Money Money Money!

MONEY IN & MONEY OUT – Getting paid, and keeping *most* of it

Here is Mr. Blauer's paystub for May7th, 2021

(OCDSB pays employees bi-weekly. Pay period runs from January 1 – December 31st)

Income: $[redacted](Yo! That's private!)

DEDUCTIONS	$ Amount from this pay	$ Amount year-to-date
Employment insurance (EI)	$60.76	$607.52
CPP	$202.22	$2,022.18
Tax (Fed & Prov)	$733.29	$7,335.58
Pension	$399.88	$3,998.84
LTDSE	$66.94	$602.46
College of Teachers	$0	$170
Dental	$0	$40.02
Education Fund (charity)	$2	$12
EHC	$0	$76.12
OPADD	$0	$14.24
OPTLF	$0	$208.64
OSSTF (union dues)	$61.52	$615.20
SECLVY	$5.77	$57.70
SPADD	$0	$14.24
SPLIF	$0	$330.48

The deductions in RED are done every second pay period.

MONEY OUT – Income taxes

“Taxes are the price of civilization,” but nobody really thinks so nicely about them. Let’s look at income tax first:

2020 Federal income tax brackets

$0-13,229	No income tax
$13,230 to $49,020	15%
$49,021 to $98,040	20.5%
$98,041 to $151,978	26%
$151,979 to $216,511	29%
Over $216,512	33%

2020 Ontario income tax brackets

(Yeah, you pay both…)

2020Taxable Income	2020 Tax Rates
first $45,142	5.05%
$45,143 up to $90,287	9.15%
over $90,288 up to $150,000	11.16%
over $150,001 up to $220,000	12.16%
over $220,001	13.16%

*Not all deductions are LEGAL. Have a look at this video.

[Illegal Deductions]

Now let’s look at **Sales Tax.**

In Ontario we pay 13% HST (Harmonized Sales Tax) on most things we buy. HST is a combination of 5% federal sales tax (GST) and 8% Ontario sales tax (PST). It’s usually added at the cashier, but sometimes its factored into the price (gasoline, alcohol) Some items have only one tax (Cars – GST only) while other items have no sales tax (groceries)

Sales tax is easy to figure out. If you by a $100 electronic, it’s going to cost you $113.

Sales tax is actually unfair, in that it taxes lower-income people **proportionately** more than rich people for items everyone needs. For example, everyone needs their home to be 21C (regardless of how much money they make) and they all pay sales tax on the heating fuel/electricity they use. Therefore, poor people pay more of their disposable income on sales tax than rich people.

MONEY OUT 2 – DEBT

Typical debts:

- Mortgage on your home
- Car loan/financing/leasing
- Student loan
- Line of credit
- Credit card balances

All debts are charged interest. Interest is the money you owe the lender, on top of what you already owe the lender, for the privilege of the lender lending you money. Simple, right?

Here's a few examples:

Scenario #1 Student Loans

Terms requiring clarification:

- **Grants:** Money GIVEN to students by government to help pay for post-secondary education, wherever they choose to go.
- **Scholarships:** Modest*-to-mega sums of money AWARDED to APPLICANTS by a post-secondary institution or an organization, based on academic/athletic/artistic merit or other considerations. Scholarships often stipulate that you need to enroll in a specific program or post-secondary school. *Canadian scholarships are usually quite "modest," aka, minimal.
- **Bursaries:** Like scholarships, but are typically modest sums AWARDED to APPLICANTS whose income level might otherwise prevent them from attending post-secondary education.
- Loans: Lotsa money LOANED to student by banks and other organizations to cover the cost of post-secondary education. This money has to be paid back over a period of time and sometimes at a rate of interest.

Replayment and interest on student loans

Student loans are provided interest free, but that interest-free period expires 6 months after you graduate. At that point, you need to start making payments, which will include interest on your balance.

Ontario Student Loans (OSAP): Prime + 1%

Canada Student Loans: (CSL): Prime + 2.5% (floating rate)

(Oct. 2018 – Prime rate = 3.7%)

OSAP example: You graduate with $30,000 in student loans. Your interest rate is 4.7%. If you don't make any payments for 1.5 years after you graduate, you will owe:

$30,000

+$1,410 (12 months of interest)

$31,410

You will keep paying interest on the balance until the balance is paid off. That's why it's good to pay off your debts early as possible.

Scenario #2 MORTgage

You buy a house and borrow $300,000 from the bank to do so. (That's called a MORTgage.) If you're a good negotiator, you can get a fixed mortgage rate of about 3% a year for 5 years.

YEAR 1

  $300,000 x 3% = $9,000
+ $300,000 (What you borrowed, a.k.a the "principle")
  $309,000

The bank uses your mortgage payments to pay off the interest FIRST ($9,000 for Year 1), then pay off the principle NEXT. If you're on a 25 year mortgage repayment plan, your principle may only drop by about $10,000 a year in the early going.

$309,000 (principal + interest)
- $19,000 (total mortgage payments in Year 1)
$290,000 (balance carried over to Year 2)

YEAR 2

  $290,000 (your new principle)
+$8,700   (3% interest on the new principle)
  $298,700 (What you now owe – Note: After spending a whopping $19,000 in Year 1, your debt has only dropped $1,300 below the original loan amount of $300K.)

This is why your parents are so stressed… On the upside, most houses gain value over time, so you should be able to sell your house for MORE than what you owe on the mortgage. You also have the option to pay off your mortgage faster (in 10, 15 or 20 years) by making higher/more frequent payments. You can also make annual payements directly against the principle. (If you have any money available.)

SCENARIO #3: Line of Credit

These are pools of money made available to consumers through their banks. If you have a good credit rating, it's not hard to set up a $10,000 line of credit with your bank for you to borrow from whenever you want – no permission required. The moment you borrow money, the bank will start charging you interest on that amount. Typical interest rates are calculated as follows. PRIME RATE (currently 3.70%) + the bank's profit margin rate (approx. 3%)… so about 7%. That's more expensive than mortgage debt and car loan debt (see below) but much lower than credit card debt.

SCENARIO #4: Car loans & Car leasing

a) NEW cars are the worst investment you can make. They cost a lot and lose value the moment you drive it off the lot. You have to pay thousands of dollars a year in licencing fees, insurance, gas, parking, maintenance, and then, after 5 years, they start to break down and cost you even more to keep them rolling.

   NEW car dealerships will often sell their cars for a modest down payment and then lend you the rest of the money at little no interest (0-2% per year for 5 years). But **punitive** interest will be applied if you miss payments or are not able to pay off the car within 5 years. A modest new car costs about $25,000. You will need to pay $5,000/yr, plus operating costs, to pay off the car without having to make interest payments. If you take good care of this car, in 5 years it will be worth about $10,000. In 10 years it will be worth about $3,000.

b) USED cars are less expensive and can be purchased with with loans from the dealership or your bank. Used car loans are usually much higher than NEW car loans, but of course, used cars are much cheaper, so interest payments should be lower.

c) LEASING a car is another option. It's kind of like renting a car with an option to buy it out when the 4-5 year term is up. Car lease rates *look* cheaper than car loan rates, but you don't actually own the car, so you have to give it back when the lease is done *(and pay heavily for any cosmetic damages including dents and scratches!)* You do have the option to buy the car at the end of a lease, but you'll be paying more than you would if you had bought it from the get-go.

So why do people lease cars?

- They want a new car, but can't afford to invest* in a new car. (*New cars are bad investments, but they're still investments. Paying for a car you'll never own is worse.)
- They like changing cars every few years.
- They are self-employed and can write off their car lease as a business expense against their income taxes (eg: real estate agents)

SCENARIO #5 Credit card debt

Credit card companies are evil. They aggressively push their cards on people when they turn 18. (They'll be looking for you during frosh week in your first year of post-secondary.) Credit card interest rates are about 20%/yr, and they get calculated *daily* the moment you buy something. Here's what that looks like:

Unpaid credit card balance:	$10,000	
Interest: 20% x 1/12 year	$ 166	
Ugly total	$10,166	(If you don't pay off the card for a year, you will owe more than $13,000)

The GOOD news: If you pay off your <u>entire</u> credit card by the deadline each month, you pay NO INTEREST! And if your credit card offers incentives for using it, *you're basically getting paid to borrow money!!!*

The BAD news: Most people don't pay off their credit cards by the deadline.

The EVIL news #1: If you're just one day late paying off your credit card, the credit card company will charge you an entire month of interest on what you owe. That's right: One day will cost you $166.

The EVIL news #2: If you pay off 99% of your credit card balance on time, they'll still charge you 100% of the interest because you didn't pay off the whole amount.