ASSESSMENT

FINANCIAL LITERACY ASSESSMENT

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01. PERSONAL ASSESSMENT & ORGANIZATION

QUESTION	ANSWERS	EXPLANATIONS
1. Professional athletes and entrepreneurs—people who can afford to live their desired lifestyles—have goals for their personal and professional achievements. Why do these successful people set goals?	• Goal-setting allows them to measure progress toward accomplishments or lifestyle changes they desire. • Setting goals provides them with direction. • Goal-setting gives them an opportunity to show off to others. • Both “a” and “b.”	If you don’t set goals, you have no chance of properly creating a budget, spending habits, or wise investment decisions. As a result, the lack of financial goals can lead to a lifetime of financial problems.
2. Which of the following states the five important components of a good goal?	• General, revised, active, safe, sound. • Written, clear timeline, research-based, influenced by family, influenced by friends. • Specific, measurable, achievable, realistic, time-driven. • None of the above.	You have to be able to define your goals with all of these attributes, or else determining if you’re on track to accomplish the goal and knowing if you did accomplish it will be impossible. It will also leave you spending resources in a wasteful fashion.

QUESTION	ANSWERS	EXPLANATIONS
3. If I do NOT have a written long-term financial plan, which of the following might I experience?	• You might run out of money after you retire, and be forced to go back to work when you're old. • Being unable to afford fun activities you want to enjoy. • Having the freedom to live the lifestyle you want. • Both "a" and "b	Without a financial plan to reach your goals (which you should define as we discussed earlier) you can easily run out of money and be forced to work later in your life to make ends meet, and doing the things you want to will certainly be difficult with a lack of funds.
4. How do I begin the process of creating a long-term financial plan?	• Start thinking about, and writing down goals for your career, finances, and life. • Start investing immediately. • Open a savings account. • Check your credit.	The best way to start your long term financial plan is to know what you want, your most important priorities and WRITE THEM DOWN! Then you can create your plan, your budget, and automate it.
5. Which of the following steps should I take now to be prepared to invest and get my money growing for me?	• Start saving toward an emergency fund equal to 6 months of your bills. • Start learning more about investing and potential investments. • Start looking for a team of trusted advisors and mentors. • All of the above.	All of these steps are foundational to your financial stability and growth. In order to learn about investment types, you need good advisors and need to choose the right investments for your personality. An emergency fund is critical because life often throws you challenges that are unforeseen.

QUESTION	ANSWERS	EXPLANATIONS
6. Do you prepare a budget for your personal finances?	• Yes • No, I don't have time to make a budget • No, I don't know where to begin • No, I don't have enough money • No, I don't need a budget • Don't know	A household budget is a good first step in managing your money wisely. Research shows that having a budget, and following it, helps keep your spending under control.
7. How can automating my finances save me time, protect my credit, and earn me extra money?	• Having bills paid automatically will reduce time spent on accounting; paying bills on time protects credit; and setting up direct deposit from your employer means you will earn maximum interest each month. • Automating your finances cannot protect your credit or help you earn money. • Automating your finances organizes all your accounts in one place that can easily be reviewed and updated online. • Both “a” and “c.”	This is kind of like that famous selling catch phrase, “Set it and forget it.” If you don’t see your money right away, there is no pain in redistributing it to all of your savings and investment accounts. If you automatically send it to your investment accounts, it can automatically starting earning money for you. It will also help you live below your means and increase your savings.
8. How would you rate your level of financial knowledge?	• Very knowledgeable. • Fairly knowledgeable. • Knowledgeable. • Not very knowledgeable. • Don’t know.	

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INVESTMENTS

QUESTION	ANSWERS	EXPLANATIONS
9. Before I begin investing, what systems should I have in place?	• Expert-level knowledge about any investment you're considering. • A trusted team of professionals who can give you advice. • Risk capital (money you can afford to lose). • All of the above.	You need to put money aside (risk capital) for investing, that is separate from your cashflow and core accounts needed to live. Once you have that money which you can afford to lose in case of a mistake or unforeseen market downturn, you need to learn as much as you can and discuss your investment choices with trusted people and advisors before entering the investment.
10. You consider investing some of your cash into products offered by a bank. Which one is the most risky?	• Savings account paying 4% per year in interest • Mutual fund growing in value 8% on average in previous years • Unsecured corporate bond paying 12% annually	The unsecured corporate bond is the riskiest of the choices here. It isn't diversified like a mutual fund, and the liquidity of the payout is subject to the results of a single business, whereas a mutual fund invests in many companies. The savings account is likely insured by the government against loss of principal in case of catastrophic events at the bank.

QUESTION	ANSWERS	EXPLANATIONS
11. Which investment offers the highest growth potential for your long-term goals?	• Treasury bonds • Money market account • Stocks • Residential real estate	Over the long term, the S&P 500 has posted an annualized return of 6.5%, which far outpaces treasury bonds and money market accounts that are regularly returning under 2%. Residential real estate comes in a close second place.
12. Do you agree or disagree with the following statements? • I have a clear idea of the financial products that I need • I know enough about investments to choose those that are suitable to my circumstances • I always research my choices thoroughly before making any financial decisions	• Agree • Disagree • Don't know	Planning a saving route and investment vehicles can get complicated and tricky. Practicing your due diligence and seeking advice from professionals is always a step in the right direction to ensure you are making sound decisions.
13. In the past 12 months, list the financial products for which you made use of financial advice, free or paid. [Select all that apply]	• Retirement planning • Children's education planning • Estate planning insurance • Tax planning • General financial planning (saving and investment strategies) • Mortgages • Debt management • Anything else	

RETIREMENT & INSURANCE

QUESTION	ANSWERS	EXPLANATIONS
14. Do you have a good idea of how much money you will need to save to maintain your desired standard of living when you retire?	• Yes • No • Don't know	
15. What do you think will happen to your fixed costs when you retire?	• They will be lower than now • They will stay more or less the same • They will grow	When you get older, you still need a place to live, buy food, possibly drive a car, and eat. The fixed costs will likely be very similar.
16. Who would require the highest amount of life insurance if each of the following persons had the same amount of take home pay?	• A young single woman with two young children • A young single woman with no children • An elderly retired man, with a wife who is also retired • A young married man without children	A young single woman with 2 young children requires the most insurance. She has a full career ahead of her, but coupled with 2 children depending on her and living without a husband for support, means her earnings are more likely to be strained.

QUESTION	ANSWERS	EXPLANATIONS
17. If an investor age 25, deposits $100 per month in a mutual fund with an annualized return of 10% per year, he'll have about $640,000 at age 65. If he waits until age 40 to start saving, how much will he have to deposit each month to have the same amount at age 65? (Hint: It's a hefty sum.)	• $150 • $225 • $475 • $800	Compound interest is a powerful thing, therefore, the earlier you can start saving (and automate that process) the easier it will be to make compound interest work in your favour to build your wealth.

04. INTEREST DEBT & CREDIT

QUESTION	ANSWERS	EXPLANATIONS
18. True or false: If the inflation rate is 5% and the interest rate you get on your savings is 3%, your savings will have at least as much buying power in a year's time.	• True • False • Don't know	If inflation rises by 5% (put another way, the cost of buying something increases by 5%) and your savings increases by only 3%, the amount of stuff you can buy for the same amount of money decreases. In this example, you would actually be losing 2% on your savings (your buying power decreased) when compared to the inflation rate.

QUESTION	ANSWERS	EXPLANATIONS
19. Which of the following types of investments would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?	• A 25-year corporate bond • A house financed with a fixed-rate mortgage • A 10-year bond issued by a corporation • A certificate of deposit at a bank	Typically as inflation rises, prices of products, services, and other items increase too. Usually, interest rates will rise too, to stem the inflation and that makes borrowing more expensive. If the rate of the mortgage is fixed during a time of increased borrowing costs, then you will be saving money by borrowing at the previously fixed lower interest rate.
20. What can affect the amount of interest that you would pay on a loan?	• Your credit rating • How much you borrow • How long you take to repay the loan • All of the above • Don't know	If you are reliable, don't borrow unless you need to, and pay back your loans on time – you will obtain favorable rates for borrowing. If any of these factors are affected negatively, they will increase your borrowing costs.
21. What is the safest initial step that I can take to start building my credit?	• Get a credit card or student loan and pay the bill on time. • Create a credit plan that includes a budget, money set aside for emergencies, and the steps you'll take to prove to the credit bureaus that you can repay money you borrow. • Take a cash advance on a credit card and put the money in savings where it will earn interest. • Both "a" and "b".	Credit cards and student loans are often the first piece of credit history for a young person, therefore, paying these bills on time is essential to building good credit.

QUESTION	ANSWERS	EXPLANATIONS
22. What will help most towards building a good credit history — or repairing a bad one?	• Pay bills on time and keep credit-card balances low • Limit applications for new credit and keep old accounts open • Sweet talk the credit card company phone rep • Both “a” and “b”	If you prove yourself prudent by borrowing only the amount that you need and pay the bill on time, you are on your way to repairing your credit history and building a good credit history.

05. FINANCIAL TERMINOLOGY

QUESTION	ANSWERS	EXPLANATIONS
23. What is the “annual percentage rate”?	• The amount of money paid each month on a loan • The interest rate of a loan during a single calendar year • The monthly payment multiplied by the monthly interest rate • “b” is correct	The annual percentage rate is the interest rate that you pay on a debt, calculated over a single calendar year. For instance, a $10,000 loan with an annual percentage rate of 10%. In this case, the debtor would pay $1,000 in interest over the course of 1-year.

QUESTION	ANSWERS	EXPLANATIONS
24. What is “gross pay”?	• The amount of money you bring home after deductions on your paycheque • The amount of money on your paycheque before deductions • The amount of money you make after taxes • “b” is correct	Gross pay is the amount of money that you take home before deductions on your paycheque for Employment insurance, Canada pension plan, and others that may apply to you. After deductions you have your NET pay for you to do everything else that you do such as invest, save, pay off the mortgage and so forth. If you operate as a company, this is typically known as gross/net revenue and is calculated as all the money earned by the company minus the cost of making the goods (aka COGS).
25. What is “marginal tax rate”?	• The amount of taxes you pay in dollars • The percentage of tax that you pay on income • The additional tax rate paid on additional income • It is the amount of tax you pay on the first $20,000 that you make this year. • “b” is correct	The marginal tax rate is the percentage rate of taxes that you pay based on different levels of income that you earn. For instance, a government may tax the first $20,000 earned at 10%, and then the money earned from $20,000 to $60,000 could be taxed at 20%.

QUESTION	ANSWERS	EXPLANATIONS
26. What is “amortization”?	• The length of time that a loan is repaid • The allocation of cost over time of an intangible asset • How much money is lost on an asset • “a” is correct	Amortization is a period of time allocated to repay a loan, and it is also a method of distributing the cost of an asset over a period of time for accounting purposes. Depending on a financial strategy you have with your accountant or tax attorney, the amortization period can vary widely. For instance, the cost of a trademark may be amortized in equal parts over 20 years, while the amortization period of a car loan may be 36 months.

QUESTION	ANSWERS	EXPLANATIONS
27. What is “collateral”?	• Collateral is an asset, usually tangible, that a bank uses to secure the loan amount. • Collateral is what determines the amortization of the loan • Collateral is what the bank gives to you with a loan • Collateral is like an IOU • “a” is correct	As you may know, there are different types of loans. Those that are given by credit card companies for instance, that charge an APR of 20%, are given based on reputation (measured by a credit score), and these carry higher interest rates because there is no way to collect the money owed if you do not pay. On the other hand, a loan that is given on the basis of collateral, such as a mortgage on a house (a physical asset) typically carry lower interest rates because the risk of losing all the money is lower. If you don’t pay the money back, the bank becomes the owner of your asset. These loans are usually given by banks with interest rates between 4% - 12%.
28. What is “savings rate”?	• The amount of times money has saved you in a hard time • The money you put in a savings account expressed as a percentage of your gross pay • How much money you save in dollars • The interest a person makes on money in their savings account • “b” is correct	If your gross pay each month is $5,000, and you save $500 each month into your savings account, then your savings rate is 10% (5,000/500).

QUESTION	ANSWERS	EXPLANATIONS
29. What is “purchasing power”?	• It is the amount of electricity you can purchase • It is a term that expresses the strength of the local currency • It is a term generally understood to mean how much stuff you can buy for a fixed dollar amount, e.g. $100. • The more purchasing power you have, the more money you have in your bank account • “c” is correct	Purchasing power is an estimation of how many things you can buy with a given amount of money – e.g. $100. It is measured as a benchmark so that if you go above or below it, your power is going up or down. Let’s assume the benchmark is: you can buy 10 items for $100. If next year, you can only buy 8 of those same items for $100, then your purchasing power has decreased. On the other hand, if you can buy 12 items the next year, the same 10 plus 2 others for $100, then your purchasing power has gone up. As a rule of thumb, higher purchasing power is better.
30. What is “inflation”?	• It is a measure of how quickly the economy is growing • It is the measure of how much a particular set of items cost • It is a measure of how quickly the prices of things are increasing or decreasing • It is the rate at which businesses are hiring people • “c” is correct	Inflation is a measure of how quickly the prices are increasing (inflation) or decreasing (deflation) of everyday items that you buy such as groceries or clothing. Typically, the faster that inflation goes up, the less purchasing power you have, which means you are buying less things because they are more expensive.

QUESTION	ANSWERS	EXPLANATIONS
31. What is a “credit (FICO) rating”?	• It is a rating of the interest rate you will pay on credit cards • It is a benchmarking tool that is used to determine a person’s ability to pay off loans • It is a measure of how much credit you have in dollars • It is a rating of your socially responsible acts • “b” is correct	In Canada, the 2 major credit reporting agencies are Transunion and Equifax. The higher your credit score, the better. Those with higher scores typically pay lower interest rates and are able to obtain loans more easily. You can check your credit score for free to make sure all of their records are correct, to ensure you get the best score.

06. FINANCIAL DESCRIPTORS

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QUESTION	ANSWERS	EXPLANATIONS
32. If you pay $10,000 for machinery, and at the end of 1-year you made $12,000 with that machinery, what is your rate of return?	• 120% • 20% • 10% • 25% • “b” is correct	The rate of return is the percentage of increase you made from your investments. In this example, a person bought a machine for $10,000 and in one year the machine made $12,000 for a $2,000 increase over and above the cost of the machine. ($2,000/10,000)*100 gives you the rate of return, which is 20%.

QUESTION	ANSWERS	EXPLANATIONS
33. What is a minimum payment?	• It is the amount of money you must pay to the credit card company at the end of the month • It is the minimum payment that you should make at the end of the month to keep your credit card in good standing • It is the suggested amount that you need to pay your credit card company at the end of the month • The minimum payment is the interest you owe the credit company at the end of the month • "a" is correct	The best policy when using credit cards is to payoff your balance at the end of each month. In case you are not able to do that because of financial difficulty, the credit card company clearly states the minimum payment they would like to receive that month to keep your account in good standing. If the minimum payment is missed, there is a danger of your interest rate on the balance increasing. If the minimum payment is missed on a consistent basis, the credit company can revoke your credit card, lower your limit, or take other action.
34. What is the definition of an unsecured debt?	• The debt isn't secured by the police • The debt is obtained by asking for it • The issuer of the debt is not writing the loan against collateral • The size of the loan can drop to a lower amount at any time • "c" is correct	An unsecured debt, the most common type being credit card, is a loan that a company gives you that has no collateral (aka security). This is known as an unsecured debt. In the case of non-payment, there is no asset for the credit company to repossess to make up for the lost money. This is one of the main reasons this type of debt usually has a higher interest rate payment.

QUESTION	ANSWERS	EXPLANATIONS
35. What is cashflow?	• It is the amount of money that you put towards expenses • Cashflow is the amount of gross pay that you earn every month • Cashflow is how much money you spend each month • Cashflow is the value of cash that enters your bank account in a time period • All answers are correct	Cashflow is the value of all the cash that enters your bank account from ALL investing activities – not just your gross pay from work. When you start to consider cash that is spent on investing, expenses, and other things that make cash leave your bank account, then you can arrive at a measurement called Net Cashflow. Net cashflow is the amount of cash that went into your account AFTER accounting for all the cash that went out of it for expenses etc.
36. What is future value (FV)?	• Future value is an estimate of how much your net worth will be in the future • Future value is an estimate of how much a single investment made now, will be worth in the future • Future value is the value of an asset in the future assuming a constant growth rate • “b” & “c” are correct	Future value is a common thing to calculate in order to estimate the value at some point in the future, of an investment made right now. This calculation can be done to estimate the value of a $5,000 investment into a dividend stock paying 5%. It can also be made on other assets such as software. It is a neat tool to try and foresee the potential value of the investment.

QUESTION	ANSWERS	EXPLANATIONS
37. What is a fixed cost?	• An expense that is paid regardless of an increase or decrease in income • An expense that is paid at regular intervals • An expense that stays at the same price • All answers are correct	A fixed cost is a cost that must be paid regardless of how much your income fluctuates, or in the case of business, regardless of how many widgets you produce. A fixed cost doesn't mean the charge is the same, it means that you must pay it. For a homeowner, electricity is a fixed cost because it needs to be paid to have electricity, but the charge changes each month and it is not related to an increase or decrease in income. For a business, a fixed cost would be something like paying rent for a retail space or office – whether the business makes money or not, the rent has to be paid. It is not a variable (changing) cost based on production. A variable cost, for example, is paint for homebuilders. The less homes they build, the less paint they need to buy, and vice versa, the more homes they build the more paint they need to buy.

QUESTION	ANSWERS	EXPLANATIONS
38. What is a variable rate?	• A variable rate means the speed at which you pay off a loan can change • The interest rate on a debt can change • The rate of change of your minimum payment on credit cards • The rate at which the economy grows • “b” is correct	A variable rate is a type of interest rate policy that most people will encounter when they purchase a home and obtain a mortgage. A variable rate mortgage, for example, may have a 3% interest rate on day one, a 5% interest rate in year 3, and a 2.5% interest rate in year 5. It changes based on the policy of your bank, which adjusts its interest rates based upon the interest rate decisions of the central bank. This means that the interest paid on your mortgage may go up or down. The other choice is a fixed rate mortgage. Simply, the homebuyer makes an agreement with the bank to fix the interest rate of the loan for ‘x’ number of years, which means the homebuyer’s payments are fixed over that time. The choice you make depends on your financial situation and the economic fortunes of where you live.

07. FINANCIAL TOOLS

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QUESTION	ANSWERS	EXPLANATIONS
39. What is a stock?	• A stock is an investment where an investor can purchase ownership shares of a company • A stock is a type of bond • It is the amount of merchandise on store shelves • A stock gives an investor ownership of company debt • “a” is correct	A company can choose to raise money on the stock market by making shares available on the stock market for investors to purchase. When an investor owns shares in a company, it entitles them to the proportional ownership of the company and dividends if they are available. If the price of the stock goes up, the investors make money. If the price of the stock goes down, the investors lose money.

QUESTION	ANSWERS	EXPLANATIONS
40. What is a bond?	• A bond is a type of stock an investor can buy • A bond gives an investor equity in the company • A bond gives an investor the right to earn a fixed rate of return for owning a company's debt • A bond is an asset that cannot be sold easily • "c" is correct	A bond is a way for governments and companies to raise money using debt, instead of using equity like stocks. When an investor purchases a bond from a company, it entitles them to repayment of the initial investment amount, plus a fixed rate of return every year according to the interest rate the company has agreed to pay. The government issues bonds too, and the principle is the same – buy a bond now and the principal will be repaid at some point in the future, along with a pre-determined fixed rate of return. Government bonds from Canada, the USA, and some other countries are considered very safe investments.

QUESTION	ANSWERS	EXPLANATIONS
41. What is a t-bill?	• A t-bill is a treasury bill • A t-bill is issued by the government • A t-bill is considered the benchmark rate for the risk-free-rate-of-return • All of the above	T-bills (aka treasury bills) are often considered the benchmark for the risk-free rate of return. In other words, with no risk, this is the amount of money an investor can make – guaranteed. The investment is basically a cash instrument held by the government for under 12-months and interest is paid to the holder at maturity. The principal and interest are guaranteed by the government.
42. What is a mortgage?	• A mortgage is a type of loan given to an investor purchasing a home • A mortgage is a type of loan that you pay till your death • A mortgage is a type of loan that always has the same interest rate • It is a type of debt that can never be renegotiated • “a” is correct	A loan given by a financial institution to a homebuyer is called a mortgage. The mortgage can be setup in a way where interest rates can be fixed or variable, and the amortization period can be as long as 30 years or as short as 15 years. Every payment consists of a portion paid to interest and principal.

QUESTION	ANSWERS	EXPLANATIONS
43. What is a dividend?	• A dividend is a way for the government to pay investors for RRSPs • A dividend is a tool for companies to pay shareholders a portion of cashflow as a reward for holding stock • A dividend makes a company's share price cheaper • A company pays a dividend because they want to get rid of their money • "b" is correct	A dividend is a cash distribution from a company to its shareholders. It is usually paid from a company's free cash flow. An investor can earn more dividend income payments by buying more stock (shares) in companies that pay a dividend. A dividend doesn't make the shares of a company stock less expensive, what does change with the price of the stock is the dividend yield. If you buy a stock for $10 that pays a 50-cents dividend, the yield is 5%. If you buy that same stock for $15, the dividend yield is 3.3%. A higher yield can lead to higher returns.

QUESTION	ANSWERS	EXPLANATIONS
44. What is insurance?	• A type of investment that guarantees compensation in case of specific losses • A type of investment that is often paid for but rarely collected • An investment that is hard to collect • An investment that pays you interest every month • “a” is correct	Insurance is a policy that a business or person can buy in order to guarantee compensation in the case of foreseeable possible causes of loss. A person buys car insurance for a yearly/monthly fee so they do not have to pay hundreds of thousands in costs in case of an accident. Employment insurance is a type of insurance that for a short time, provides a source of income in case of job loss.
45. What is a will?	• A will measures how much will power you have • A will gives instruction on how to distribute assets in case of death or incapacitation • A will is a document that tells other people what to do • A will is a document you make when you get married • “b” is correct	A will is a legal document made with the help of a lawyer where a person outlines how they would like their financial (and other) affairs handled in case of death or inability to communicate such instructions with a sound mind. It is important to have a will written in order to protect the assets you have earned over the course of your life time from the government (or other grabbing hands), and provide some protection and direction for your family.

QUESTION	ANSWERS	EXPLANATIONS
46. What is a registered plan?	• It is a plan that an investor registers with other members of the family • It is a type of government regulated investment account and policy • It is a plan that allows you to earn money tax free • It is a retirement plan • "b" is correct	A registered plan is a reference to any type of investment account that an investor can register with the government. These registered accounts may or may not allow a person to invest in a tax assisted way. A Registered Retirement Savings Plan (RRSP) allows tax deferred investing for example, and a Registered Education Savings Plan (RESP) allows the government to match your contribution to your child's university education.
47. What is tax planning?	• It is a plan to pay more taxes • It is a plan to pay less taxes • It is a type of planning used by investors to manage their affairs to pay taxes efficiently • It is planning done by a lawyer to make you pay less taxes • "c" is correct	Tax planning is a way for a person to manage their financial affairs to pay taxes in an appropriate way, without the cost of said taxes being higher than they need to be. It isn't always about paying the lowest amount of taxes. You may need to show more income if your goal is to attain more credit for instance, or purchase a home or start a business. This type of planning is done with the help of an accountant and sometimes a lawyer.

QUESTION	ANSWERS	EXPLANATIONS
48. What is a pension plan?	• It is a plan people use to pay less taxes • It is a plan that people use to save money for retirement when their income will be reduced • It is an unregistered savings plan • It is a government mandated investment account • “b” is correct	A pension plan is a type of plan that a person implements in order to provide an income when they choose to retire from full time work. There are government pension plans such as the Canada Pension Plan. An RRSP is a self-directed retirement plan where the person decides how to invest the money in the account to make it grow. There are private pension plans too, where a worker contributes to it, and the company matches the contribution or guarantees a certain payout when it is required.

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