

**CURRICULUM RESOURCE**

Financial Management for the Newly Employed: Credit Cards

**OALCF ALIGNMENT**

Competency	Task Group	Level
Competency A - Find and Use Information	A1. Read continuous text	2
Competency A - Find and Use Information	A2. Interpret documents	2
Competency B - Communicate Ideas and Information	B3. Complete and create documents	1
Competency C - Understand and Use Numbers	C1. Manage money	2
Competency D - Use Digital Technology	N/A	2

**Goal Paths (check all that apply)**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Employment   | <input type="checkbox"/> Postsecondary           |
| <input type="checkbox"/> Apprenticeship          | <input checked="" type="checkbox"/> Independence |
| <input type="checkbox"/> Secondary School Credit |  |

**Embedded Skills for Success (check all that apply)**

- |  |  |
|--|--|
| <input type="checkbox"/> Adaptability              | <input checked="" type="checkbox"/> Numeracy |
| <input type="checkbox"/> Collaboration             | <input type="checkbox"/> Problem Solving     |
| <input type="checkbox"/> Communication             | <input checked="" type="checkbox"/> Reading  |
| <input type="checkbox"/> Creativity and innovation | <input checked="" type="checkbox"/> Writing  |
| <input checked="" type="checkbox"/> Digital        |  |

**NOTES:** Part four of a five-part series on financial management for the newly employed.

## ACKNOWLEDGEMENTS

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**Research & Writing:** Mark Jacquemain



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## FINANCIAL MANAGEMENT FOR THE NEWLY EMPLOYED

### Note for practitioners:

This series of **Skills for Success Curriculum Resources** is a beginner's guide to financial management for LBS learners who have recently entered the workforce. The goal is to provide newly-employed learners with resources to aid with effective money-management, budgetary planning, and savings. This series will also provide support for learners navigating certain online financial platforms, like online banking and the Canada Revenue Agency website.

These resources are learner-based and activity-focused, with each topic area serving as a mini-lesson, followed by personalized activities. The activities are optional, but they will help embed the key points of the lessons, by inviting learners to respond to lesson material or explore the given online platforms.

The series is divided into five sections that can be used separately or in tandem:

Financial Management for the Newly Employed – **Budgeting**

Financial Management for the Newly Employed – **Opening a Savings Account**

Financial Management for the Newly Employed – **Using the CRA Website**

Financial Management for the Newly Employed – **Credit Cards**

Financial Management for the Newly Employed – **Dealing with Debt**

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*This is Section Four, Financial Management for the Newly Employed:  
Credit Cards*

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# Financial Management for the Newly Employed: Credit Cards

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## Overview

Landing a new job is quite exciting. You should be proud of your accomplishment!

Now that you are earning money, there are some important things to think about. Here are some questions you might ask yourself:

- Do you know how much you are earning each week?
- Do you know what your weekly expenses are?
- Do you have a bank account where your money will be deposited?
- Do you have a savings account to save your money?
- Would you like to try to save some money from each paycheque? How much?
- Do you know how much you pay in taxes?
- How can you learn about your tax returns?
- Do you know how to find out your credit score?
- Do you know how to build up your credit score?
- Do you have a credit card?
- Do you want a credit card?
- Do you have debt that you need to attend to?

This series, **Financial Management for the Newly Employed**, will answer these and other questions. It will help you make the most of your earnings.

Complete the lessons and activities in this series and begin to:

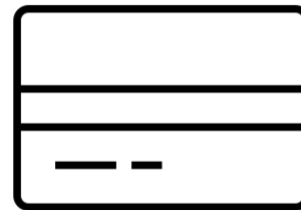
- take your finances seriously
- spend wisely
- understand your banking and taxes
- save for emergencies and the future

## Credit Cards

Credit cards are a kind of loan that can be useful. But they can also become a problem if they are not used properly.

Credit cards allow you to purchase items or access money on loan. If you don't pay back what you've borrowed by a certain time, you will be charged **interest**.

Interest is a **percentage** of the money you owe. When you borrow money, you usually have to pay back what you owe **plus** the interest charges.

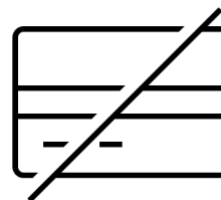


Some **benefits** of credit cards:

- Credit cards help you build up your **credit score**. The bank gives you a credit score based on your loans and how well you pay them back. A good credit score will help you to get larger loans, like for a car or a mortgage for a house.
- Credit cards can be handy. They are a way to access money for emergencies or while you wait for your paycheck or benefits.
- Credit cards sometimes have perks. Some credit cards build points or rewards as you use them. You can collect the points to get discounts on other purchases.

Some of the **concerns** with credit cards:

- Credit cards often have **high interest rates**. Higher interest rates means higher interest payments. It can also mean that it is more difficult to pay off your credit card.
  - Credit cards often have **even higher interest rates** if you use them to get cash. The interest rates on purchases using your credit card are still high. But the interest rates if you take cash out of a bank machine using your credit card are very high.
  - The interest rates on credit cards can **change** if you miss payments. If you fail to make a monthly payment on your credit card, your interest rate may go up.
  - Credit cards can be **stolen or lost**. If someone takes or finds your credit card, they could steal money from you. If someone gets your credit card information they could steal from you even without the card.
- Always take care of your credit cards and credit card information! Keep it **safe** and **private**!



## Find the Right Balance

The **balance** on a credit card is the amount owed on the credit card.

Although it's not ideal, many people carry a balance on their credit card sometimes. But knowing that you might do so can help you choose the right credit card. For example, if you are going to carry a balance, **the interest rate is the most important factor**.

But it is never a good idea to get a credit card as a way to borrow cash. Cash advances from credit cards come with high interest rates. They may also have fees.

The best reasons to get a credit card are:

- to help in case of emergencies
- to make short term purchases that you can pay back at the end of the month
- to build your credit

➤ If you want a credit card for other reasons, it may **not** be a good choice!





## Is a Credit Card Right for You?

There are several things to think about before you get a credit card. It's important to think carefully about whether a credit card is right for you.

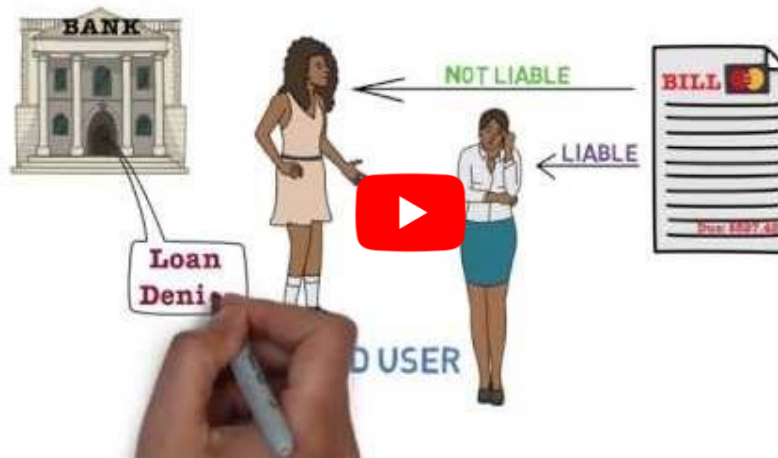


### Let's discuss!

Write your answers or discuss with your teacher or group.

1. What are three main reasons someone might want a credit card?
  
  
  
  
  
  
  
  
  
  
2. What are the best uses of a credit card? Check the boxes that apply:
  - ☐ use it only in emergencies.
  - ☐ use it for important purchases while waiting on your paycheque.
  - ☐ use it to get access to cash.
  - ☐ use it to build up your credit score.
  
  
  
  
  
  
  
3. Can you think of some ways people might manage their **balance**?

Now that we've gotten started, let's learn how credit cards work in this video:



Video url: <https://www.youtube.com/watch?v=0ddgrHehprk>





### Reflect!

After watching the video, answer the questions below:

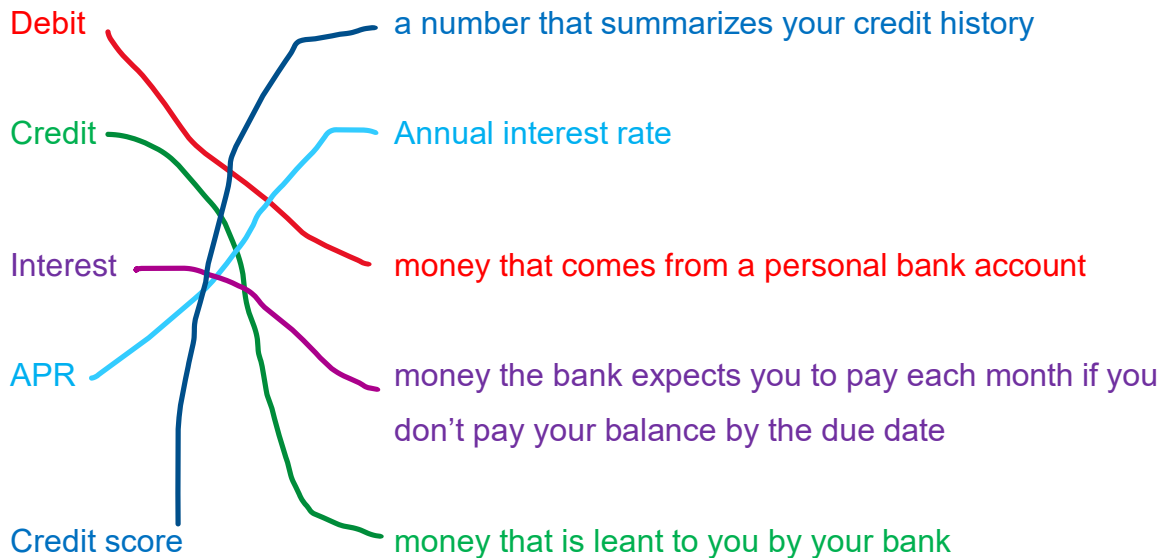
1. Draw an arrow from the word to the definition:

<b>Debit</b>	a number that summarizes your credit history
<b>Credit</b>	Annual interest rate
<b>Interest</b>	money that comes from a personal bank account
<b>APR</b>	additional money the bank expects you to pay each month if you don't pay your balance by the due date
<b>Credit score</b>	money that is lent to you by your bank

2. According to the video, how much annual income do most banks require you to have to get a credit card?
  - a. \$5,000
  - b. \$15,000
  - c. \$25,000
3. Circle some other ways people can be eligible to use a credit card:
  - a. Full time students with a small income like a parttime job
  - b. Having a co-signer. A co-signer is someone with a higher income who will take on the responsibility of the credit card if it is not paid.
  - c. Being a user on a family credit card.

Answers:

1.



**Debit:** money that comes from a personal bank account

**Credit:** money that is lent to you by your bank

**Interest:** money the bank expects you to pay each month if you don't pay your balance by the due date

**APR:** Annual interest rate

**Credit score:** a number that summarizes your credit history

2. How much annual income do most banks require you to have to get a credit card?

**\$15,000**

3. Circle some other ways people can be eligible to use a credit card:

- ✓ Full time students with a small income like a parttime job
- ✓ Having a co-signer.
- ✓ Being a user on a family credit card.

## What to Watch for When Deciding on a Credit Card

Now that you understand the basics, let's look at some tips for choosing a credit card.

### 1. Credit Limit

Credit limit is the **total amount of money** that can be borrowed using a credit card. This number will vary depending on the credit card and the person. First credit cards will usually have **lower** credit limits. Credit limits will be **higher** for people with higher annual income.

First credit cards usually have a credit limit of between \$500 and \$5,000. Lower credit limits are given for:

- first credit cards
- people with lower annual income
- people with a lower credit score



Higher credit limits are given for:

- second or third credit cards
- people with higher annual income
- people with higher credit score

➤ Even if you are offered a higher credit limit, be careful! Be sure that you can pay off whatever amount you plan to borrow.

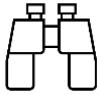
## 2. Interest Rates

Remember, the interest rate is the percentage you will be charged if you don't pay your balance by the due date. And remember the interest rate on credit cards is called Annual Percentage Rate or **APR**.

There are two things to keep in mind with credit card interest rates:

- The **percentage itself**: is the number high or low?
  - A percentage of 12% or 13% is **very low** for credit cards. It is unlikely that you will get such a low interest rate on your first credit card.
  - A percentage of more than 20% is common but **high** for credit cards.
- How often the interest is being charged. Another way to say this is how often the interest is **compounded**.
  - Most credit card interest is compounded **daily**. This means that your bank calculates the interest you owe at the end of each day.
  - You will be charged this interest at the end of the month—if you don't pay your balance.





Let's look at an example.

T has received their first credit card. The interest rate is **20.99%**. It is compounded **daily**.

T uses the credit card to pay for new clothes and a bus pass for work. T also uses the credit card to buy a new laptop. In total, T spends **\$700**.

Since T does not pay any of the balance by the end of the month, T is charged **\$12.18** in interest. This means that T's **new balance** is: **\$712.18**.

$$\begin{array}{r} 700.00 \\ + \ 12.18 \\ \hline = 712.18 \end{array}$$

If T doesn't pay off their balance at the end of next month:

- they will be charged interest on \$712.18
- plus any other money they spend on the credit card

**Now you try it.**

Calculate interest.

Q has a credit card with a high interest rate. The interest rate is 23.99%. Q has a balance of \$4,500 on the credit card. How much does Q have to pay in interest at the end of June?

1. Go to the interest calculator at this website: <https://www.nerdwallet.com/ca/credit-cards/credit-cards-credit-card-interest-calculator>
2. Fill in the **balance**: \$4,500
3. Fill in the **APR**: 23.99%
4. Leave the **Days in Billing Period** at 30 days: there are 30 days in June
5. Click the **Calculate** button.

How much interest will Q have to pay at the end of the month:

\$\_\_\_\_\_

(Answer on next page)



**Answer: \$89.58**

This will add up to hundreds of dollars over the year. Even if Q does not spend any more money on the credit card, they will be paying interest on a higher balance next month:

Q's balance next month will be the previous balance **plus** the interest charges:

$$\begin{array}{r} 4500.00 \\ + \text{89.58} \\ \hline = 4589.58 \end{array}$$

The interest charges on that new balance would be: **\$91.36**

This is how interest charges can continue to grow!



What else to watch out for with credit card interest charges:

- Some credit cards offer 0% interest rates—but only for a limited time. After a certain period, a **much higher** interest rate will be applied.
- Credit cards with lower interest rates may come with other **fees**. Some credit cards have annual fees of over a hundred dollars.
- And remember: **your balance can add up quickly**.
  - This can then lead to higher interest charges.
  - And then a higher balance.
  - And then higher interest charges. **It's a bad cycle.**



- So try to use your credit card **wisely** and **pay down** the balance when you can!

Here are some more things to think about when choosing a credit card:

### 3. Fees

Credit cards may come with hidden fees. You should ask your bank about any fees you might be charged with so you can avoid them. Common fees include:

#### Annual Fee

- Cards that have special rewards may also charge an annual fee. If you are planning on using your credit card a lot and gaining the rewards, an annual fee might be worth it. Otherwise try to avoid it.

#### Cash Advance Fee

- Credit card companies may charge you a fee if you use your credit card to withdraw cash from an ATM. Cash advances are also charged a **higher** interest rate than purchases you make using your credit card.

#### Over-Limit Fee

- Your credit card will have a limit. If you make a purchase that puts you over the limit, you will be charged a fee.

Which of these fees will you try to avoid. Check all that apply:

- ☐ Annual fee
- ☐ Cash advance fee
- ☐ Over-Limit fee

## 4. Rewards

Some credit cards also offer certain rewards. There are three main types of credit card rewards programs:

### Cash Back

- Cash back cards let you earn a certain amount of cash. The amount you can earn is based on the amount you spend on your credit card.

### Points

- Points credit card allow you to earn points based on what you spend on your credit card. The points can be applied to purchases, travel, or even to pay off your balance.

### Miles

- Miles credit cards allow you to earn travel rewards. They can be used for airlines, hotels, or other travel purchases.

➤ If you have a rewards card, it's important not to spend just to get the rewards. This is a sure way to let your balance get out of control.

Check the box of the rewards card you would want to use. Explain why you would like to have these rewards:

	Rewards	Why would you like it?
	Cash Back	
	Points	
	Miles	

## Next Steps

Now you know how credit cards work. You have learned:

- what to consider when choosing a new credit card
- how interest rates work
- what to watch out for to manage your balance

Still want to learn more? How to build your credit? How to apply for a credit card? Or are you struggling with budgeting or debt? There are resources below to help you.

- The Canadian Government offers financial planning advice at their website:  
<https://www.canada.ca/en/financial-consumer-agency/services/make-budget.html>

It also has a budget-making tool: <https://itools-ioutils.fcac-acfc.gc.ca/BP-PB/budget-planner>

And it has information to help you build your credit score:

<https://www.canada.ca/en/financial-consumer-agency/services/credit-reports-score/improve-credit-score.html>

- 211 Ontario offers financial assistance and mental health assistance 24/7. Dial **211** to reach their hotline. They offer financial assistance in over 150 languages. Or visit their website: <https://211ontario.ca/search/>

## More Resources

- Toronto Healthline offers budget and credit counselling:  
<https://www.torontocentralhealthline.ca/listServices.aspx?id=10447>
  - TD Bank has a guide to applying for a credit card in Canada:  
<https://www.td.com/ca/en/personal-banking/products/credit-cards>
  - Money management from the Canadian Government: <https://itools-ioutils.fcac-acfc.gc.ca/CCPC-CPCC/CCPC-CPCC-eng.aspx>
- Also see the other resources in this series: **Financial Management for the Newly Employed**

