START SAVING THE SMART WAY

focused on me

FIRST TIMER’S GUIDE

Saving & Investing

CREDIT UNIONS


HOW DO
I GET
STARTED?

Getting started with saving and investing can be confusing when you're just starting out. TFSA vs. RRSP, GIC or HISA – it can feel like a whole new language!

You have dreams for your future—your own modern condo in the city, a comfortable nest egg, retiring somewhere near mountains so you can keep snowboarding in your 60s—but you have no idea how to translate any of these dreams into reality. If you're feeling overwhelmed and not sure where to start, we're here for you. This First Timer's Guide will lead you through five easy steps to get started with saving and investing:

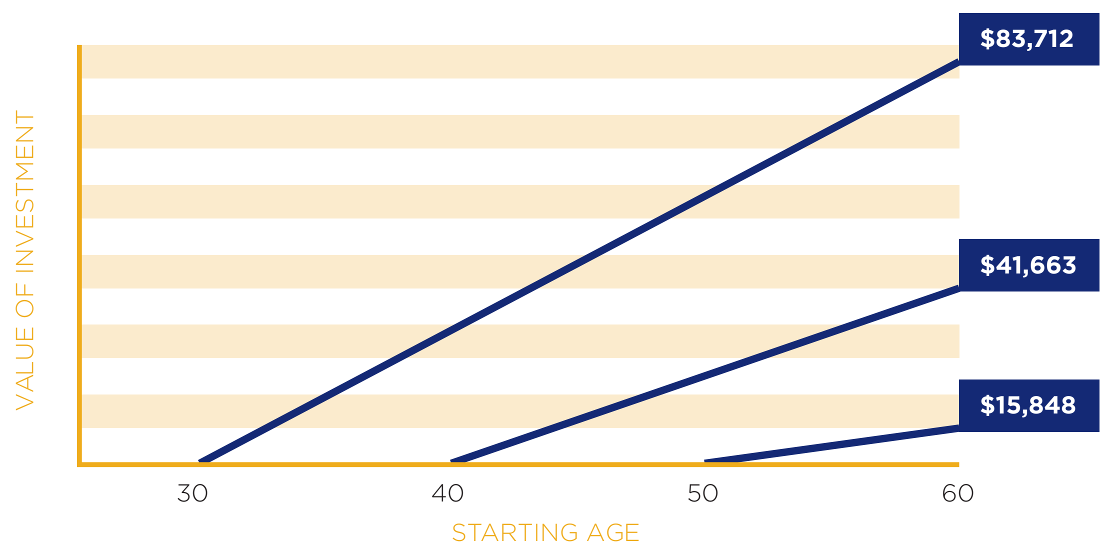
1. Where you stand.
2. Get your savings started.
3. Get the 411 on investing.
4. Understanding your options.
5. It's never too early to start thinking about retirement.

Start Early to Earn More

The early bird gets the worm has a financial equivalent: the early saver gets the interest. Starting your savings and investments as early as possible pays off with more interest compounding over time. Here's an example:

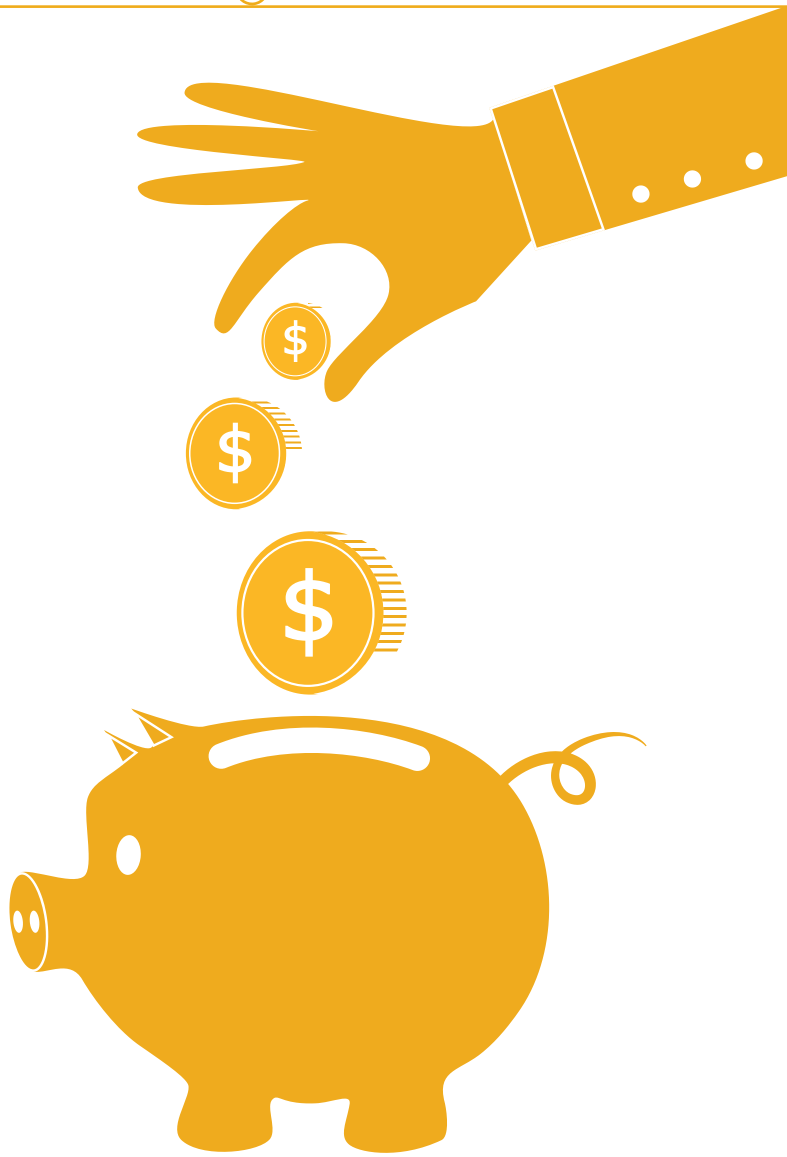
AT A GLANCE: INVEST EARLY

- **Invest $100 per month**
- **Combination of steady contributions and compound interest adds up**
- **Your investment gains momentum; the more time, the greater the gains**



For illustrative purposes only. Calculated based on annual average compound rate of 5%.

Step 1:
Where you stand.



First, you need a clear sense of your current financial situation. Check out our **First Timer's Guide to Budgeting** for tips and ideas on how to start budgeting, calculating your net worth, and building a financial plan. You can also download our **Monthly Budget Worksheet** to get a sense of your total monthly expenses, and our **Personal Balance Sheet** will give you a quick snapshot of your net worth.

Once you have an idea of where you are financially, fast forward 20, 30, even 40 years into the future and ask yourself where you want to be. Do you want to be living in a nice house that you own? Driving a sports car with the top down in the summer? Taking your family on exotic vacations around the world? Retiring comfortably?

Once you know your long-term goals (goals that are at least 5-10 years in the future), break these down into short-term goals that can be achieved in 1-3 years.

Make sure your short-term goals are simple, specific and reasonable. These smaller goals will move you towards those bigger goals that might seem impossible right now. Use a **Savings Goal Calculator** to help get you started. And if you're thinking of buying a house or car, take a look at our **First Timer's Guide to Homebuying** and our **First Timer's Guide to Smart First Vehicle Purchasing**.

Step 2:
Get your savings started.

Use these 5 tips to get smart about saving:

TIP #1

Pay yourself first.

We've all heard this one before. But how many people actually do it? Most people only think about what they can save after they've dealt with paying everything else. Sometimes we know we can save more but spend that money, only putting what's left over (if anything) into our savings. But if you pay yourself first, you'll save more—and faster!

TIP #2

Stick to your budget.

If you don't already have a budget, check out our First Timer's Guide to Budgeting to get started. If you have a budget in place—stick to it! There's always something unexpected that pops up, so be sure to build a little extra into your budget for "just in cases". And if you don't use those extra funds, just add them to your savings.

TIP #3

Choose the right savings plan.

Once you've figured out how much you can save, you need to choose the right savings plan to meet your goals. Luckily, there is lots of information in this guide that will help you make the right choice for your personal goals and unique financial situation.

TIP #4

Set up a pre-authorized plan.

If you're finding it hard to save on a regular basis, set up monthly, bi-weekly or weekly pre-authorized payments from your account to a savings or investment account. That way you don't have to remember to do it. And it means higher interest payments on amounts deposited sooner in comparison to one lump sum payment deposited less often.

TIP #5

Spend less than you earn.

Pretty logical, right Spock? But some people find this hard and struggle with debt as a result. If you don't spend less than you earn, you'll never be able to save. So be smart: use cash instead of credit, track your spending, and put extra cash towards debt. Incorporate these financial habits into your life, and you'll be well on your way to saving more in no time!

Step 3:
Get the 411 on investing.

Get in good financial shape.

When you start thinking about investing, you need to get yourself in a good financial position. Ideally this would include:

- Having your debt under control. This doesn't necessarily mean you're debt-free, just that you're managing your debt well and paying everything off as quickly as possible so you're in a better position to invest.
- Having an emergency fund that will cover at least 3 months of basic living expenses in case of emergency.
- Contributing to your employer's pension plan to maximize your investments.

If you're not in this ideal position yet, don't worry. You're not alone. Contact your credit union today to talk about the best financial products and plans to get you started.

Ask yourself the right questions before you invest.

Before you start investing, you should ask yourself these four questions:

Where can I find money to invest?

A few ways to get going are setting up a savings plan for investment purchases, making a pre-authorized payment plan to fund a portfolio purchase, or using your next bonus or tax rebate.

What are my investment goals?

Your investment goals are unique to you. Take a look at the list of goals you made in Step 1, because often your saving and investing goals are related.

What is my risk tolerance?

Your risk tolerance is how much you're able to cope with large swings in the value of your investments. Use an **Investment Risk Tolerance Calculator** to calculate how much risk you're willing to tolerate—it's important to know before you start investing.

What type of investment should I choose?

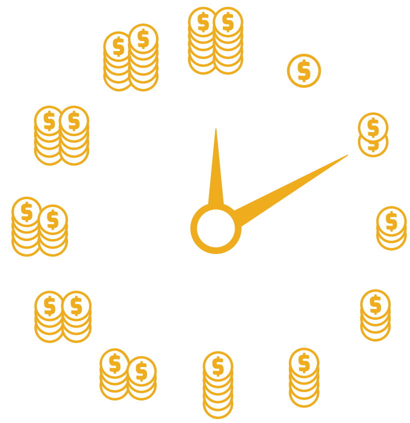
The best investments for you will depend on your short- and long-term goals and whether you want to explore environmentally and socially responsible investment options.

Sitting down with one of our financial experts can help you determine the best investment strategy for you. And don't forget that as time goes on, your needs will change. You might go from being a barista to being a CEO, you might tie the knot or have a baby. It's a good idea to check in with your credit union regularly just to make sure your investments still align with your needs and goals.

So what types of investments are there?

When it comes to investments, there are three basic types:

- Ownership Investments: These are the most volatile and the most profitable kinds of investments and include stocks, business, real estate, and precious objects.
- Lending Investments: These are the least volatile kinds of investments, making them less profitable but more secure and include, GICs, bonds and savings.
- Cash Equivalent Investments: These can be easily converted to cash, making them less profitable and include money market funds.



Here are some common investment terms:

TYPE	ACRONYM	DESCRIPTION
High-Interest Savings Account	HISA	An account with a higher interest rate than traditional daily savings accounts.
Tax-Free Savings Account	TFSA	A flexible, registered, general-purpose savings account for Canadians to earn tax-free investment income.
Registered Retirement Savings Plan	RRSP	A Canadian account for holding saving and investments. RRSPs are tax-advantaged so contributions can be used to reduce your tax.
Guaranteed Investment Certificate	GIC	A term deposit that offers a guaranteed rate of return over a fixed time period.
Mutual Fund		A professionally-managed collective investment that pools money from many investors to purchase securities.
Stock		The stock (also called capital stock) is a share in the ownership of a corporation.
Bond		A bond is a contract between a bond issuer and bondholder that the issuer will pay the value of the bond back to the bondholder on a fixed date and at a fixed rate of interest.


WHAT ARE MY OPTIONS?
GROWTH
4 5 6
23%
17%
12%
5%
13%

Step 4:
Understanding your options.

You're thinking ahead to your future, but you have no idea what the difference is between a TFSA and an RRSP. The TFSA (Tax-Free Savings Account) allows you to grow your investment tax free. And the RRSP (Registered Retirement Savings Plan), in addition to helping you save for retirement, has two affiliated programs. The **Home Buyers' Plan** allows you to withdraw up to $25,000 from your RRSP to buy or build a home. The **Lifelong Learning Plan** lets you withdraw from your RRSP to finance your full-time education or training or that of your spouse or common-law partner. But between the two, which is the better option for your goals? And what are the main differences?

CONSIDERATIONS	TFSA	RRSP
Taxes and Savings	You cannot claim money you contribute to a TFSA on your income tax, so putting money into a TFSA won't affect your claim.	You can claim contributions on your tax return, which will lower your taxes in the year that you make the deposit—but you pay taxes when you withdraw, based on your tax bracket at that time.
Taxes when you withdraw[1]	Nothing. Because you pay taxes on the money up front, you can save for years. You won't pay tax when you withdraw it, and better still, you won't pay tax on any interest it's earned.	Once you withdraw from your RRSP, you will pay taxes on the savings based on your tax bracket at the time of withdrawal.
Contribution Limits[2]	TFSA limit for 2015 Tax Year: $10,000 (plus accumulated unused contribution room if available).	RRSP limit for 2015 Tax Year: $24,930 (plus accumulated unused contribution room if available).

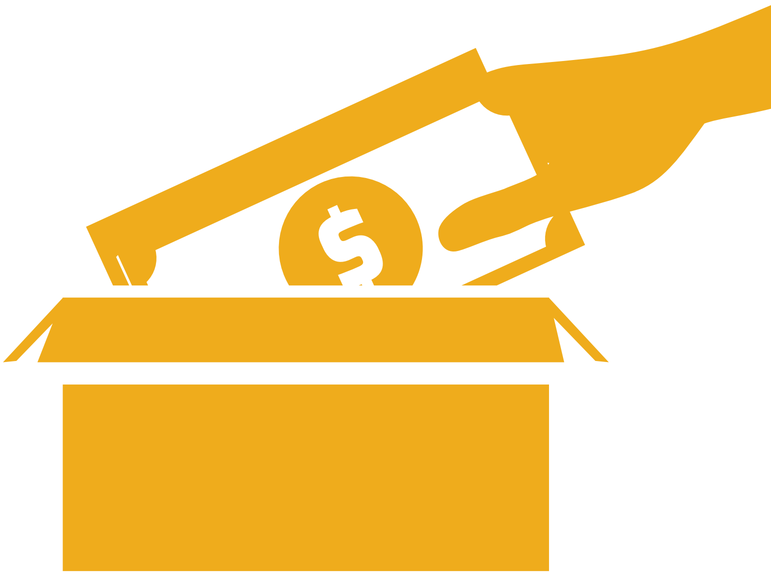
[1] Depending on your account and how you've arranged your investments, you can potentially withdraw from your TFSA and RRSP at any time, or you may have to wait until they mature. It's important to understand the pros and cons before making any withdrawals.

[2] Both TFSAs and RRSPs have limits on the amount you can contribute each year and for both it accumulates. That means if you don't contribute the maximum each year, you can use your unused contribution room in following years. You can see the maximum contribution amounts for both **here**.

So what's the best option for you?

To maximize your savings, you need to think about your tax bracket and whether it will be higher or lower than it is when you deposit. If it's higher than when you contributed to your RRSP, then you may want to choose a TFSA. If you anticipate it will be lower, or if it's important to you to try and reduce your income tax every year by making regular contributions, an RRSP may be the better option.

If you don't have earned income, you're not eligible to contribute to an RRSP, so a TFSA may be a great alternative. And if your company pension maximizes your annual contribution, you're not eligible to contribute to an RRSP. Contributions over the maximum amount are taxed annually, so they're not recommended. If your income bracket will be the same or higher during retirement, an RRSP may not be the best approach, and you may want to consider non-registered investments instead.



Some Pros and Cons of TFSAs and RRSPs

TFSAs

Pros	Cons
• Better if you fall into lower tax bracket	• TFSA contributions are not tax deductible
• Can contribute even without an income	
• Don't pay taxes when you withdraw money	
• Don't pay taxes on any investment earnings	
• Can use a TFSA as collateral on a loan	

RRSPs

Pros	Cons
• Better if you need to reduce income tax	• Can't contribute without an income
• Can borrow* against to help finance your first home	• Pay taxes when you withdraw money
• Can borrow* against to finance your full-time education	

*Withdraw funds without immediate taxation.

Step 5:
It's never too early to think about retirement.

Close your eyes. Can you imagine your retirement? Are you walking towards the tee on the 18th green with three of your old buddies, sitting in a house you've owned for over thirty years playing with your grandkids, or maybe kicking back in your bio-dome on Mars? While retirement can seem like a distant dream now, getting started early will help get you there comfortably. If you haven't started planning yet, don't worry, and if you've already started squirrelling some money away, good for you! But it's important to ask yourself some questions to help ensure the future you see in your mind becomes a reality.

- How much income do I need for the kind of retirement I want?
- Do I want to travel, volunteer, or work part-time?
- Will it last for up to 30 years after I retire?
- How can I save money for my future and pay fewer taxes today?
- How can I contribute to my savings based on my income today?
- Can regular pre-authorized contributions grow my savings and make contributions more manageable?
- How do RRSPs and TFSAs factor into my short-term and long-term goals?
- How much risk is good risk when investing for my future?

If you already have a start on your savings, how well is your current plan working? Ask yourself all the previous questions to determine if your priorities have changed since you started saving. Then take time to consider more detailed questions to make sure you're on track:

- Which investments provide the right balance of security and growth required to build my retirement savings?
- How much risk is good risk at this stage of my savings plan?
- Am I maximizing my RRSP contributions to help grow my savings?
- Could a low interest RRSP loan be the best way to maximize my contribution?
- Would regular pre-authorized contributions grow my savings faster?
- How might TFSAs factor into my short-term and long-term savings goals?

When should you consider an RRSP Loan?

It can be tough when you're just starting out to scrape enough money together to build your RRSP. But if your credit is in good order and you have a reliable income, an RRSP loan might help bolster your RRSP and help put you on track for your ideal financial future. RRSP loans can be a good choice if you have contribution room but you're faced with a cash shortage. But make sure you have the ability to make the payments on the loan during the term. A good strategy is to use the RRSP loan to maximize your contributions now and, with your potential tax savings, pay down or even pay off your RRSP loan. If you're thinking about an RRSP loan, meet with your credit union to discuss your retirement goals and options.

Getting Started Can Be Easy

To get to that future you're dreaming about, you need a solid plan. Book an appointment with one of our financial experts—we'll work with you so you have a clear understanding of what your current financial situation is, so you know how much you can afford to save and invest. We'll show you just how easy it is to get smart about saving and investing!

If you have any additional questions about the First Timer's Guide to Saving & Investing or any information included in this guide, please contact your closest credit union. And make sure to check out our other First Timer's Guides:

- First Timer's Guide for First-time Homebuyers
- First Timer's Guide to Smart First Vehicle Purchasing
- First Timer's Guide to Budgeting