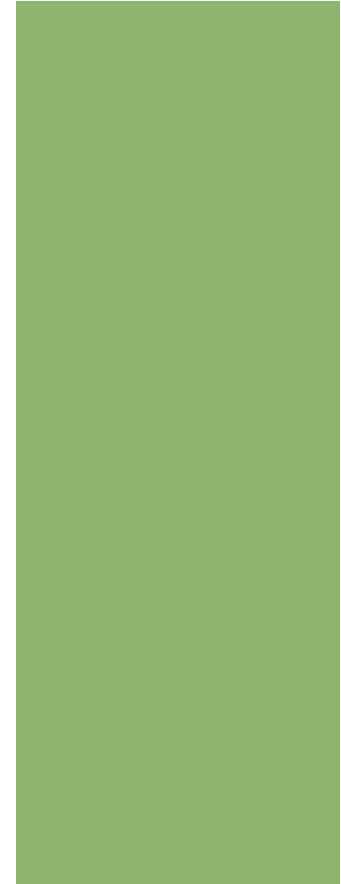




**FINANCIAL
LITERACY SERIES**

EACH ONE | TEACH ONE

PARTICIPANT HANDBOOK



Credit Cards and Prepaid Cards

An **Each One, Teach One: Financial Literacy** workshop

What to expect today

Basic money skills are the foundation of a healthy and stable relationship with your money.

What is financial literacy?

Financial literacy is having the skills, **knowledge** and **confidence** to make good decisions with your money. In other words, it's understanding **how money works** in the world: how to **earn** it, **manage** it, **save** it, **invest** it, **spend** it and **donate** it.

How to get the best results from the workshop

- ✓ Follow along, participate in all of the exercises and write in this Handbook.
- ✓ Once you're back at home, take some time to go over your notes and highlight the areas you'd like to take action on.
- ✓ Then – take action! Use what you learn to help you achieve your financial goals.

What we'll cover today

- ✓ Advantages and disadvantages of credit and prepaid cards
- ✓ Important things to look for in a prepaid card agreement
- ✓ How to figure out the real cost of using credit and prepaid cards
- ✓ Much more!

What is one thing you hope to learn today?

How could the information you learn today improve your life?

Advantages and disadvantages of credit and prepaid cards

Credit has both advantages and possible disadvantages. By using it wisely, you can capitalize on the advantages and reduce the disadvantages.

Exercise

Deciding whether to use a prepaid card, credit card or to skip a purchase can be tricky. It will often depend on the particular financial situation of the person making the decision. Can they afford to make the purchase now? Will they be able to afford the monthly payments?

Read the following scenarios and decide whether the person in question should use a credit card, a prepaid card or if they should forgo making a purchase.

- a) Gary wants to buy a TV that costs about \$2000. Right now he has enough money to cover his monthly expenses but only \$1000 extra for the television. He will receive a bonus from work in a month's time that will cover the remaining cost of the TV. Should Gary purchase the TV now? If so, how should he purchase it?

- b) Jennifer is going on vacation. She is on a very tight budget, but she has enough money to pay for her airfare, accommodations and food. However, she can't make any additional purchases. Should she use a prepaid card or a credit card while she is on vacation? Please explain.

- c) Bernie doesn't have any credit history or a credit card, but would like to purchase a box set of DVDs online. What is the best way for Bernie to make this purchase?

Credit card features

The best credit cards aren't necessarily the ones that let you collect reward points; the best cards are the ones that meet your personal needs.

Exercise

Credit cards come with many kinds of features, and deciding if a credit card is best for you depends on your personal needs. Consider each of the following situations and determine which credit card is the best option for the cardholder.

- a) Rebecca is a 23-year-old nursing student who is interested in getting a credit card primarily to purchase books and cover small incidental expenses. She doesn't expect to use her card more than once or twice a month.

	Credit Card A	Credit Card B
Annual fee	\$99	No fee
Reward points	15,000 travel points	No reward points
Annual interest rate	14.50%	19.99%
Insurance	No Insurance	No insurance

Which card is best suited to Rebecca? Why?

- b) Stefan is 43 years old. He is self-employed and travels a lot for work. He uses his credit card regularly, and often makes work-related purchases with this card.

	Credit Card A	Credit Card B
Annual fee	\$180	\$100
Reward points	25,000 travel points	15,000 travel points
Annual interest rate	14.5%	12.99%
Insurance	Travel Insurance	Travel insurance

Which card is best suited to Stefan? Why?



How to use a credit card

Your credit card can be a convenient purchasing tool. But you have to use it wisely.

Exercise

Using your credit card can result in expensive interest payments. Generally, it's best to use your credit card to make purchases for 'needs' rather than 'wants.' But how do you decide what your needs and wants are?

To practice determining what your needs and wants are, organize the following items into the columns below, and then determine the monthly cost of your needs and wants. Discuss with a partner.

- * Baby food – \$10.00 * Movie tickets – \$30.00 * Car insurance – \$130.00
- * New television – \$600.00 * Dog food – \$50.00 * Coffee at Tim Horton's – \$20.00
- * School books – \$250.00 * Organic groceries – \$200.00

NEEDS	WANTS
TOTAL	TOTAL

Can some items be both a need and a want? How and when?

Think about your own purchases in the last week. Did you buy anything that you'd have a hard time deciding if it's a need or want?

Useful resources

This workshop is an introduction and may raise many new questions. The organizations listed here are a good place to go for answers.

Useful websites

Credit Counselling Society
www.NoMoreDebts.org

Credit Canada Debt Solutions
www.creditcanada.com

Canada Prepaid Credit Cards
www.canadaprepaidcreditcard.com

Financial Consumer Agency of Canada
www.fcac-acfc.gc.ca

Canadian Bankers Association:
www.cba.ca



PARTICIPANT HANDBOOK



Quiz

If you're trying to build your credit history, is it better to apply for a credit card or purchase a prepaid card? Why?

What are three of the questions you should ask before you buy a prepaid card?

What is one of the biggest risks, financial or otherwise, of using a credit card? How will you ensure that you avoid that risk and stay in good standing with your creditors?

List two actions you are going to take within the next week related to credit cards and prepaid cards.

What did you learn today that you are going to share with friends or family?

Definitions

Financial institution staff sometimes forget that they speak a special language. Never be too shy to ask, “What does that mean?”

Activation fee: Some prepaid cards charge an activation fee or purchase fee before you can use them.

Cash advance: A service provided by most credit card issuers which allows cardholders to withdraw cash, either through an ATM or over the counter at a bank or other financial agency against their credit limit.

Grace period: The amount of time between the end of the statement cycle and when payment is due. Most grace periods are between 21 and 26 days for credit cards.

Liabilities: If you lose your card or if it gets stolen, you must report the incident to the bank immediately in order to deactivate your card and prevent fraud. Liability fee on a lost or stolen card is payable on the expenses incurred during the period between the loss and your informing the bank.

Maintenance fee: A monthly fee charged by some credit card issuers for the monthly processing and billing of a credit card statement.

Minimum Payment: The smallest amount of money that a consumer can pay on their monthly bill to remain in good standing with their credit card company.

Spending limit: A defined amount of money that can be spent using a credit card.

Terms and conditions: Common name for the document in which credit card issuers describe their practices in detail. After a consumer applies for a credit card and receives it in the mail, the first use of the card turns the terms and conditions into a legal contract.

Transaction fees: Fee charged to withdraw money from an ATM, check card balance, replace card, or load more money.