programs.

Payments from government programs vary. They include the following types:

- payments to individuals from funds to which they have contributed through their jobs, for example, Canada Pension Plan and Employment Insurance
- payments to all citizens in a specific group, for example, Old Age Security (OAS) received by all senior citizens in Canada
- payments based on need, for example, various types of social assistance programs, such as AISH (Assured Income for the Severely Handicapped) payments received by people in Alberta with a variety of disabilities



1.
 - a. With a partner or small group, brainstorm a list of sources of income. Start by writing down as many different sources of income as you can think of—not just sources from your own life.
 - b. After your brainstorming session, use a chart like this one to group the items in your list.

Income Sources	Examples
money received as a result of personal effort, time, or other personal resources	
money received as a result of the previous use of one's own money	
money provided by a government program	

Compare your answers with the Suggested Responses at the end of the lesson.

Your Paycheque

When you start to earn money, it can feel like you have an increased amount of freedom. The money you earn, however, is not necessarily cash in your hand or in your bank account, because all of the money is not yours to freely spend.

When you are employed, your employer must provide you with a written statement at the end of each pay period. This Statement of Earnings, also known as a *pay slip*, can come in many different forms, ranging from a handwritten report to a computer printout attached to a cheque made out in your name to a notice on a secure website.

The Statement of Earnings must include certain information—your name and Social Insurance Number (SIN), the dates of the pay period, the wage rate, the overtime rate, total hours of regular and overtime work, and time off in lieu of overtime.

When you receive a Statement of Earnings, pay attention to the following financial information. If you find any inaccuracies, contact your employer immediately.

gross income:
the total amount of money earned within a specific time period

deduction:
an amount of money that is subtracted from the gross income

net income:
the take-home earnings; the gross income minus deductions

garnisheed:
taken from a person's wages by court authority and paid directly toward a debt the person owes

- the total amount paid to you—the **gross income**
- the amount of money withheld—the **deductions**
- the amount of money you actually receive—the **net income**

Deductions that are taken off your paycheque may include the following:

- income tax
- Canada Pension Plan (CPP)
- Employment Insurance (EI)
- health insurance
- life insurance
- union dues
- professional dues
- employer pension plan
- charitable donations
- payroll savings plan payments
- savings bond contributions
- work plan investments

Some deductions, such as income tax and CPP, are usually taken off automatically. Court-ordered deductions, for example, for child support or income-tax evasion or other unpaid debts, may be **garnisheed** from wages. Other deductions require written authorization from the employee, for example, charitable and savings bond amounts.

Consider Ashley's case. She just received her first paycheque and is a little surprised. Examine her Statement of Earnings. Then read her conversation with her teacher.

Statement of Earnings and Withholdings								CHEQUE NUMBER 1268		
NON-NEGOTIABLE—RETAIN FOR YOUR RECORDS										
*REFER TO CODE DESCRIPTION ON REVERSE SIDE										
EMPLOYEE NO.		REGULAR RATE		RATE PER MONTH		TOTALS THIS PERIOD EARNINGS		WITHHOLDINGS		NET
304845		1188.00				\$1188.00		\$661.15		\$526.85
FROM	TO	PAY PERIOD	TRANSLATOR	TIME CER. NO.	DISTRIBUTION	TAX EXEMPTION	SOCIAL INSURANCE NO.			
01-OCT-XX	31-OCT-XX	10	C547802		13523107	3960	716 XXX XXX			
EARNINGS DETAILS THIS PERIOD				WITHHOLDINGS THIS PERIOD				EMPLOYER SHARE		TAXABLE BENEFIT
*CODE	RATE	UNITS	AMOUNT	*CODE	AMOUNT	*CODE	AMOUNT			
SAL	1188.00	1.00	1188.00	TAX	178.20	GBIRI	1.65	2.85	✓	
				UD	11.88	EI	35.64	39.20		
				MID O	350.00	CPP	20.20	20.20		
						PNS11	41.58	41.58		
						AHC	22.00	22.00	✓	

The following will explain the code abbreviations on Ashley's Statement of Earnings.

- AHC:** Alberta Health Care
- CPP:** Canada Pension Plan
- EI:** Employment Insurance
- GBIRI:** Group Life Insurance
- MID O:** Mid-month Pay Advance
- PNS:** Regular Employer Pension Plan
- SAL:** Salary
- TAX:** Income Tax
- UD:** Union Dues



Ashley: There must be some mistake! I thought I'd get more than \$800. I'm earning almost \$1200 a month and I got a \$350 advance in the middle of the month, but this is much less than I thought it would be!

Mr. Romanchuk: This cheque is not for your gross income—the total amount you earn. It's for your net income, the amount you take home after your deductions.

Ashley: Look at all the deductions! What is this amount under PNS?

Mr. Romanchuk: That's the pension plan your company has for its workers. Also, the government has set up a pension fund for all Canadian workers. It's listed under CPP on your pay slip—Canada Pension Plan.

Ashley: Pension? But I just started working. It's not like I'm planning to retire! Why can't I have the money now and worry about retirement later?

Mr. Romanchuk: You don't have a choice about contributing to the Canada Pension Plan. And really, it's a good idea to start planning early.

Ashley: Why do I have to pay any tax now? Isn't income tax due in the spring?

Mr. Romanchuk: Monthly deductions are made automatically and submitted to the federal government. In the spring you calculate whether you have overpaid or underpaid income tax for the previous year and then balance your account.

Ashley: Okay, now I understand deductions. I'm paying Employment Insurance and Alberta Health Care, but my employer is paying part of the health care premium. I'm paying union dues and a small amount for life insurance. These deductions really add up! That's why my take-home pay is less than I thought it would be. It looks like I'll have to be careful with my money!

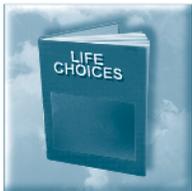
2. Look again at Ashley's Statement of Earnings on page 26 and then answer the following questions in your notebook.
- What was Ashley's gross pay for the month?
 - What income tax was deducted from Ashley's paycheque for the month?
 - How much did Ashley pay in union dues this month?
 - How much did Ashley pay to the Canada Pension Plan?
 - How much did Ashley pay into her regular pension plan?
 - How much was Ashley's Employment Insurance for the month?
 - How much did Ashley pay toward life insurance?
 - How much did Ashley pay toward her Alberta Health Care premium?
 - What benefits is Ashley's employer paying?
 - What is Ashley's net pay? **Hint:** Include her mid-month pay advance.

Compare your answers with the Suggested Responses at the end of the lesson.

More About Paycheque Deductions

As soon as you start earning money, you begin paying personal taxes. If you work for someone else, your employer will automatically take monthly deductions from your earnings and submit this tax to the federal government. If you are a contractor or are self-employed, you must submit these payments yourself. The money collected by the government through taxes goes toward many of the facilities and services that citizens enjoy, such as hospitals, schools, roads, policing, recreation centres, and museums.

Most people accept that they must pay taxes and they realize that there is value to doing this. However, some people question the need for some of the deductions, for instance, Employment Insurance deductions.



To find out more about Employment Insurance deductions, read "FAQ: Employment Insurance" on page 65 of *Venturing Out*. Then answer the following questions.

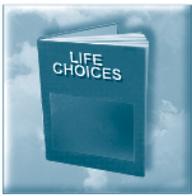
- What is Employment Insurance?
- Some people wonder about union and professional dues. Why are these deductions needed? You may have to do some research to answer this question. For example, you could ask some employees in your community why unions and professional organizations are important.

Compare your answers with the Suggested Responses at the end of the lesson.

Choosing a Financial Institution



Do you already have an account in a bank, credit union, or trust company? If you do, are you satisfied with the financial services you receive? If you don't, you will want to set up an account once you begin to receive regular paycheques.



To explore your options for choosing a financial institution, read the box called “Financial Institutions” on page 27 of *Venturing Out*. Then consider the following factors to help you select a place to keep your money:

- **Location.** From opening a new account to obtaining cash, there will be times you need to conduct your financial business in person. Choose an institution that is convenient, perhaps near your home or job. If you live in a rural area, you might have only one or two choices; if you live in a city, you may have more options, so look for an institution with outlets you can get to easily.
- **Comfort level.** Consider how you are treated when you approach a financial institution. Many places may encourage student accounts with discounts or other incentives. In a small community or an institution where family members are known, you may be especially welcome. A few places, unfortunately, may project an attitude of distrust of new young clients. Since you could be using the services of your financial institution for a number of years, pick one where you feel respected and valued.
- **Security.** Security is the reason you keep your money in a financial institution rather than a sock—your money is safe from loss, theft, and your own impulsive spending. For additional peace of mind, be sure any institutions you consider are insured to protect your money. They will be pleased to explain their association with the CDIC, the Canada Deposit Insurance Corporation.



debit card: a bank-issued card that is electronically linked to the cardholder's bank account; also called an access card, ABM card, ATM card, or bank card

automated teller machine (ATM): an unattended electronic device that performs basic teller functions; also called automated banking machine (ABM), banking machine, or cash machine

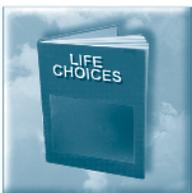
- **Services offered.** In addition to deposits and withdrawals, what other services will you want from your financial institution? Ask several people what services they use, and discuss what you will need, now as well as in future. Will you wish to write cheques? Pay bills? Make utility payments? Save for an education or other purpose? Contribute to an RRSP or other investment? Apply for a loan? Obtain a credit card or **debit card**? Conduct electronic banking?
- **Electronic banking services.** When you do not have time to go to a financial institution or you need to access your account outside of business hours, you may appreciate the convenience of electronic banking services. Some people rely on these services almost exclusively, rarely going to their financial institutions. If you choose a branch that offers these services, you will be able to pay bills, transfer funds, and make other transactions by phone, online, or through an **automated teller machine (ATM)**. ATMs also allow deposits and cash withdrawals.



- **Service charges.** The fees to conduct financial transactions can vary widely from one institution to another. Shop around and compare. Many places offer a fixed number of transactions per month at a low or no fee, providing your account stays above a certain dollar level. If you can afford to keep your balance from dropping below that level—perhaps \$1000 or \$1500—you can save considerably on service charges in a year and possibly also earn interest on the account. Inquire about specialized fees if they matter to you, for example, the cost of withdrawing cash from the ATMs of other financial institutions.

To discover more about financial and electronic banking services, read the following articles in *Venturing Out*:

- “FAQ: Banking” on page 30
- “Electronic Banking” on page 31
- “FAQ: Automated Banking and Direct Payment” on page 32



“Electronic Banking” emphasizes the importance of informing the bank immediately about a lost debit card. “FAQ: Automated Banking and Direct Payment” discusses ten security issues related to electronic banking.



Now view Segment 10: Automated Teller Machines on your Student Support CD to identify some key features about electronic banking.

Go to page 10 of Assignment Booklet 2A and respond to questions 5, 6, and 7 of Section 1.

Looking Back; Looking Ahead



In this lesson you considered the fundamentals of getting money. You identified the connection between sources of money and the life cycle, you examined the Statement of Earnings for a paycheque, and you compared financial institutions. In the next lesson you will explore consumer decisions.

Glossary

automated teller machine (ATM): an unattended electronic device that performs basic teller functions; also called *automated banking machine (ABM)*, *banking machine*, or *cash machine*

debit card: a bank-issued card that is electronically linked to the cardholder’s bank account; also called an *access card*, *ABM card*, *ATM card*, or *bank card*

deduction: an amount of money that is subtracted from the gross income

garnisheed: taken from a person’s wages by court authority and paid directly toward a debt the person owes

gross income: the total amount of money earned within a specific time period

net income: the take-home earnings; the gross income minus deductions

Suggested Responses

1. a. There are a number of different sources of income. They include the following:

- allowances
- wages and salaries
- employee benefits
- scholarships and grants
- awards and prizes
- dividends from investments
- court-ordered payments
- life and other insurance benefits
- private pension payments
- inheritances and gifts
- loans from financial institutions
- loans from family or friends
- other government payments
- long-term disability payments
- savings and investment interest
- short-term jobs such as babysitting
- garage sales or second-hand selling
- Employment Insurance payments
- provincial social assistance programs

b. The groupings of income sources you create in your chart will vary. Compare your responses with the following examples. You may have identified others.

Income Sources	Examples
<p>money received as a result of personal effort, time, or other personal resources</p>	<p><i>wages, self-employment income, seasonal income, contract income, awards and scholarships, gifts and inheritances, allowances, second-hand selling</i></p>
<p>money received as a result of the previous use of one's own money</p>	<p><i>investment income, life insurance or other insurance benefits, private pension or RRSP payments, interest from savings accounts, GST rebates, income tax refunds</i></p>
<p>money provided by a government program</p>	<p><i>Canadian Agricultural Income Stabilization (CAIS), Canada Pension Plan (CPP), Old Age Security (OAS), Guaranteed Income Supplement (GIS), Assured Income for the Severely Handicapped (AISH)</i></p>

2. The answers to the questions are as follows:

- a. Ashley's gross pay for the month was \$1188.00.
- b. The income tax deducted from Ashley's paycheque was \$178.20.
- c. Union dues were \$11.88.

- d. Her Canada Pension Plan premium was \$20.20.
 - e. Ashley paid \$41.58 into her regular employer pension plan.
 - f. Employment Insurance premium was \$35.64.
 - g. Life insurance premium was \$1.65.
 - h. Ashley paid \$22.00 toward her Alberta Health Care premium.
 - i. Ashley's employer is required to contribute to her pension, Canada Pension, and Employment Insurance premiums. As well, the employer in this case has agreed to pay toward life insurance and Alberta Health Care premiums. These two payments are called taxable benefits.
 - j. Ashley's net pay is her gross of \$1188.00 minus all deductions. Her net pay for this cheque is \$526.85, and for the whole month her net pay is this amount plus the \$350.00 already received mid-month, or \$876.85 in total.
3. Employment Insurance is a plan provided by the federal government that offers you basic income protection. While you are working, you must contribute a certain amount into the plan before you can qualify to receive payment. If you lose your job or must stop work temporarily, you can apply to receive payment so that while you are unemployed and searching for a new job, upgrading your skills, regaining your health, or caring for a family member, you'll be able to cover living expenses.
4. Union dues are deducted from the paycheques of unionized workers in order to fund union activities. The job of a union is to advocate on behalf of workers, to make sure that they work under appropriate conditions, and to ensure that they receive fair pay.

Professional dues are paid to associations that advocate on behalf of the people in a given profession, for example, the Alberta Association of Landscape Architects or the Petroleum Accountants Society of Canada. Professional associations recruit people into the field, educate the public about the work of the profession, and set standards and regulations for the profession.

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