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Financial Literacy for Newcomers to Canada

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British Columbia is one of the most diverse and colourful places in the world. There are so many new immigrants arriving to Vancouver daily, and it can be daunting to arrive at an unknown place and have to learn the basics of daily life. This can be especially difficult for someone who has difficulties with the English language and lacks an understanding of how bank accounts and financial transactions work. With so much to learn, any assistance to provide clarity and simplicity is crucial.

In this article, I share key financial tips for newcomers to Canada, to ensure that you have accurate and helpful information to make your transition as seamless as possible.

Understanding the difference between banks and credit unions

When coming to Canada, it is important to know the difference between banks and credit unions. Although they are both financial institutions and offer similar services, there are a few key differences.

Unlike a bank, where they insure deposits up to a maximum of $100,000, a credit union will insure an unlimited amount of money. This gives you piece of mind knowing that your hard-earned money is 100% protected.

A credit union has a board of directors that is voted for by the credit union members. Whereas banks do not allow their customers to vote for their board of directors.

Another key difference is that credit unions allow you to use over 4,000 Automated Teller Machines (ATMs, also known as "cash machines") in the credit union network. Whereas banks only allow you use their specific ATMs for free—if you use an ATM owned by a different bank, you will pay a fee of a few

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dollars per transaction. Although these fees may seem small, they can add up quickly and can be higher at certain ATM machines.

Choosing the right bank account for your needs

It is important to be aware of the types of bank accounts that are offered and the functions of each. A chequing account is for day-to-day transactions, which includes paying bills, depositing a paycheque, and withdrawing money. Whereas you would use a savings account to put away funds for emergencies or for your short- or long-term savings goals. The reason you should not use a savings account for day-to-day transactions is there is a maximum number of transactions allowed in a savings account, and anything more than that will require that you pay a fee.

Identity documents needed to open a bank account

Once you know what type of bank account you would like to open, it is essential that you have the appropriate identity documents (commonly referred to as "I-D"). Most financial institutions will require a valid primary identification (document/identity card with a photo), a secondary identification (document/card with your signature, no photo needed), and a Social Insurance Number (SIN). A credit report will be conducted through Equifax or TransUnion to ensure that you are in good credit standing.

Cost to open an account

Should you choose to open an account at a bank, you will not have to pay anything to get that set up. If you decide to open an account with a credit union, you will need to make a deposit of $5 to become a member and purchase membership equity shares. Remember the key difference between banks and credit unions: as a credit union member you have equal ownership and an equal say in how the credit union operates, no matter how much money you have in your account!

Planning where to invest your money

Once you have opened a bank account, it is a smart idea to learn about your options for saving and investing. Investment choices include Guaranteed Investment Certificates (GICs, also referred to as "term deposits") and market-linked term deposits. A credit union such as G&F partners with Credential Asset Management Inc. which gives you access to mutual funds, and at Credential Securities, you can access stocks, bonds and mutual funds. It is essential that you speak to a financial planner to determine which type of investment is right for you as these products yield different results and may not be suitable for all people. The level of "risk versus return" that a person may feel comfortable with is unique for everyone. A financial planner can help you determine what is best for you.

A financial planner can also give you advice on accumulating wealth, lowering the amount of taxes you pay, achieving financial security, consolidating debt, building credit, purchasing a home or vehicle, and writing your will and estate plan.

A credit union like G&F Financial Group has financial planners that you can meet with for free, to start planning your financial goals.

Understanding government-registered accounts for saving and education

It is important to know the registered accounts that are available to you and the purpose of each accounts. A "registered account" is an account that is registered with, and monitored by, the Government of Canada. It is our government's way of encouraging Canadians to be diligent at saving money and preparing our families for a successful future.

Registered Education Savings Plan (RESP)

The Registered Education Savings Plan (RESP) assists you with saving for education at a college, trade school or university.

To cover the high cost of tuition, and as a supplement to your RESP, the Canadian government has set up the Canada Education Savings Grant (CESG). You can save as much as you wish, but the CESG will only apply to a maximum of $50,000. How it works is the government will add 20% more to your monthly deposit amount, to a lifetime limit of $7,200 and an annual limit of $500. Therefore, an annual contribution limit of $2,500 is allowable.

Under a RESP, you can also qualify to receive the British Columbia Education and Savings Grant (BCTESG). This is for children born after 2007 that, along with their parents, are residents of BC. Under this grant, your child can receive a one-time $1,200 grant towards their education. A child is eligible for this grant on or after their 6th birthday and the last day to apply is before the child turns 9.

Families that have a net annual income below $42,000 may also qualify for the Canada Learnings Bond (CLB). The CLB can give you $500 when you first open a RESP account and $100 every year for 15 years—the government will deposit the funds directly into the RESP.

You can withdraw money from a RESP for any post-secondary program at a university, college, trade school, or other institution certified by the Ministry of Education. If your child does not attend one of the certified institutions, you have three options. You can keep the RESP open and use it for another child. You can close the RESP and take back the contribution money (you will have to return the grants and interest income earned on the grant portion). A third option is you can transfer the money you had saved to a Registered Retirement Savings Plan (RRSP).

Tax Free Savings Account (TFSA)

The Tax Free Savings Account (TFSA) is an excellent way to save money. If you are a resident of Canada and you have a Social Insurance Number, you can qualify to open a TFSA. This applies regardless of whether or not you are a permanent resident of Canada. However, if you are considered a non-resident, you should check with an accountant to ensure there are no penalties attached to you contributing money to a TFSA. Also, you will need to be aware of annual contribution limits to your TFSA.

A great feature of the TFSA is you can use it as an investment vehicle. All income generated under the TFSA is 100% tax-free and there are no penalties to withdraw money from your TFSA. You can also re-deposit any withdrawn amounts in the following year.

Registered Retirement Savings Plan (RRSP)

The Registered Retired Savings Plan (RRSP) is intended to help you save for your retirement and gives you the benefit of lowering your income tax payments each year. You can be eligible to contribute into a RRSP if you have earned income in Canada, such as net rental income, or full-time or part-time employment). Having a RRSP allows you to reduce the amount of your income that is subject to tax by the government. Similar to the TFSA, a RRSP can shelter your earnings and you do not have to pay tax on investment income while the funds are in the RRSP.

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Remember, the Canadian government set up the RRSP to help you save for retirement. Once you turn 71 years of age, the government expects that you will convert your RRSP to a Retirement Income Fund (RIF) and start to use those funds to pay for your retirement living costs. You will be taxed on those RIF withdrawals during your retirement, but the tax rate will not be as high as it would be if you decided to withdraw funds *before* you retire. If you withdraw funds early— prior to the RRSP being converted into a RIF—you will have to pay a withholding tax, which can range from 10% to 30%!

Having a RRSP is a good way to prepare for your retirement, but you need to be aware that once you deposit money into your RRSP, you are best to leave it there until you retire.

We are here to help!

Given all this information, it is normal to feel overwhelmed. Finances can be complicated, so it is imperative that you get the correct information and guidance as you learn about Canadian banks and credit unions. With so many different types of accounts and rules, there is a lot to learn—especially if you are a newcomer to Canada. Being aware of your financial options will ensure that you understand the choices you need to make and set yourself up for a financially secure future.

We are here to help you with your banking needs. If you would like to learn more about becoming a member of our credit union, come by any of our 16 branches in the Lower Mainland or call us at 604-419-8888 to set up an appointment. We have employees who can speak with you in a wide variety of languages, including French, Russian, Portuguese, Polish, Romanian, Nepali, Punjabi, Hindi, Spanish, Tagalog, Urdu, Vietnamese, Mandarin, Japanese and Korean.

We look forward to helping you as you navigate the Canadian financial system and work towards achieving your life beyond banking!