

Adult Basic Education

## **Economic Education**

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# **Economic Education 3101B**

# **Study Guide**

**Prerequisite:** Economic Education 3101A

**Credit Value:** 1

**Resources:** Liepner, M.E., Magnan, J.G.N., & Wasserman, A. (2001). *Exploring Business for the 21<sup>st</sup> Century*. Toronto: McGraw-Hill Ryerson.

**Economic Education Courses [Adult Oriented Electives]**

Economic Education 3101A

**Economic Education 3101B**





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## To the Student

### **I. Introduction to Economic Education 3101B**

Economic Education 3101B is the second of two courses designed to help you become astute purchasers of goods and services. The focus is on the consumer in the marketplace, seeking to satisfy needs and wants. You must complete both Economic Education 3101A and B in order to receive two credits. Credit will not be awarded until both parts are completed.

The purpose of Unit 1, *Consumer Credit*, is to consider the various types of credit available to consumers and the advantages and disadvantages of its use. You will describe the process of establishing a personal credit rating and applying for and obtaining credit. You will also calculate the total cost of credit on a variety of loans.

In Unit 2, *Housing & Transportation*, you will analyze the costs and benefits of renting versus owning a home. You will discuss the steps and finances involved in buying a home. You will compare the costs of buying versus leasing a vehicle, discuss the pros and cons of buying a used vehicle, and determine the costs associated with operating a vehicle.

In Unit 3, *Food, Clothing & Appliances*, you will interpret nutritional information on food labels and analyze the information found on a Nutrition Facts table. You will formulate ways to maximize a food budget and propose ways of saving money on household items such as clothes and appliances.

In Unit 4, *Insurance*, you will explain in general terms how insurance works. You will discuss the factors that affect the cost of automobile insurance, identify different types of automobile insurance, and explain what must be done after an automobile accident. You will discuss the merits of owning home or tenant insurance. You will describe the purpose of life insurance, explain how it works, and distinguish between permanent and term life insurance. You will describe the content of life insurance policies and explain how to apply for and receive life insurance.

In Unit 5, *Consumer Protection*, you will describe the government bodies and acts that help protect consumers. You will also discuss the rights and responsibilities of employees and employers.

One textbook is required for this course: ***Exploring Business for the 21<sup>st</sup> Century*** by Liepner, N. (2001).

## To the Student

### **II. Use of Economic Education Study Guides**

Before beginning this course, ensure you have the text and any other resources needed (*see the information in the Introduction to this course for specifics*).

As you work through the Study Guide, you will see that it is divided according to the Units listed in the Table of Contents. When you open a unit it will have the following components:

#### **Reading for this Unit:**

Here you will find the chapters, sections and pages of the text you will use to cover the material for this unit. Skim the sections of the textbook, look at the titles of the sections, scan the figures and read any material in the margins. Once you have this overview of the unit, you are ready to begin. Do not be intimidated by the content. You will work through the text, section by section, gaining knowledge and understanding of the material as you go.

<b>References and Notes</b>  This left hand column guides you through the material to read from the text. Read any highlighted notes that follow the reading instructions. The symbols ►► direct you to the questions that you should complete when finished a reading assignment.	<b>Work to Submit</b>  You come across two (2) headings in this right hand column.  <b>Writing:</b> This section comprises your notes for the unit. Here you will find either written questions or references to specific questions or problems from your text. You may want to write out each question followed by the answer. This material should be checked by your instructor before moving on to the next unit.  <b>Assignment:</b> This section indicates if there is an assignment that should be completed for the Unit. The information in the “References and Notes” column will indicate how you obtain the assignment. Some assignments may be submitted digitally while others will involve a hard copy. Ensure you read the directions carefully and speak to your instructor to determine which format is required.
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## To the Student

### **III. Recommended Evaluation**

Written Notes	10%
Assignments	40%
Test(s)	20%
Final Exam	<u>30%</u>
	100%

## Unit 1 – Consumer Credit

To fulfill the objectives of this unit, students should complete the following:

**Reading for this unit:** *Exploring Business for the 21<sup>st</sup> Century*  
Chapter 12, pages 323 – 343

References and Notes	Work to Submit
<p><i>Refer to pages 325 – 327 to write answers for questions 1.1 – 1.4</i></p> <p>►►</p>	<p><b>Writing:</b></p> <ol style="list-style-type: none"><li>1.1 What is consumer credit?</li><li>1.2 What is the difference between appreciate and depreciate?</li><li>1.3 Give two examples of how credit can help achieve one's financial goals.</li><li>1.4 What is a drawback of consumer credit?</li></ol>
<p><i>Refer to page 328 to write an answer for question 1.5</i> ►►</p>	<ol style="list-style-type: none"><li>1.5 Complete questions 3 – 4 under “<i>Check Your Understanding</i>”.</li></ol>
<p><i>Refer to pages 329 – 331 to write answers for questions 1.6 – 1.12</i></p> <p>►►</p> <p><i>Refer to pages 332 – 334 to write answers for questions 1.13 – 1.18</i></p> <p>►►</p>	<ol style="list-style-type: none"><li>1.6 What is a credit rating?</li><li>1.7 What is meant by limit?</li><li>1.8 What are some “hidden” fees that may be included on a credit card?</li><li>1.9 What is the purpose of a co-signer?</li><li>1.10 What is a credit bureau?</li><li>1.11 What is a credit history?</li><li>1.12 What is meant by default?</li><li>1.13 What are the possible consequences of having bad credit?</li></ol>

## Unit 1 – Consumer Credit

References and Notes	Work to Submit
<p><i>Refer to pages 334 – 335 to write answers for questions 1.19 – 1.20</i></p> <p>►►</p> <p><i>Refer to Appendix A of this Study Guide to complete the assignment</i></p> <p>►►</p> <p><b>Note:</b> This is the end of Unit 1. You should check with your instructor to see if there is review work or any other additional work for this unit.</p>	<p><b>Writing:</b></p> <p>1.14 When would it be necessary to consolidate credit card debt?</p> <p>1.15 Why are interest rates on car loans generally lower than personal loans?</p> <p>1.16 What is meant by pre-authorization?</p> <p>1.17 What is a personal line of credit?</p> <p>1.18 What is an installment plan?</p> <p>1.19 What is a collection agency?</p> <p>1.20 What conditions must be met in order for a person to declare personal bankruptcy?</p> <p><b>Assignment:</b></p> <p>1.21 Complete <b>Assignment 1: About Credit</b>, found in Appendix A. Submit the completed assignment to your instructor for marking.</p>

## Unit 2 – Housing & Transportation

To fulfill the objectives of this unit, students should complete the following:

**Reading for this unit:** *Housing & Transportation Module*  
Study Guide, Annex A

References and Notes	Work to Submit
<p><i>Refer to the Housing &amp; Transportation Module found in Annex A of this Study Guide to write an answer for question 2.1</i></p> <p>►►</p>	<p><b>Writing:</b></p> <p>2.1 Answer all assigned questions found in the module.</p>
<p><i>Refer to Appendix B of this Study Guide to complete the assignment</i></p> <p>►►</p>	<p><b>Assignment:</b></p> <p>2.2 Complete <b>Assignment 2: The Residential Tenancies Act</b>, found in Appendix B. Submit the completed assignment to your instructor for marking.</p>
<p><i>Refer to Appendix C of this Study Guide to complete the assignment</i></p> <p>►►</p>	<p>2.3 Complete <b>Assignment 3: How Much House Can You Afford?</b>, found in Appendix C. Submit the completed assignment to your instructor for marking.</p>
<p><b>Note:</b> Students are responsible for reading and understanding all material found in this Module, as it will be included on tests for this course.</p>	
<p><b>Note:</b> This is the end of Unit 2. You should check with your instructor to see if there is review work or any other additional work for this unit.</p>	

## Unit 3 – Foods, Clothing & Appliances

To fulfill the objectives of this unit, students should complete the following:

**Reading for this unit:** *Foods, Clothing & Appliances Module*  
Study Guide, Annex B

References and Notes	Work to Submit
<p><i>Refer to the Foods, Clothing &amp; Appliances Module found in Annex B of this Study Guide to write an answer for question 3.1</i> ►►</p> <p><i>Refer to Appendix D of this Study Guide to complete the assignment</i> ►►</p> <p><b>Note:</b> Students are responsible for reading and understanding all material found in this module, as it will be included on tests for this course.</p> <p><b>Note:</b> This is the end of Unit 3. You should check with your instructor to see if there is review work or any other additional work for this unit.</p>	<p><b>Writing:</b></p> <p>3.1 Answer all assigned questions found in the module.</p> <p><b>Assignment:</b></p> <p>3.2 Complete <b>Assignment 4: Reading the Nutrition Facts table</b>, found in Appendix D. Submit the completed assignment to your instructor for marking.</p>

## Unit 4 – Insurance

To fulfill the objectives of this unit, students should complete the following:

**Reading for this unit:** *Insurance Module*  
Study Guide, Annex C

References and Notes	Work to Submit
<p><i>Refer to the Insurance Module found in Annex C of this Study Guide to write an answer for question 4.1 ►►</i></p> <p><b>Note:</b> Students are responsible for reading and understanding all material found in this Module, as it will be included in tests for this course.</p> <p><b>Note:</b> This is the end of Unit 4. You should check with your instructor to see if there is review work or any other additional work for this unit.</p>	<p><b>Writing:</b></p> <p>4.1 Answer all assigned questions found in the module.</p>

## Unit 5 – Consumer Protection

To fulfill the objectives of this unit, students should complete the following:

**Reading for this unit:** *Exploring Business for the 21<sup>st</sup> Century*

Chapter 5, pages 145 – 150

Chapter 6, pages 173 – 177

References and Notes	Work to Submit
<p>Refer to pages 144 – 145 to write answers for questions 5.1 – 5.4</p> <p>►►</p>	<p><b>Writing:</b></p> <p>5.1 What is the function of the Office of Consumer Affairs?</p> <p>5.2 What is false advertising?</p> <p>5.3 What is misleading advertising?</p> <p>5.4 Give some examples of illegal pricing practices.</p>
<p>Refer to pages 147 – 148 to write answers for questions 5.5 – 5.6</p> <p>►►</p>	<p>5.5 Explain how the following legislation protects consumers:</p> <p>i Hazardous Products Act ii Textile Labeling Act iii Consumer Packaging and Labeling Act iv Food and Drugs Act</p>
<p>Refer to page 150 to write an answer for question 5.7</p> <p>►►</p>	<p>5.6 What is the function of the Canadian Food Inspection Agency?</p> <p>5.7 Complete question 3 in “<i>Check Your Understanding</i>”.</p>
<p>Refer to page 154 to write an answer for question 5.8</p> <p>►►</p>	<p>5.8 Complete questions 2 – 3 under “<i>Thinking/Inquiry</i>” in the Chapter Review.</p>
<p>Refer to pages 173 – 177 to write answers for questions 5.9 – 5.15</p> <p>►►</p>	<p>5.9 What is discrimination?</p> <p>5.10 Provide examples of instances where an employer can fire an employee.</p>

## Unit 5 – Consumer Protection

References and Notes	Work to Submit
<p><b>Note:</b> This is the end of Unit 5. You should check with your instructor to see if there is review work or any other additional work for this unit.</p>	<p><b>Writing:</b></p> <p>5.11 What is harassment?</p> <p>5.12 What is affirmative action?</p> <p>5.13 How does workers' compensation legislation protect employers and employees?</p> <p>5.14 Briefly outline the responsibilities and expectations of employees.</p> <p>5.15 Complete question 3 in “<i>Check Your Understanding</i>”</p>

## **Annex A**

# **Housing & Transportation Module**



# Renting Versus Buying a Home

## Renting

**Rent** is the monthly payment for the use of a house or an apartment. Before moving in, a tenant may also be required to pay a **security deposit** or damage deposit. A security deposit is required by the landlord in advance to cover wear and tear of the unit beyond what is normally expected. In a monthly or term rental agreement, a landlord cannot ask for more than  $\frac{3}{4}$  of the first month's rent. So if rent is \$500 a month the renter pays \$500 for the first month's rent and a security deposit of up to \$375, for a total cost of \$875 before moving in. The landlord is required to deposit the security deposit in an interest bearing account located in Newfoundland and Labrador within two days of receiving the deposit. Unless the landlord has a claim for all or a portion of the deposit, he or she must return the deposit plus accumulated interest to the tenant after he or she vacates the unit.

A **lease** is a legal document between the renter and the landlord, defining the rights and obligations of both. An important part of the lease is whether or not the renter can **sublease**, which means the original tenant can lease the property to someone else.

## Tenant Rights & Responsibilities

The specific legal rights and responsibilities of landlords and tenants are outlined in Newfoundland and Labrador's **Residential Tenancies Act** (2000). Before moving in, landlords must provide the tenant with a copy of the Residential Tenancies Act, which is also available online on the Government of Newfoundland and Labrador's website.

## Assignment

Complete **Assignment 2: The Residential Tenancies Act**, found in Appendix B of this Study Guide. Submit your completed assignment to your instructor for marking.

## Questions

1. What is a security deposit?
2. If monthly rent is \$400, what is the maximum security deposit the landlord can ask for?
3. What is a lease?

## Owning versus Renting

After spending several years renting, an individual may consider owning their own home rather than renting. In the short term renting is often more economical, since monthly rent is often lower than a mortgage payment plus other costs associated with owning a home. However, in the long term owning a home is more economical since the homeowner is investing his or her money in a property that will likely increase in value over the long run.

While owning a home can be an excellent investment, it is not right for everyone. There are several advantages to owning a home. If housing prices rise, a home will provide financial security due to capital appreciation. A home can be decorated or renovated to meet personal needs or tastes. A home also provides a sense of pride and stability to the owner. There are also several disadvantages to owning a home. Coming up with the down payment, meeting regular mortgage payments and other ongoing costs will tie up a lot of cash, and can put considerable stress on finances. Keeping a home in good repair requires time and money. There are extra costs such as property tax, homeowner's insurance, private mortgage insurance, and maintenance. Owning a home is a big responsibility, since the owner is responsible for all payments, repairs and maintenance.

## Steps and Finances Involved in Buying a Home

### Step 1: Determining financial readiness

The first step in home ownership involves figuring out how much house a person can

afford. There are several steps involved in determining this number.

#### Calculate current monthly debt payments.

This includes all monthly debt payments including loans for other properties, car loans or leases, personal loans or lines of credit, credit cards, student loans, and other loans.

#### Complete debt service ratio calculations.

Financial institutions follow two simple affordability rules to determine how much an owner can realistically pay:

- The first rule is that monthly payment costs (**PITH**: principal, interest, taxes and heating costs) should not be higher than 32% of gross monthly income. This figure is called the **Gross Debt Service (GDS) ratio**.
- The second rule is that your entire monthly debt load should not be higher than 40% of gross monthly income. Entire monthly debt load includes housing costs (PITH) plus the other monthly debt payments calculated in Step 1. This figure is called the **Total Debt Service (TDS) ratio**.

**Calculate maximum house price.** The maximum house price that can be realistically afforded depends on several factors, including gross household monthly income, down payment, and mortgage interest rate. There are often many "hidden" costs associated with buying a home, including:

- **HST.** 13% HST is added to the price of new home construction.

- **Appraisal.** Many mortgage lenders require an appraisal of the property to ensure an accurate estimate of the value of the home.
- **Deposit.** When a buyer makes an offer on a home, a cash deposit is often required to show that the buyer is serious. When the buyer officially purchases the home, the deposit goes toward the down payment they make on the home.
- **Land registration.** In some areas, the buyer will need to pay a land registration fee upon closing.
- **Legal fees.** A lawyer's services are required to ensure you legally own your home when you close.
- **Home inspection.** While not necessary, the buyer can hire a home inspector to inspect the property for defects before buying the home.
- **Property insurance.** It is necessary to show proof of insurance before a lender will provide a mortgage.
- **Appliances and furniture.** Sometimes appliances will be included in the sale of a home, but it is inevitable that some money will be required for these items.
- **Renovations.** Renovations can include cosmetic work such as painting or more expensive projects such as remodeling a kitchen.
- **Down payment.** Buyers must provide a down payment of at least 5% of the cost of the house.
- **Survey.** A land survey is required before a property can be sold.
- **Moving expenses.** Cost will vary depending on the number and types of items to be moved.
- **Property taxes.** Property taxes are based on the **mill rate** set by the

municipality. A mill rate is the amount of tax paid per dollar of the assessed property value. It is called the mill rate because the number is expressed in mills - one mill is 1/10th of a cent (\$.001). For example, if the mill rate is 11.0, then the annual property tax of a \$150,000 home is  $\$150000 \times 11/1000 = \$1650$ .

- **Service hook up fees.** A service hook up fee is required for cable, internet and phone.
- **Mortgage insurance.** Lenders require mortgage loan insurance for loans made to anyone that wishes to purchase a home with less than 20% of the purchase price.
- **Condo fees.** If the buyer purchases a condominium, monthly fees are required for operating the building and common areas.
- **Tools and equipment.** Basic tools and equipment are required to maintain a home.

## Step 2: Getting financing

Unless a buyer can pay the full price of the home in cash or make a trade, a mortgage loan from a financial institution is required. While a mortgage can be obtained after making an offer on a home, many financial institutions offer **pre-approved mortgages**. With a pre-approved mortgage, the buyer will know exactly how much he or she can afford and what the monthly payments will be; the interest rate is often locked in for a period of time; and the buyer demonstrates to the seller that he or she is serious about buying a home.

There are several general types of mortgages available to the buyer. A **conventional**

**mortgage** requires a down payment of at least 20% and is offered on either a fixed or variable interest rate basis. Conventional mortgages have the lowest carrying costs because they do not have to be insured against default. A second option is a **low down payment insured mortgage**. Most lenders now offer insured mortgages with lower down payment requirements than conventional mortgages – as low as 5%. Low down payment mortgages must be insured to cover potential default of payment; as a result, their carrying costs are higher than a conventional mortgage because they include the insurance premium.

There are many sources of loans and many types of loans available to buyers. Banks, brokerage firms, credit unions, mortgage finance companies, insurance companies, private investors, and other institutions are sources of mortgage loans. Access can be in person, through toll-free telephone calls, or the Internet. Many financial institutions offer pre-approved mortgages over the Internet. Buyers also have to decide how long they want to amortize their mortgage. **Amortization** is the actual number of years it takes to pay off a mortgage in full, assuming equal monthly payments. Amortization can range from 15 to 35 years. The shorter the amortization, the bigger the monthly mortgage payment, but there will be less paid in interest over the lifetime of the mortgage. The opposite is true for longer amortization.

### Step 3: Determining preferences

There are several factors to consider besides financial readiness when home shopping:

- **Type of housing desired.** The main types of housing are:

- *Single family dwellings.* Houses that are detached from other units.
- *Multi-units.* Duplexes, townhouses.
- *Condominiums.* Individually owned units in a building with several other units with monthly fees for operating the building and common areas, such as lobbies. The owner of the condominium has title to the unit.
- *Manufactured housing.* Mobile homes.
- **Commuting distance.**
- **Service availability.** Water, sewer, roads.
- **Taxes.**
- **Size and quality.**
- **Zoning laws.** Include what can and cannot be done to the home and what schools are zoned for that home.

### Step 4: Finding a home, making an offer

Locating a home can be done on one's own or through the services of a **real estate agent** or broker. Usually the seller pays the real estate agent's commission so the buyer can use the services of the agent without any direct cost involved. Real estate agents who are members of the Canadian Real Estate Association can use the registered trademark of Realtor.

A real estate agent or realtor can provide the following services to someone in the market for a home: show homes, present an offer to the seller, negotiate a final price, assist in obtaining financing, and represent the buyer at closing.

Once the purchaser has decided on a home, he or she makes an offer directly or through the real estate agent. If buyers are sure they want a particular home, the usual practice is to put down a **binder**, which is a portion of the purchase price deposited as evidence that the purchase offer is serious. It can range from a few hundred dollars to several thousand dollars.

The binder is held in **escrow** (held by the mortgage lender) until closing day. If the offer for the home is accepted, then the binder is figured into closing costs. If the offer is not accepted, the binder is returned. In rare cases – usually due to the buyer's failure to complete the purchase – it is kept by the seller.

As soon as the binder is accepted, the buying process speeds up and goes to contract. Going to contract means that the buyer and seller outline the terms of the sale, including the down payment. A real estate attorney will review the contract. This is the first legal document that the buyer and the seller sign. The conditions of sale that it

outlines include a free and clear title, mortgage contingencies (a mortgage has to be approved by a lender) and other required inspections. A closing date will also be written on the contract.

### **Step 5: The closing**

When the mortgage is approved, the buyer moves toward **closing**, a meeting where the property is transferred from seller to buyer. Throughout the closing process, realtors, mortgage professionals, and loan officers assist buyers and sellers with the options and paperwork. To get ready for closing, the buyer may need to get mortgage insurance, set aside money for closing costs, set a date for the final walk through to see that the home is in the agreed upon condition, and consider having a home inspection.

### **Assignment**

Complete **Assignment 3: How Much House Can You Afford**, found in Appendix C of this Study Guide. Submit your completed assignment to your instructor for marking.

## **Questions**

1. What are the pros and cons of owning your own home?
2. Mark and Jennifer's gross monthly income is \$6000. What is their Gross Debt Service Ratio? What does this number mean?
3. Mark pays \$120 a month in student loan payments and \$260 in car payments. Jennifer pays \$140 a month in student loan payments. What is their Total Debt Service ratio? What does this number mean?
4. Describe six extra costs associated with buying a home.
5. What are the benefits of getting a pre-approved mortgage?

6. What is the difference between a conventional mortgage, a low down payment mortgage, and a no down payment mortgage?
7. What does amortization mean?
8. Mark and Jennifer have narrowed down their choices to two homes. House A is \$200,000 while House B is \$175,000. The total commute from House A to work is 20 km, while the commute from House B to work is 50 km. All other things being equal, which house would you choose and why?
9. Why would you solicit the services of a real estate agent when buying a home?
10. What happens during the closing process?

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## Transportation and Vehicles

### Buying versus Leasing

Buying a car can be overwhelming. In fact, the pleasure of getting a new car can be quickly clouded during the financing decision-making process and price negotiations. Besides price haggling, many car shoppers are plagued with the decision to lease or buy. The concept of leasing versus buying vehicles is similar to renting versus buying a home. It is important for car-buyers to have a solid understanding of the different purchasing processes.

### Leasing

**Leasing** is a contractual agreement outlining monthly payments, a security deposit, and terms and conditions of the lease. There are several benefits to leasing over buying a vehicle. There are often lower out of pocket costs when acquiring and maintaining the car. Little or no down payment is usually required, there are no up front sales tax payments and a new car can be leased every

few years. Leasing is also a good option if a large car loan cannot be secured.

There are several drawbacks to leasing a vehicle. The car is not owned, and must be returned at the end of the lease, at which point the owner has the option of purchasing the vehicle. Repeated leases mean constant car payments, there are often strict mileage restrictions, and it is very difficult to get out of a lease. Additionally, insurers often require higher coverage costs.

### Buying

While a consumer can purchase a vehicle with cash, many owners choose to finance the vehicle through the car dealership or other financial institution. There are several benefits to buying a vehicle rather than leasing it. Buying a vehicle means that the consumer will actually own it one day, and be free of car payments for the remaining life of the car. The owner is free to sell the car at any time, and is not locked into any

type of fixed ownership period. Insurance is often lower than with leased cars, and the owner is free to rack up mileage without economic penalties or restrictions.

There are several drawbacks to buying a vehicle. Monthly payments are often higher, and dealers often require a down payment, making initial out of pocket costs higher. As well, even though the consumer will own the vehicle, there is little equity since the value of the car will go down, or depreciate, over time.

## Should I Lease or Buy?

In addition to analyzing the benefits and drawbacks of buying and leasing, consumers should consider some other factors when considering whether to loan or lease. If paying cash or carrying the monthly payments of a loan is unaffordable, leasing may be an option. However, paying cash or short-term borrowing is always cheaper than a lease. If you typically keep your vehicle for more than five years then leasing is likely not a good idea unless you cannot afford the monthly loan payment. Most consumers in Canada drive 20,000 to 25,000 kilometers per year. If you drive more than this, leasing can get expensive because of the excess kilometer charges. A dealer must provide you with a "full disclosure lease". If the dealer refuses, it is highly recommended that you lease your vehicle elsewhere. Overall, you should gather as much information as possible before deciding whether or not to buy or lease.

## New or Used?

In many cases, high-priced new cars are out of the price range of many people who

turned to the used car market. Buying a used car can offer several benefits. Buying a used car can afford you a model with more luxury or performance and insurance is often cheaper. Because of the popularity of leasing, it is easier than ever before to find a near-new car that has come off a lease. Used cars are more reliable today than in the past, and some used cars are still under the factory warranty. It is possible to track the history of used cars using the Vehicle Identification Number (VIN), financing rates have dropped, and buying from a private party can mean less stressful negotiations. There are also drawbacks to buying a used car. Maintenance and repair costs are important considerations, especially if the car is no longer covered under warranty. There is a risk you'll buy a "lemon", which is a car that was abused or not well maintained by the previous owner. Interest rates on loans for used cars are often higher than new, and used cars may not be equipped with the latest safety features.

Many used car dealerships offer "**certified pre-owned**" vehicles. To qualify as a "certified used" vehicle, the warranty must be backed by the original vehicle manufacturer. The original manufacturer of the vehicle is using its dealer network to inspect the car, determine if it is worth certifying and then offer support for the vehicle for a period of time beyond the original warranty. Not all used cars can qualify for certified pre-owned programs, and terms vary from one brand to the next, but any true certified pre-owned program will include at least a 100-point inspection of the car. If problems are found, the factory-trained technicians will fix it or disqualify the car from the program. The certified warranty protection typically takes

effect when the original warranty expires and, like a new car warranty, offers coverage for a certain number of years or miles, whichever comes first. The benefits of purchasing a certified pre-owned car versus a used car from a private party or used car lot are that you have the factory standing behind the certified pre-owned car, plus you'll be buying a car that the original manufacturer has inspected to ensure that it is worthy of certification. The only downside to certified pre-owned cars is that they are generally more expensive than other used cars.

## Cost of Operating a Vehicle

The costs involved in operating a vehicle can be divided into fixed and variable expenses.

Fixed	Variable
Depreciation	Gasoline, oil
Insurance	Maintenance, repairs
Interest on car loan	Licence, fees, registration
Parking, tolls	
Taxes	

Each year the Canadian Automobile Association (CAA) publishes a Driving Costs brochure to help you calculate how much it costs to own and operate a vehicle each year. In 2008, for a new vehicle, variable costs were calculated at approximately 0.14\$ per kilometer and fixed costs were calculated at approximately \$6500 per year. If you drive 20,000 kilometers per year, for example, total variable costs would be \$2800, giving a total cost of \$9300 annually to drive a car. Each year the costs rise, due not only to rising fuel costs but also higher ownership costs

including insurance, depreciation, taxes, licence, and registration. The factors that affect auto related expenses include the following:

- **Driving costs** involving the size of the vehicle and number of miles driven.
- **Depreciation**, which is the loss of the vehicle's value due to time and use. This is usually the largest fixed expense.
- **Insurance**
- **Variable operating costs**, including gasoline, oil, tires, maintenance, and repairs. The life of a car can be extended through proper maintenance.
- Some vehicles may be **tax deductible** if the vehicle is used for business. For the latest rules and regulations visit the Canada Revenue Agency website.

## Other Modes of Transportation

Alternative modes of transportation include public transportation (buses, rail, ferries), cycling, and walking. These modes are cheaper than owning a car, are more environmentally friendly, and in the case of walking and cycling, provide health benefits. The main downside is the lack of convenience they provide compared to owning a vehicle. The decision to rely on alternative modes of transportation is dependent on their availability and practicality, and the distance required to travel.

## Questions

1. What is a lease?
2. What are the pros and cons of leasing a vehicle?
3. What are the pros and cons of buying a vehicle?
4. What are the pros and cons of buying a used car?
5. What is a certified pre-owned car?
6. What are some of the fixed and variable expenses associated with buying a car?
7. What is depreciation?
8. What are some alternative modes of transportation? What are the pros and cons of alternative modes of transportation?
9. **Case Study.** You are deciding to either buy or lease a new car. Use the following information to choose between these alternatives and then write a paragraph that explains the logic and mathematical basis for your choice.

Facts about leasing:

- list price is \$16008
- 60 month lease
- lease payment is \$197 with \$0 down, \$180 with \$1000 down, or \$162 with \$200 down
- option to purchase at the end of the lease is \$5174 plus tax
- annual kilometer limit is 20,000 km
- excess kilometers cost \$0.15 per km

Facts about buying:

- vehicle can be financed for 72 months at \$223/month



## **Annex B**

# **Foods, Clothing, & Appliances Module**



# Nutrition Labeling

Nutrition information on food labels can support consumers in making informed food choices. It can be found in **nutrition labeling** (provided on labels of prepackaged foods, under the title “Nutrition Facts”); **nutrition claims**, which include both nutrient content claims and health claims; and the **ingredient list**. It does not refer to all information on the label, such as labeling related to allergens, food biotechnology (genetically modified organisms – GMOs), organic certification, irradiation processes or the “best before” date.

## Nutrition Information on Food Labels

Nutrition information can be found in three places:

1. Nutrition Facts table
2. Nutrition claims
3. Ingredient list

### Nutrition Facts table

The Nutrition Facts table appears on most packaged foods. You will find three types of information on the Nutrition Facts table:

- Serving size
- Calories
- Nutrient information

The Nutrition Facts table gives you the “big nutrition” picture because it tells you the amount of calories and many of the nutrients in a single serving of a packaged food.

### Nutrition claims

There are two types of nutrition claims: nutrient content claims and health claims.

**Nutrient content claims.** The nutrient claim gives you a “small” nutrition picture because it tells you about one nutrient in a packaged food. To get information on the specific amount of this nutrient you must read the Nutrient Facts table. If a nutrient content claim is made, information about that nutrient must appear on the Nutrition Facts table.

**Health claims.** A health claim describes the relationship between a food or a nutrient and a health condition. Only four claims about specific diet/health relationships, all supported by scientific knowledge, are permitted:

- A healthy diet low in sodium and high in potassium may reduce the risk of high blood pressure.
- A healthy diet adequate in calcium and vitamin D may reduce the risk of osteoporosis.
- A healthy diet low in saturated and trans fat may reduce the risk of heart disease.
- A healthy diet rich in a variety of vegetables and fruit may help reduce the risk of some types of cancer.

You may also see claims relating to dental caries/cavities on foods such as sugar-free gum/candies.

Health Canada sets the regulations for the wording of the claim and the criteria that a food has to meet to qualify as a claim. For example, a food with a health claim related to osteoporosis would have to contain a specified amount of calcium and vitamin D.

## Ingredient list

This list always appears on packaged foods unless the product only has one ingredient.

All the ingredients in a food are listed, and ingredients are listed by weight from most to least.

## Questions

Refer to the graphic below and answer the questions that follow.



1. What are some examples of nutrients you would see in claims?
2. What is the nutrient content claim on this can of pears?
3. What do you think “no sugar added” means?
4. What does the Nutrition Facts table tell you about sugar content?
5. If no sugar was added, why do you think there are 14g of sugars in one serving?
6. Why do you read the ingredient list?

7. What are the ingredients in this can of pears?
8. What ingredient is present in the greatest amount by weight in this food? How do you know?
9. What ingredient is present in the least amount by weight in this food? How do you know?

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## Reading the Nutrition Facts Table

Thirteen nutrients are listed on the Nutrition Facts table that appears on most packaged foods. Scientists and health professionals consider all 13 nutrients to be important to the health of Canadians. The nutrients are:

- Fat
- Saturated fat
- Trans fat
- Cholesterol
- Sodium
- Carbohydrate
- Fibre
- Sugars
- Protein
- Vitamin A
- Vitamin C
- Calcium
- Iron

We all need to eat adequate amounts of each of these nutrients in our diets.

The fat on the Nutrition Facts table includes all types of fat which are:

- monosaturated (e.g. olive oil, canola oil)
- polyunsaturated (e.g. liquid vegetable oils, fish oils)
- cholesterol (e.g. meat, butter, eggs, shrimp)

- saturated (e.g. animal foods, coconut oil, palm oil)
- trans (e.g. processed foods containing hydrogenated fat or oil such as shortening, some types of margarine, crackers and cookies)

Fat is one of the nutrients you need in your diet, but if you eat too much fat or too much of certain kinds of fat such as saturated fat and trans fat, you could develop heart disease or type 2 diabetes. That is why these two types of fat are shown on the Nutrition Facts table.

## The Nutrition Facts Table

On the Nutrition Facts table you will find three types of information:

- Serving size
- Calories
- Nutrient information

The same 13 nutrients are usually listed on the Nutrition Facts table and are always listed in the same order. While a standard format is used on most packaged foods, other formats can be used if:

- a manufacturer chooses to include information about additional nutrients other than the 13 core nutrients

- the size of the package is too small or the shape is too different from the standard format
- the product is for children under two years of age

<b>Nutrition Facts</b>	
Per 1 tablespoon (15 g)	
Amount	% Daily Value
<b>Calories</b> 100	
<b>Fat</b> 8 g	<b>12 %</b>
Saturated 1 g	10 %
+ Trans 1 g	
<b>Cholesterol</b> 0 mg	
<b>Sodium</b> 76 mg	3 %
<b>Carbohydrate</b> 3 g	1 %
Fibre 2 g	8 %
Sugars 0 g	
<b>Protein</b> 4 g	
Vitamin A	0 %
Vitamin C	0 %
Calcium	1 %
Iron	0 %

### Serving size

The **serving size** is the amount of food you need to eat to get the amount of calories and nutrients shown on the Nutrition Facts table. Serving size may be shown in one of three ways:

- Per (e.g. per  $\frac{1}{2}$  cup (125 mL))
- Serving size (e.g. Serving size  $\frac{1}{2}$  cup (125 mL))
- Serving (e.g. serving  $\frac{1}{2}$  cup (125 mL))

Serving size is shown in two types of measurements:

- Household measures (cups, tablespoons, pieces)
- Metric measures (grams, milliliters)

Serving size is based on the amount of food people usually eat at one sitting. It may be different than the serving size recommended by Canada's Food Guide, and may be different than the serving size you would normally eat.

### Calories

A **calorie** is a unit of measurement. It tells you how much energy your body gets from a food. Fat, protein, and carbohydrate are the nutrients that contribute calories to a food. The calories that you need for your body are determined by your age, body size, gender and activity level. To maintain your weight, you need to have a balance of energy in (calories) with energy out (activity).

### % Daily Value

**% Daily Value** puts nutrients on a scale from 0% to 100%. This scale tells you if there is a "little" or "a lot" of a nutrient in one serving of a packaged food. % Daily Values are based on a reference standard for a 2000 calorie diet.

### Saturated and trans fat, cholesterol & sodium

You should strive to get less of these nutrients in your diet. Eating too much of these nutrients may lead to health problems. You can monitor your daily intake of these nutrients by using the nutrient amount in grams or milligrams shown to the right of each nutrient, or the % Daily Value shown to the far right for fat, saturated fat, trans fat and sodium. You should be aware that % Daily Value for total fat includes saturated fat, trans fat and other fats. % Daily Value for saturated fat and trans fat is combined, and % Daily Value may appear for cholesterol as it is optional for the manufacturer to include it.

## Fibre, vitamin A, vitamin C, calcium and iron

You should strive to get more of these nutrients in your diet. These five nutrients help our bodies in many ways, and eating too little of any one of them can lead to health problems. You can monitor your daily intake of these nutrients by using the nutrient amount in grams shown to the right of carbohydrate and fibre, or the % Daily Value shown to the far right for carbohydrate, fibre, vitamin A, vitamin C, calcium, and iron. You should be aware that

% Daily Value is never given for sugars because there is no established daily intake for this nutrient. As well, % Daily Value is never given for protein because most Canadians' intake of this nutrient is adequate.

### Assignment

Complete **Assignment 4: Reading the Nutrition Facts table**, found in Appendix D of this Study Guide. Submit your completed assignment to your instructor for marking.

## Questions

1. What is a calorie?
2. Why is there no % Daily Value for sugar or protein?

## Being a Smart Food Shopper

There are several things you can do to maximize your food budget. A shopping list can help you use your food budget wisely. Keep a list in your kitchen and write down the foods you need during the week. Go grocery shopping when you are not hungry, and only buy foods that are on the list. Try to avoid buying foods you want but do not need.

**Comparison shopping**, or comparing the prices of products to find the best buy, can help you save money. Before you go shopping, check local flyers to compare the price of the same food in different stores. Compare the price of one brand with another, and try to buy the brand with the lowest price. Some supermarkets carry their own **store brand** of food. Often the store

brand is cheaper than a well known **name brand**, but of equal quality. Some stores carry products that are **generic brands**. These have no company name on them and are in plain wrappers, but are the cheapest of all.

You can save money by buying foods that are on sale. Canned goods have a long shelf life, so it is a good idea to stock up on them when they go on sale. However, you should never buy foods that you do not really want just because they are on sale. There are other ways you can save money on food, including:

- Use coupons and look for specials
- Buy store brand or generic brands when possible

- Buy fewer junk foods like snacks, cakes and cookies
- Buy most of your food in a supermarket
- Buy fresh fruits and vegetables when they are in season to save money and get the best quality and flavor
- Buy meats in bulk and freeze extra to use later
- Look on the lower shelves for better deals. Brand-name companies pay to have their products at eye level to get you to buy them.

## Unit Price

Sometimes foods packed in the "giant" or "family" size may seem like the best buy. You may think that buying one large container will not cost as much as two or three smaller packages. But larger containers do not always end up costing you less than smaller ones. It is important to look at the cost per unit and compare this cost. The **unit price** tells you the cost per kilogram, liter, or other unit of weight or

volume of a food package. It is usually posted on the shelf below the food. The shelf tag shows the total price (item price) and price per unit (unit price) for the food item.

Some stores do not show unit prices on the shelves. You can find the unit price of a product by dividing the price by the weight of the product. For example, a 650 g container of yogurt costs \$2.69. To find the unit price, divide \$2.69 by 650. The unit price is \$0.004, or a little less than half a cent. A 12 pack of 100 g containers of yogurt costs \$5.99. To find the unit price, divide \$5.99 by 1200 g. The unit price is \$0.005, or half a cent. It is cheaper to buy a large container than 12 smaller containers.

Foods that cost less per unit are not always the better buy. The big, economy size is not a good buy if you cannot store it properly. If you end up with leftovers that spoil or are thrown out, buying the larger size is not a good idea.

## Questions

1. What is meant by unit price?
2. What is the difference between brand name, store brand and generic brand products?
3. What are five ways you can save money when you buy food?
4. The lowest priced food is not always the best buy. Figure out the unit price for these two sizes of canned tomatoes to see which is the better buy.



5. Name brands are often more expensive. Figure out the unit price for these two packages of macaroni to see which is the better buy.



6. Joe is buying potato chips for a party. Which is the better buy, 240 g bags that cost \$2.00 each, or 320 g that cost \$3.00 each?
7. Sal's deli is selling bologna at \$1.50 per 250 g. Milt's Deli is selling it at \$2.25 per 500 g. Which deli is selling bologna for less? How much less?

8. Using coupons may save you money. Refer to the graphic below. Which is the better buy? Crunchy O's with a coupon or Toastee O's without the coupon?



9. Refer to the graphic below. Which is the better buy? Fancy Hawaiian Pineapple with coupon or store brand canned pineapple without coupon?



# Being a Smart Shopper

## Buying Clothes Wisely

When planning your budget, you should decide how much money you can spend on new clothing. You should think about the clothes you really need then look for those clothes on sale.

There are labels inside all new clothing that tell you how to take care of your clothes. For example, a label for one shirt may tell you to wash it in warm water while another may tell you to wash it in cold water. Failing to follow the directions may result in damaging the clothes. Here are some common labels and their meanings:



Wash normally with regular agitation and spin cycle.



Hand wash only.



Do not wash.



Machine dry using Normal cycle setting.



Do not tumble dry.



Use bleach.



Do not use bleach.



Ironing is needed.



Do not iron or press with heat.



Dryclean only.



Do not dry-clean.

If you buy clothes that must be dry-cleaned, keep in mind that dry cleaning is expensive and often inconvenient. You should limit

your dry clean only clothing purchases to items you will not be wearing on a regular basis.

Waiting for sales is the best way to save money on clothes. Winter clothes will often go on sale half way through the winter season, while spring and summer clothes will often go on sale midway through the summer. By waiting for these sales, you can buy clothes at much lower prices.

Buying cheaper clothes is not always the best value for your money. Well made clothes, while a little more expensive, will last longer and look good even after they have been washed many times. Clothes that cost more money, however, are not always better made. It is important to research and comparison shop before you purchase a particular brand of clothing.

## Buying Appliances Wisely

**Appliances** are machines such as stoves, washing machines and clothes dryers that make work easier. Appliances are a major purchase, since they are expensive and are expected to last a long time. Comparison shopping will help you save money when buying appliances. However, be wary of “no money down, no interest” advertisements since they may cost you more money in the long run. Buying a used appliance can be a good option, but make sure you check the appliance carefully to see if it works correctly before you buy. As well, older models are not as energy efficient as newer ones and may end up costing you more over the life of the appliance.

## Questions

1. Why is it important to check the label before you buy clothes?
2. What are two ways you can save money when purchasing clothes?
3. How can you save money when buying an appliance?

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# **Annex C**

# **Insurance Module**



## How Insurance Works

While it sometimes seems that insurance companies work in mysterious ways, the idea behind insurance is simple: it uses the payments of many to cover the losses of a few. The money you pay for your insurance – your **premiums** – goes into one large pool at the insurance company. Those who suffer a loss that is insured can then draw from that pool. Because only a few people need to draw from the pool in any given year, there is enough money in it to pay major losses like those incurred as a result of fire or a serious automobile accident. This concept is called spreading the risk, or **risk sharing**.

However, the pool must be replenished, or refilled, each year, so it will hold enough money to cover the coming year's losses. It can quickly be drained by one major disaster. For example, the 1998 Quebec ice storm alone resulted in an estimated 700,000 claims for damage totaling \$1.14 billion, according to the Insurance Bureau of Canada. In fact, many insurance companies do not even make a profit on the premiums they receive as compared with the money they pay out in claims and spend to operate the business. Rather, their profit derives from their investments.

Your insurance policy represents a promise to protect you against certain **perils** – or causes of loss or damage – for a given period of time, usually a year. This promise is renewed on a year-by-year basis; your premiums do not "build up" for you to draw upon when needed (except in the case of certain life insurance products – whole life, for example – that are designed with an

investment component). In fact, this is one of the most common misconceptions about insurance. Consumers complain that they faithfully pay their premiums year after year. Yet, when they finally need their insurance to cover a small loss, they can't make a claim, because the cost of the **deductible** (the portion of the claim that you have to pay) may be as high as, or even higher than, the amount of the claim itself. Then there's always the risk of premiums going up as a result of a claim, even a small one.

Another common misconception is that insurance covers every misfortune that might befall you. If that were the case, no one could afford the premiums. As well, insurance is not intended to be a maintenance policy, so water damage caused by a poorly maintained roof or normal wear and tear on household furniture are not covered by insurance. Nor is it intended to cover minor losses that consumers could afford to pay for themselves. Rather, insurance is intended primarily to protect you against serious, and unforeseen, loss or injury that you could not pay for otherwise – for example, a major car accident, a fire that destroys your home, the theft of your precious jewellery, the death of a spouse and the consequent loss of that individual's income. It is not designed to replace your \$200 lost sweater, as inconvenient and annoying as that loss may be. If insurers were to pay all of these smaller claims, there would not be enough money left in the pool to pay the large ones.

# Automobile Insurance

Whenever you get behind the wheel of a car, you are capable of causing damage to other people's property, and injuring or killing yourself, other drivers, passengers and pedestrians. Because most people don't have the money to pay for the losses they might cause while driving, governments throughout the developed world require drivers to carry a certain amount of insurance to cover any losses (property damage, injury, death) they might cause others to experience. An **auto insurance policy** is a contract between you and an insurance company. You pay a premium, and in exchange, the insurance company promises to pay for specific car-related financial losses during the term of the policy. Every driver in Newfoundland and Labrador is required by law to carry auto insurance coverage.

## Calculating Your Premium

Within reasonable limits, some of which are prescribed by law, your premium is calculated to reflect the probability that you will make a **claim** – that is, that you will draw funds from the insurance pool. Those who are unlikely to draw from the pool pay less than those who are more likely to draw from it.

Car insurance premiums, like all insurance premiums, are determined based on **risk**. That is, how likely it is that a customer – and a group of customers with the same set of circumstances – will make a claim, and how much those claims will likely cost. **Actuaries** (persons with mathematical training in the principle of large numbers and the theory of probability) must also

predict how much it will cost to settle these claims, the company's overhead, selling costs, industry taxes and the amount that must go into reserve funds to cope with catastrophes.

**Insurers**, or insurance companies, take many factors into consideration to determine the likelihood that you will make a claim. A common misconception is that a **policyholder**, which is the person who holds the insurance policy, who has never made a claim, should pay less, little or nothing for insurance. While it is true that past claims history is important, a more reliable indicator of how likely a person or business is to make a claim is the statistical group to which he or she belongs.

### Factors that affect what you pay for automobile insurance:

**Where you live.** Where the cost of living is high, the cost of insurance tends to be high as well. Accidents and vehicle theft tend to be higher in urban areas, which may translate into higher premiums.

**The type of vehicle you drive.** Insurers consider the make and model of your vehicle in terms of what the risk factors associated with it might be. For example, expensive, high-performance cars cost more to insure, while cars with higher safety ratings cost less to insure. Newer cars cost more to insure than used ones because of the higher replacement value. Despite claims to the contrary, car color does not impact insurance premiums.

**How you use your car.** The more time a car spends on a road, the higher the chance of an accident. Driving regularly for long distances (e.g. long commutes to work) can mean higher premiums.

**Your driving record.** Statistics show that people follow patterns of established behavior. A long driving history with no accidents can help keep your premiums down, while every accident where you're at fault may push your premiums up. Speeding tickets and other moving violations may also increase your premiums, but parking tickets will not.

**Your statistical group.** Young drivers tend to have higher premiums, because driver inexperience is a major factor in accidents, and teenagers are more likely to engage in dangerous behavior. Older drivers may also have higher premiums because of diminished eyesight and slower reflexes. Men tend to have higher premiums than women because men tend to drive more and are more likely to engage in risky road

behaviors. The gender gap, however, continues to narrow.

Because insurers consider a policyholder's individual history in combination with that of his/her group, there is no one-size-fits-all method of determining premiums. Therefore, it is not the case that all 30 year olds driving Fords and living in Paradise pay the same amount for their car insurance. If the factors listed above were not considered, lower risk policyholders would be subsidizing the higher-risk ones.

There are things you can do to reduce risk and lower your premiums. Avoid moving violations by following the speed limits and always wearing your seatbelt. Know your own limits and always concentrate on driving. Avoid driving at dusk and dawn, which are peak times for moose – vehicle collisions. Ensure your vehicle is well maintained and that the tires in particular are in good shape and are suitable for the season. Be patient, and most importantly, never drink and drive.

## Questions

1. What is a premium?
2. What is a peril?
3. What is a deductible?
  - a. Mike is in a fender-bender and submits a claim to his insurance company. The total claim is \$400. If his deductible is \$250, how much will he receive from his insurance company?
  - b. By submitting a claim, Mike's insurance premiums will increase. Do you think he should submit the claim or should he pay for the repairs himself? Explain.

4. Mike ran into a telephone pole because his brakes failed due to lack of maintenance. Will his insurance cover the cost of repairs?
5. How does an auto insurance policy work?
6. What is a claim?
7. Two drivers, John and Marie, are shopping for auto insurance. Read their backgrounds and answer the questions that follow:

**John**

John is a 32 year old male (today is his 32<sup>nd</sup> birthday) who lives in South Dildo (postal code A0B 1R0). He is the single driver on his vehicle, and his current policy expires one month from today. John is married and works full time. He wrote his permit on his 17<sup>th</sup> birthday, and received his Class 5 licence two weeks later. He has been insured since writing his permit. John has received two speeding tickets last year, one in June and the other in November. He drives a 2008 Kia Sedona LX and uses it mainly for driving to and from work, which is 60 km from his home. John drives about 35,000 km a year. He wants \$1 million in liability insurance, collision insurance with a \$250 deductible, and comprehensive insurance with a \$250 deductible.

**Marie**

Marie is a 19 year old female (today is her 19<sup>th</sup> birthday) who lives in St. John's (postal code A1A 0B8). She is the single driver on her vehicle, and her current policy expires one month from today. Marie is single and goes to school full time. She wrote her permit on her 16<sup>th</sup> birthday, received her probationary licence on her 17<sup>th</sup> birthday, and received her Class 5 licence on her 18<sup>th</sup> birthday. She completed a driver education program two years ago and has been insured since she wrote her permit. Marie was in an accident last year, where she rear-ended a vehicle that was stopped at a red light (100% Marie's fault). She drives a 2003 Chevrolet Cavalier 4 door and uses it mainly for driving to and from school, which is 5 km from her home. Marie drives about 15,000 km a year. She wants \$1 million in liability insurance, but does not want collision or comprehensive insurance.

- a. Just from reading the above scenarios, who do you think would pay higher premiums? Why?
- b. There are several online sites that provide auto insurance quotes. Visit [www.insurancehotline.com](http://www.insurancehotline.com) or a similar site and determine approximately how much John and Marie would have to pay for auto insurance.
- c. Were you surprised by the quotes? Why do you think there is such a big difference between John and Marie's premiums?

d. What are some things that both John and Marie can do to lower their premiums?

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## Types of Auto Insurance

In Newfoundland and Labrador, it is mandatory for all drivers to carry **Third-Party Liability** coverage. This protects you financially if you are found legally **liable**, or responsible, for injuring someone or causing damage to another person's property or automobile while operating a motor vehicle. The minimum liability coverage required is \$200,000, but most insurance brokers recommend at least \$1 million in liability coverage since \$200,000 may not be enough. Say, for example, that you are found at fault for an accident that caused extensive property damage or serious injuries to a pedestrian. If the courts order you to pay \$500,000 in damages and you only have \$200,000 in liability coverage, you could be held personally responsible for the remaining \$300,000.

**Uninsured Motorist or Automobile** coverage is another important protection included in every auto insurance policy issued in Newfoundland and Labrador. This coverage provides benefits to you or your family if you are injured or killed by an uninsured or unidentified driver. It also helps pay for damages to your vehicle if caused by an identified uninsured motorist. A certain amount of **Accident Benefits** coverage is required by law in all provinces and territories, except in Quebec and Newfoundland and Labrador. If you are injured in a motor vehicle accident (regardless of fault), this coverage can help replace your lost income, pay for medical, rehabilitation and other expenses not covered by MCP, and can also provide

benefits to your spouse or partner and dependent children if you are killed in an accident.

**Collision coverage** is a type of automobile insurance coverage that pays for the cost of repairing the insured vehicle if it is damaged in a collision or upset. In some parts of the country, this is referred to as "Section C." This is mandatory for leased vehicles but optional if you own the vehicle. If the value of the vehicle is less than the premium, for example, collision coverage would not be recommended.

**Comprehensive auto insurance** (also known as "all risk, all perils") is an optional auto insurance coverage that pays for damage to an insured vehicle caused by any perils other than collision or overturning. Examples of perils covered are hail, flood, theft, fire, glass breakage, falling objects, missiles, explosions, earthquakes, windstorms, vandalism or malicious mischief, riot or civil commotion, and collision with a bird or an animal.

## Borrowing or Lending a Car

According to the Insurance Bureau of Canada, it is permissible to borrow a car under certain circumstances without worrying about whether or not the car's insurance names you as an occasional driver. It is also permissible to lend your car without worrying about whether or not the guest driver's name is on your insurance policy.

**If you are borrowing a car:**

- The person whose car you are borrowing must give you permission to use it.
- The use of the car cannot be part of a regular pattern, such as driving to school every day. If you regularly borrow the same car as part of a routine, you must be listed on the owner's insurance policy as an occasional driver.
- You must be a licenced driver who is legally allowed to drive in the province.

If you have an accident while driving a borrowed car, the accident goes on the record of the person who has the insurance policy on the borrowed car.

**If you are lending your car:**

- You must consent to its use by the other driver.
- The person who borrows your car cannot be using it as part of a regular routine. If your friend uses your car every Friday to go grocery shopping, for example, then he/she must be named on your insurance policy as an occasional driver.
- the person to whom you lend your car must be a licenced driver who is legally allowed to drive in the province.

If the person borrowing your car has an accident while driving your car, it goes on your insurance record. When you lend your car, you are also lending your good driving record.

**Questions**

1. Read each automobile insurance scenario and write your answers to each question.
  - a. Joe was driving to work. As he was turning into school he was rear-ended by Robert. Joe's head hit the steering wheel and he was transported directly to the hospital by ambulance. Robert failed to pay his insurance premium for several months and his policy was cancelled. What type of automobile insurance coverage(s) is/are needed in this situation?
  - b. Kathy was leaving work when she backed into Mr. Cheeseman's Datsun. Only the automobiles suffered physical damage. What type of automobile insurance coverage(s) is/are needed in this situation?
  - c. Jill went fishing at Salmonier river. While her car was unattended, someone stole Jill's hubcaps. What type of coverage(s) is/are needed?
  - d. Matthew has an "old junker" worth \$300. As he left work he went off the road, totalling the vehicle. What type of coverage(s) is/are needed?

e. Albert, Samantha, and Michelle were driving to a friend's house for dinner. While Albert was talking on his cell phone, he struck a moose and totalled the car. Both passengers were not seriously injured but did require medical attention. What type of coverage(s) is/are needed?

f. Rachel swerved to avoid hitting a cat and struck a tree. What type of coverage(s) is/are needed?

2. Your brother is home on vacation from Korea so you lend him your car for the day. He is in an automobile accident while driving your car.

- Was your brother allowed to legally drive your car even though he is not insured on your vehicle?
- Assuming he is at fault, whose insurance will pay for the accident?

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## What to do if You're in a Collision

**Help anyone who is injured.** If you are able to do so, it is your ethical and legal responsibility to assist anyone who has been hurt in the accident.

### Always call the police if:

- someone is hurt;
- you think any other driver may be guilty of a Criminal Code offence, such as drunk driving; and/or
- there is significant property damage.

**Prevent further accidents.** If it is safe, try to move your car to the side of the road, out of traffic. If you can't drive your car, turn on your hazard lights or use cones, warning triangles or flares.

**Exchange information.** Get the contact information (names, addresses, and phone numbers) of the registered owners and other passengers of all cars involved. Get insurance information from all drivers involved in the accident, including the driver's licence and plate numbers, and the names of their insurance companies and brokers.

**Get names of witnesses.** Get the contact information of any witnesses to the accident.

**Protect the accident scene.** If possible, take pictures of the accident scene from as many different angles as possible. If a camera isn't available, make a sketch of the accident scene noting the position and direction of the vehicles.

## Making a Claim

### Time limits

If you've been involved in a collision that may result in a claim, contact your insurance representative as soon as possible. You must notify your insurer as soon as possible (some policies specify within seven days) about any accident involving the automobile:

- that must, by law, be reported to police; or
- for which you intend to make a claim under the policy.

Most policies state that a written declaration ("proof of loss") must be made within 90 days of the accident. If you don't make your claim within this time, your insurance company may not be legally bound to honour your claim. In practice, however, most companies will honour a claim made within one year if there is a reasonable explanation of the delay.

If you are making a claim against another driver, you should notify him or her as quickly as possible. It's also a good idea to notify the other driver's insurance company of the claim yourself; don't assume that the other driver has done so.

In the event that you intend to sue your insurer, check your contract for any time limits that may apply.

### Preventing further loss

If you are involved in a collision, you are responsible for protecting your vehicle from further loss or damage. The insurer,

however, will pay for the damage if you have purchased Collision coverage. You must not order repairs, other than those needed for protection of the vehicle from further loss or damage, until the insurer has consented or has had a reasonable amount of time to inspect the damage.

You cannot simply abandon a wrecked vehicle to the insurer without the insurer's consent. However, when your insurer has replaced or paid for a wrecked vehicle, the wreck or whatever is left of it (salvage) belongs to the insurer.

You must not voluntarily assume **liability** (responsibility) for any collision or settle any claim, except at your own cost.

### Claims adjuster

Once your insurance company has been advised, a claims specialist – an **adjuster** – will be assigned to look after your claim. The amount you receive for your claim will depend on the type of coverage you bought. The adjuster's job is to determine the facts relating to the claim and the extent to which the claim is covered by insurance. The adjuster, who is paid by the insurance company, also attempts to reach an agreement with the other people involved regarding the amount of their loss and extent of their responsibility.

### When you don't have collision coverage

If the collision was the other driver's fault, you could claim payment of your damages from the at-fault driver. If it was your fault, you will be personally responsible for your damages.

## Questions

1. Number 1 – 8 the correct steps to follow after an accident:

- a. Call police if necessary.
- b. Get names of witnesses.
- c. Exchange information.
- d. Make sure everyone is okay.
- e. Prevent further accidents.
- f. Prevent further loss.
- g. Record accident details.
- h. Repair vehicle when and if authorized to do so.

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# Home and Tenant Insurance

Buying a home is probably the biggest single financial investment a consumer will make. For most people, their life savings are tied up in their home – a home that, no matter how well built, is vulnerable to fire, theft, and other disasters.

Could you possibly afford to replace absolutely everything you own? Recovering from even a partial loss, like having your home broken into and many possessions stolen, would cost more than most people could manage on their own. Home insurance is there to protect you from having to pay out a huge amount at once, often at the very worst time emotionally.

As a tenant, you may have even more to lose. If you don't have insurance and your actions (e.g. leaving the bathtub running) caused damage to your or your neighbour's apartment or the apartment building itself, you would be held financially responsible for the cost of repairs to the structure, and of replacing the damaged property of your neighbours. The resulting claims would be paid by the landlord's and your neighbour's insurance – but their insurance companies will come to you to recover the costs. Tenant insurance is there to protect you from having to cover these costs out of your own pocket.

## What is Homeowner's Insurance?

**Homeowner's insurance** is a binding, legal contract between the insured and the insurer to protect the insured, their home, and belongings if they are damaged or destroyed. Within limits, home insurance

reimburses you for your financial loss arising from mishaps that are generally "sudden and accidental" and, therefore, hard to predict and prevent. Most banks or mortgage companies will insist that you purchase coverage, and will ask for proof of insurance before lending you money to buy a home. If you are renting, your landlord may require you to have a certain amount of liability insurance to pay for any damage you may cause to the property.

## Insurable Perils

Homeowner's or tenant's insurance insures you from the following perils:

- aircraft or vehicle impact
- electrical current
- explosion
- falling object
- fire
- lightning
- riot
- smoke (released suddenly from malfunctioning cooking or heating devices, not from fireplaces)
- theft
- transportation (of personal property while it is temporarily away from your home; includes building fixtures and fittings being repaired or in seasonal storage)
- vandalism (while the building is normally occupied)
- water damage
- wind and hail (applies to the outside of a building except for antennas, satellite dishes, etc.; the interior of a building and its contents are covered)

- only if the storm has created an opening)
- window glass (breakage in a building that is normally occupied; not covered by tenant insurance)

### **Optional coverage**

Coverages for the following perils, not normally included in any type of home or tenant insurance policy, may often be purchased separately:

**Earthquake.** Cost varies according to location and type of construction.

**Furnace Oil Spills.** Consider replacing steel tanks more than 20 years old. Beware of damage to concealed pipes and tubing.

**Sewer Back-up.** Useful in some low-lying areas, particularly those with combined storm and sanitary sewers.

### **Uninsurable Perils**

A home insurance policy is not a maintenance contract. Home insurance is generally intended to help policyholders cope with the financial consequences of unpredictable events that are “sudden and accidental”. Predictable events, such as flooding of a home built on a flood plain, or preventable events, such as frozen indoor pipes, are not covered. The following perils are generally uninsurable:

#### **Water damage caused by floodwater.**

Certain areas are prone to floods, so damage caused in this way is considered predictable. Water damage arising from a sudden rupture of an indoor water pipe would be a different story; that damage would be covered.

**Damage arising from the freezing of indoor plumbing.** This is generally regarded as preventable. If you are away from home for more than four days during the normal heating season, you must drain the plumbing or arrange to have your home checked daily by a competent person to ensure that heat is maintained. However, if freezing-related damage were to occur despite such precautions, it would likely be covered.

**Damage from freezing outside the home.** This is not covered; nor is damage from waves, melting or moving snow and ice, and heaving frost.

**Damage by insects and rodents (e.g. termites, squirrels, mice, rats).** This is not insurable, except for damage to building glass. Many policies also exclude damage by raccoons.

**Direct damage resulting from the intentional application of heat (e.g. clothing shrunk by a clothes dryer, burned by an iron).** This is not covered. However, if the dryer were to set the clothing on fire and the flames spread to the room and its contents, the resulting collateral damage would be covered.

**Damage by snowslide, landslide and other forms of earth movement.** This is not insurable. However, damage from a fire or explosion caused by earth movement would be covered.

#### **What else is not covered?**

There are certain items that may be in or around your home, but which are not covered by a basic home insurance policy.

**Business premises, equipment at home.** Loss of damage to buildings or structures is not normally insured if these are used for business or commercial farming.

**Vacant premises.** Insurance coverage on dwelling and contents ceases automatically when the premises have been vacant for more than 30 consecutive days without the insurer's prior approval.

**Your lawn.** Damage to your lawn is not covered by a typical home insurance policy.

**Property of roomers or boarders.** If you have roomers or boarders who are not related to you, their property is not automatically covered by your contents insurance.

## **Replacement Cost and Actual Cash Value**

The calculation of how much money your insurer will pay to you following an insured loss is described in your policy, usually under "Basis of Claim Payment".

**Actual Cash Value (ACV).** Insuring property for ACV means that it will be replaced with something of like kind and quality, minus an allowance for depreciation due to wear, condition, age, and obsolescence. So, for example, if your five year old \$1700 computer is stolen, you may only get \$300. Unless it is otherwise noted in the policy, claim settlements for damage or loss to the contents of your home are for ACV.

**Replacement Cost.** Insuring property for Replacement Cost means that it will be replaced with something of like kind and

quality, with no allowance for depreciation. In this case, you would get \$1700 for your five year old computer. Home insurance policies usually include Replacement Cost coverage for building losses.

## **Your Liability to Others**

The personal liability portion of home or tenant insurance applies at your home or anywhere in the world to bodily injury you may unintentionally inflict on others – often referred to as "third parties" – or to accidental damage you may do to their property. Liability coverage does not apply to injuries sustained by you or by members of your immediate household. Your homeowner's liability insurance automatically covers losses arising from your ownership or non-business use of trailers; personal watercraft; golf carts on a golf course; self propelled lawnmowers, snowblowers, and garden tractors; and motorized wheelchairs or scooters.

## **Tenant Insurance**

Landlords have relatively few legal obligations to compensate tenants for damage to or loss of their tenants' personal possessions. Tenants, on the other hand, are responsible for harm they may cause to any part of the building in which they live or to others who live or visit there. Tenant insurance includes liability coverage comparable to that included in a typical homeowner policy. Even though tenants may think they have very little of value, the cost of replacing all your possessions at once can be very costly. For this reason, it is recommended that all tenants insure the contents of their homes.

## Making a Claim

If you have suffered a loss for which you are insured, inform your insurance agent or broker of the nature of your claim. If there has been a burglary or theft, the police must also be informed. You'll be required to supply information about the circumstances of the claim as well as reasonable evidence to justify the amount claimed. Your insurer will want to know exactly what was stolen, when you acquired it, and what you paid for it. A claims adjuster may then be appointed – at no cost to you – to look after the details. You should take reasonable steps to protect against additional damage. Don't dispose of damaged goods without getting permission from your insurer first.

Most insurance claims are subject to a deductible – the initial amount of every

claim that is paid by the policyholder. Keep the amount of your deductible in mind when making a claim. If a policy has a \$500 deductible, for example, you would receive only \$100 for a \$600 claim.

An up-to-date inventory of your possessions and a record of their value will be helpful to you, your insurer, police and others in the event of a burglary or fire. After a loss, it could be difficult for you to recall the details of things that are now damaged or missing. You could make a drawer-by-drawer, room-by-room video recording of your possessions, or take pictures instead.

Written or typed descriptions are useful, too; be sure to include makes, models, serial numbers and other identifying marks. Keep purchase receipts for major items, and store your records in a secure location preferably away from your home.

## Questions

1. What is homeowner's insurance? How does it differ from tenant's insurance?
2. Read the following scenarios and determine what losses, if any, would be covered by comprehensive homeowner's or tenant's insurance:
  - a. John's house is struck by lightning, causing extensive damage to the building and its contents.
  - b. A power surge damages your computer and television.
  - c. Your lawn was damaged over the winter by a snowplow.
  - d. Your home is destroyed by a tsunami.
  - e. Bats got into your home while you were away for the summer, causing extensive damage to the building and its contents.
  - f. Your mother stayed with you in your apartment for a week. During that time a fire destroyed her possessions. Are her possessions covered?

- g. A delivery person slips on your steps and threatens to sue you.
- h. You are renting a basement apartment. You have a party and a cigarette starts the couch on fire. The fire burns out of control and the entire building, including your belongings, is destroyed.

4. Conduct a personal property inventory of all your belongings in your bedroom. What do you think it would cost to replace all of the contents?

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## Life Insurance

You buy automobile insurance in case you have an accident. You buy homeowner's insurance in case your property gets damage. You don't, however, buy life insurance to plan for your death. **Life insurance** is a way to protect your survivors and dependents against financial hardship. A life insurance contract or policy is a legal agreement between you and an insurance company that guarantees payment of the face value of the policy, upon death.

Usually people buy life insurance to protect their children, a surviving spouse, a disabled relative, or elderly parents. It ensures that the dependent family members will be able to afford and maintain their lifestyle or receive the care they had before the death. The person or legal entity (e.g. a charity) that is designated to receive the death benefit is called a **beneficiary**. The **death benefit** is the sum paid to the beneficiary by the insurance company.

### Why Buy Life Insurance?

There are several reasons to buy life insurance:

- to provide immediate cash to pay for the funeral, other costs arising from the death, or pressing debts
- to provide funds that are income tax-free
- to pay off a mortgage or other loans
- to provide housekeeping and child care services so that the surviving spouse can enter the workforce
- to provide the surviving spouse sufficient funds to stay at home or reduce work hours
- to provide dependents with an emergency fund

### How Life Insurance Works

Life insurance is a legally binding contract between an insurance company (insurer) and an individual (insured). In exchange for payment of premiums, the insurer agrees to pay a specified death benefit. The premiums collected from all policy holders are placed in an insurance pool. The insurance company can then invest the money in the

pool, but must have enough on hand to pay out a large number of claims.

## How much Life Insurance Should a Person Have?

There are several factors to consider when purchasing life insurance:

- number of dependents
- ages and needs of dependents
- balance of mortgage or monthly rent payments

- balance of loans
- tuition
- basic necessities

## Where do you buy Life Insurance?

Some employers offer life insurance policies as a benefit. Life insurance can also be purchased from insurance companies through experienced agents. It may also be purchased online.

### Questions

1. For each of the following scenarios, list at least five ways that the death benefit can help the beneficiary:
  - a. Joe Vega tragically died in an auto accident. He was 35 years old. Joe leaves behind Mary, his wife (32 years old) and two children, Janet (4 years old) and Joe Jr. (2 years old). Joe had a life insurance policy that will pay his wife \$150,000.
  - b. Jim Soller is 52 years old. On a Saturday morning, he goes out for a jog and dies of a heart attack. Jim leaves behind a wife, Jamie (47 years old) and one son, Jordan (18 years old and a recent high school graduate). Jim had a life insurance policy that will pay his wife \$75,000.
  - c. Janet Smith is the CEO of a printing company. She is 46 years old and dies of cancer. She leaves behind a husband, John (40 years old) and no children. John works in a warehouse and earns a below average income. The couple lives in a \$500,000 home. Janet had a life insurance policy that will pay her husband \$1,000,000.
  - d. Francine Thomas is 64 years old when she dies in a sky diving accident. Her husband Rick is 65 years old. They have three children that are all grown and on their own. Francine had a life insurance policy that will pay Rick (who is retired) \$70,000.

## Types of Life Insurance

There are two basic types of life insurance policies: term and permanent.

### Permanent life insurance

Permanent life insurance has several variations: whole life, universal life, and variable life. All are designed to provide insurance protection for your entire lifetime, as long as you keep the policy in force. There are several basic features of permanent policies:

- **Level premiums.** Most permanent policies have premiums that remain level over the lifetime of the policy, even though the risk of death increases with age.
- **Cash values.** Part of your premium goes into the cash value of your policy, which is actually an investment that you can borrow against or withdraw.
- **Non-forfeiture options.** If the policyholder discontinues premium payments on a policy, he or she can

keep the policy in force or take a cash settlement.

- **Participating policies and policy dividends.** If the insurance company earns money, a portion of that will be paid back to the policy holder in the form of a dividend.

### Term life insurance

Term policies provide insurance coverage for a specified period (e.g. a fixed number of years, or to a set age) and then expire. A death benefit is only paid if you die during the term of the policy. Term policies are commonly available for terms of one, five, 10, or 20 years, or to age 60 or 65. The premiums usually remain level during the specified term but increase if that term is renewed (e.g. premiums would increase every five years on a five-year renewable term policy). Most term policies are non-participating and do not include cash values or other non-forfeiture values. Hence, premium costs are lower than for permanent policies – at least when you're younger.

## Questions

Read the following sentence and indicate which are associated with Term Life by using a T and which are associated with Whole Life by using a W.

1. \_\_\_\_\_ This insurance is a good choice for young people who can't afford the higher costs of permanent insurance, or for people with financial obligations that will disappear in time, such as a car loan or a mortgage.
2. \_\_\_\_\_ This insurance has cash value.
3. \_\_\_\_\_ You buy this policy with a specified time period, usually one, five, or ten years.

4.  Unless you make a change to your policy, you have lifelong coverage with no future medical exams.
5.  Premiums are generally much cheaper than cash-value policies.
6.  Your premium will remain constant during the time you are covered unless you choose otherwise.
7.  The risk with this life insurance is that your health might deteriorate and you could be unable to get another policy once the original policy expires.
8.  With this life insurance policy the costs are spread out over your entire life.
9.  If you are interested in using the policy as a form of savings, consider this type of life insurance policy.

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## Life Insurance: Policy Basics

Life insurance policies differ from company to company and province to province. The following provisions are usually in all policies:

- insuring agreement
- ownership rights
- death benefit
- beneficiary clause
- settlement options
- incontestability clause
- misstatement of age clause
- grace period clause
- reinstatement clause
- alteration of policy
- suicide clause

**Insuring agreement.** Feature which stipulates that the policy represents the whole agreement between the insurance company and the insured, and that there are no other outstanding agreements. If the insurer believes that person misrepresented themselves on the application, the contract can be voided.

**Ownership rights and assignment.** The policyholder is the owner of the insurance policy and has the right to:

- designate beneficiaries
- determine settlement options
- receive dividends of a participating policy
- cash in or borrow against the policy
- transfer ownership rights.

**Death benefit.** This provision specifies how the death benefit is handled.

**Beneficiary clause.** The policyholder names who the payout will go to. The primary beneficiary is the person who the money goes to first, while the contingent beneficiary gets the payout if the primary beneficiary has died. The beneficiary can be changed at any time.

**Settlement options.** This determines how the death benefit is paid to the beneficiaries.

**Incontestability clause.** After a set period of time, usually two years, the insurance company cannot contest the contract for any reason except for fraud, that is, a deliberate misstatement of fact. An example of fraud is a smoker who declares himself/herself as a non-smoker to get a reduced premium.

**Misstatement of age clause.** If the insured misstates their age, the insurance company has the right to adjust the death benefit to the correct age.

**Grace period clause.** This allows a grace period without the policy lapsing if someone misses their premium, usually 31 days.

**Reinstatement clause.** This takes effect if the policyholder misses payments beyond the grace period and the policy lapses. The policy can be reinstated if all outstanding premiums are paid.

**Alteration of policy.** This states that no modification of the policy can be accepted unless the modification is in writing and signed by one of the officers of the company.

**Suicide clause.** This protects insurers from other people who buy life insurance to pass on to their dependents before committing suicide. The policy is considered void if the insured commits suicide within the specified period of time, usually two years.

## Special Options

A number of options, called riders, can be added to your policy to tailor it to your personal needs. For example:

**Accidental death and dismemberment.** Guarantees an additional payment to your beneficiary, often doubling the amount of your policy, should you die from an accident. May also provide payment to you on loss of limbs or eyesight as a result of an accident.

**Disability waiver of premium.** Pays your premiums and keeps your policy in force should you become totally disabled.

**Guaranteed insurability.** Enables you to purchase additional insurance at specified times in the future without a medical or other evidence of insurability.

## Applying for Life Insurance

Once you make your decision to purchase a policy, you fill in an application to the

insurance company. The application is made up of two parts. The first part of the application consists of your basic information such as name, address, and birth date. The second part contains information that underwriters use to determine your insurability such as tobacco use and hazardous hobbies.

The application is then sent to the insurance company's underwriting department, which then reviews it for completeness, assesses the risk presented, and decides if the policy can be offered on the basis for which it has been applied. The larger the amount of insurance applied for, the more extensive the information needed to assess risk. About 96 percent of applicants for life insurance receive the coverage they apply for and qualify for standard premium rates.

## Payment of the Claim

It is the responsibility of the beneficiary or his/her representative to set the wheels in motion to file a claim. In most cases, a claimant's statement on a form provided by the insurance company, and proof of death, doctor's statement, or death certificate are all that's required. Payment can usually be expected within a week to 10 days of presenting the insurance company with full documentation.

## Questions

1. Can you use a life insurance policy to make charitable donations?
2. What happens if your beneficiary dies first or at the same time?

3. John, who was approved for whole life insurance, died two and a half years later from a brain aneurysm. His insurance company is contesting the claim because John did not reveal he had an uncle who died from the same condition. However, John was never asked about this on his application. Should the insurance company pay the claim? Explain.
4. What happens if you have to stop paying premiums?
5. What happens if a policyholder commits suicide within a year of taking out a policy?
6. Mike loses a foot in a workplace accident. What rider in his insurance policy would provide compensation?
7. What do you think are some reasons for having an insurance policy denied?

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## **Appendix A**

### **Assignment 1: About Credit**



## Assignment 1: About Credit

**Directions:** Read the following notes and answer the questions in the spaces provided. You may need to visit some of the websites to answer the questions.

### Advantages and Disadvantages of Using Credit

#### *advantages:*

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing cheques
- Consolidates bills into one payment
- Emergencies

#### *disadvantages:*

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur

### The Three C's

#### ***character – will you repay the debt?***

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

#### ***capital – what if you don't repay the debt?***

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

## ***capacity – can you repay the debt?***

Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

- Do you have a steady job? What is your salary?
- How many other loan payments do you have?
- What are your current living expenses? What are your current debts?
- How many dependents do you have?

## **Your Responsibilities**

- Borrow only what you can repay.
- Read and understand the credit contract.
- Pay debts promptly.
- Notify creditor if you cannot meet payments.
- Report lost or stolen credit cards immediately.
- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.
- Never leave your credit cards unattended at work.
- Protect your Personal Identification Number (PIN).
- Don't leave your credit cards in your vehicle.
- Always check your card when returned to you after a purchase.
- Carry your cards with you or make sure they are in a secure location.
- Sign the back of a new card as soon as you get it.
- Make a list of all your cards and their numbers.
- Always check your monthly statement.

## **Your Rights**

### ***consumer protection act***

Ensures consumers are fully aware of their rights.

([www.assembly.nl.ca/legislation/sr/statutes/c31.htm](http://www.assembly.nl.ca/legislation/sr/statutes/c31.htm))

### ***human rights***

Prohibits discrimination in giving credit on the basis of sex, race, colour, religion, national origin, marital status, age, or receipt of public assistance.

(<http://laws.justice.gc.ca/en/showdoc/cs/H-6//en?page=1>)

### ***credit reporting act***

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.  
([www.assembly.nl.ca/Legislation/sr/statutes/c32.htm](http://www.assembly.nl.ca/Legislation/sr/statutes/c32.htm))

### ***collection agencies act***

Prevents abuse by professional debts collectors, and applies to anyone employed to collect debts owed to others; does not apply to banks and other businesses collecting their own accounts.  
([www.gs.gov.nl.ca/cca/tp/collection-agencies/faq.stm](http://www.gs.gov.nl.ca/cca/tp/collection-agencies/faq.stm))

### ***sales of goods act***

Contract of sale between buyer and seller. Encompasses type of contract, enforcement provisions, duties and remedies. ([www.assembly.nl.ca/Legislation/sr/statutes/s06.htm](http://www.assembly.nl.ca/Legislation/sr/statutes/s06.htm))

### ***fair trading act***

Applies to consumer transactions and unfair practices that occurred after September 1999.

## **Building a Credit History**

- Establish a steady work record.
- Pay all bills promptly.
- Open a chequing account and don't bounce cheques.
- Open a savings account and make regular deposits.
- Apply for a local store credit card and make regular monthly payments.
- Apply for a small loan using your savings account as collateral.
- Get a co-signer on a loan and pay back the loan as agreed.

### ***credit bureaus***

- Equifax ([www.equifax.ca](http://www.equifax.ca))
- Trans Union ([www.transunion.ca](http://www.transunion.ca))
- Local credit bureaus affiliated with these major companies

## **Types and Sources of Credit**

### ***single payment credit***

Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged.

- Utility companies, medical services

- Some retail businesses

### ***installment credit***

Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included. A repayment plan is drawn up in the form of a conditional sales contract based upon fulfilling a number of conditions of the contract.

- Some retail businesses, such as car and appliance dealers

### ***consumer loans***

Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in regularly scheduled payments.

- Chartered banks
- Consumer finance companies
- Credit unions
- Trust companies

### ***revolving credit***

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

- Retail stores
- Financial institutions that issue credit cards

## **How Much Can You Afford? (the 20-10 guideline)**

### ***never borrow more than 20% of your yearly net income***

- If you earn \$2000 a month after taxes, then your net income in one year is:

$$12 \times \$2000 = \$24,000$$

- Calculate 20% of your annual net income to find your safe debt load:

$$\$24,000 \times 20\% = \$4800$$

- So, you should never have more than \$4800 of debt outstanding.
- Note: Housing debt (i.e. mortgage payments) should not be counted as part of the 20%.

***monthly payments should not exceed 10% of your monthly net income***

- If your take-home pay is \$2000 a month:

$$\$2000 \times 10\% = \$200$$

- Your total monthly debt payments should not total more than \$200 a month.

## Questions

***Directions:*** For each of the following situations, circle **YES**, **NO**, or **DEPENDS** to indicate your opinion related to this person using credit. Also, give reasons for your response. (10 marks)

1. Gina, age 18, plans to buy a car on credit so that she is able to drive to school.

**YES**

**NO**

**DEPENDS**

2. Fran and Simon recently took out a bank loan for a new roof.

**YES**

**NO**

**DEPENDS**

3. Pavel, age 20, recently used his credit card to pay for textbooks for his new semester of classes.

**YES**

**NO**

**DEPENDS**

4. Marcia, age 28, charges all her groceries on her credit card.

**YES**

**NO**

**DEPENDS**

5. Sandy and Carla, age 34 and 37, are planning on buying a boat on credit for use during summers. Carla will be the main signer for the loan, with Sandy being the co-signer.

**YES**

**NO**

**DEPENDS**

The following questions are designed to help you remember the credit information covered in this unit.

**Directions:** In the spaces provided, answer each of the following questions about credit.

**List five things you can do to build a credit history. (5 marks)**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

When a prospective creditor evaluates a credit application, they look for the three C's: Character, Capital, and Capacity. **For each of the following statements, write the letter that corresponds to each statement's specific characteristic. (6 marks)**

**a. Character      b. Capital      c. Capacity**

1. \_\_\_\_\_ Do you have a savings account?
2. \_\_\_\_\_ Have you used credit before?
3. \_\_\_\_\_ How long have you lived at your present address?
4. \_\_\_\_\_ Do you have a steady job?
5. \_\_\_\_\_ Do you pay your bills on time?
6. \_\_\_\_\_ What are your current debts and your current living expenses?

**List the four major categories of information that appear on a credit report. (4 marks)**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

**In the space provided, write the letter of the type of credit each statement represents. (5 marks)**

**a. Single payment credit**

**b. Installment credit**

### c. Revolving credit

1. \_\_\_\_\_ Monthly payment on a car loan
2. \_\_\_\_\_ Monthly telephone bill
3. \_\_\_\_\_ Monthly heating bill
4. \_\_\_\_\_ Using a credit card to buy a new jacket from a department store and then paying the charge off over several months
5. \_\_\_\_\_ Using a major credit card to buy a pair of shoes and then paying the total amount of the credit card balance within a month

**For each of the following statements, write a T in the space provided if the statement is true, and F in the space provided if the statement is false. (7 marks)**

1. \_\_\_\_\_ It is legal for a creditor to deny an applicant credit based on marital status or age.
2. \_\_\_\_\_ If you are denied credit, the creditor is not legally obligated to explain why.
3. \_\_\_\_\_ When creditors evaluate your income, they cannot legally refuse to consider income from public assistance in the same manner as other income.
4. \_\_\_\_\_ If you are refused credit because of a credit report, upon request from you, the lender must give you the name and address of the credit bureau that issued the report.
5. \_\_\_\_\_ Your credit report is available to anyone, regardless of the reason.
6. \_\_\_\_\_ A debt collector has the right to contact you at any time of day or night.
7. \_\_\_\_\_ To be within a safe debt load, your total credit should not exceed 50% of your net pay after subtracting rent.

8. What should you do if you find there is inaccurate information on your credit report? (2 *marks*)
9. Generally, how long can a consumer reporting agency report unfavorable information? (2 *marks*)
10. How long can bankruptcy information be reported by a consumer reporting agency? (2 *marks*)

Most people can afford a certain amount of credit and stay within a safe budget. This amount is called a “safe debt load”. The following exercises will give you practice determining safe debt loads based on various incomes and fixed expenses.

**Directions.** Read each of the following scenarios and determine the largest amount of debt each person can safely carry. **Write your answers in the space provided. Be sure to include all workings.**

1. David has a monthly net income of \$1360. His fixed monthly expense is a student loan payment of \$116. David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford and still be within a safe debt load? (4 marks)

2. Francine and Pierre have a combined monthly net income of \$2700. Their fixed monthly expenses include \$220 for Francine's student loan payment, and \$82 for the stereo they bought last month. Francine and David would like to buy a new car. How much can they currently afford for monthly payments and still maintain a safe debt load? (4 marks)
  
3. Miyoshi has a monthly net income of \$1625. Her fixed monthly expenses include \$68 for the furniture she bought last month and a car payment of \$167. Are Miyoshi's expenses within a safe debt load? (4 marks)

## **Practice Quiz**

**true-false (5 marks)**

1. \_\_\_\_\_ A disadvantage of using credit is impulse buying.
2. \_\_\_\_\_ Capital refers to a person's assets.
3. \_\_\_\_\_ A steady employment record helps a person's credit history.
4. \_\_\_\_\_ Installment credit usually allows a person to make additional purchases on an account.
5. \_\_\_\_\_ Using the 20-10 guideline, a person making \$40,000 a year should have no more than \$8000 of outstanding debt.

**multiple choice (5 marks)**

1. What is a common advantage of using credit?
  - a. less impulse buying
  - b. lower cost for items purchased
  - c. ability to obtain needed items now
  - d. lower chance of overspending
  
2. What is person's regular income referred to as?
  - a. character
  - b. capital
  - c. collateral
  - d. capacity
  
3. How could a person build a credit history?
  - a. establish a steady employment record
  - b. file his or her federal income taxes on time
  - c. use an ATM several times a month
  - d. request to view his or her credit file
  
4. What type of credit do utility companies and medical service organizations commonly offer?
  - a. revolving
  - b. single-payment
  - c. installment
  - d. retail
  
5. Using the 20-10 guideline, what should be the maximum monthly payments of a person earning \$1500 a month?
  - a. \$300
  - b. \$150
  - c. \$30
  - d. \$20

**Case Application (5 marks)**

1. Makiko Nagata is considering a loan to finance her college education. She currently owes money on several charge accounts and credit cards. What actions would you recommend?

## **Appendix B**

### **Assignment 2: The Residential Tenancies Act**



## Assignment 2: The Residential Tenancies Act

Directions: Visit the Government of Newfoundland and Labrador Residential Tenancies Act website (<http://www.assembly.nl.ca/legislation/sr/statutes/r14-1.htm>) to answer the following questions. Provide the specific paragraph and section of the act that you based your decision on.

1. My landlord gave me 24 hours written notice that she will be entering my apartment to see if my windows need repairing. I will be at work when she wants to come in. Do I have to agree to this? (5 marks)
2. I have a fixed term lease agreement with 9 months left. My landlord gave me three months notice that my lease will be terminated because the building is being destroyed. Do I have to move? (5 marks)
3. I rented an apartment 5 months ago. Last month, my girlfriend moved in with me. Now the landlord has given her 14 days to move out. Is this legal? (5 marks)
4. Before I vacated my apartment, I cleaned it very carefully. The landlord is trying to hold back \$150 of my damage deposit to clean the carpets even though there are no stains or dirt. Can she do this? (5 marks)

5. The landlord asked for a damage deposit that is equal to 1 month's rent. Is this legal? (5 marks)
6. I rent month to month. I just got notice that in 2 months my rent will double. How can I fight this? (5 marks)
7. My landlord didn't ask me to sign a written lease agreement. Is this okay? (5 marks)
8. I had a party in the apartment and the bathroom door was kicked in, the carpet got some cigarette burns and a cupboard door was ripped off. The landlord yelled at me through the door that I have 24 hours to get out. Do I have to move out? (5 marks)
9. I didn't pay my rent for one month. Now I have received a written notice that I must be out in 10 days. Is this legal? (5 marks)
10. I have lived in a motel for three months. Does the Residential Tenancy Act apply to me? (5 marks)

11. I have a fixed-term lease but want to move in with my cousin before the end of my lease. Can I end my lease without a penalty? (5 *marks*)
  
12. I am renting month to month and I want to move out. How much notice do I have to give? What kinds of information do I have to include in my notice? (5 *marks*)
  
13. I put pizza in the oven and fell asleep on the couch. The pizza burned and caused the smoke alarm to go off. The landlord came running into my apartment. Can he enter without warning like that? (5 *marks*)
  
14. My stove is not working. I am angry and have threatened to stop my rent payments until it is fixed. Can I do this? (5 *marks*)
  
15. My landlord wants me to give him 12 post-dated cheques. Do I have to do this? (5 *marks*)
  
16. I have a pet boa constrictor. My landlord says I can't keep him in my apartment. Is this true? (5 *marks*)

17. I am moving out on November 1. Can I tell my landlord to give my security deposit back on the same day? (5 *marks*)
  
18. I was given 10 days notice to leave my apartment because I did not pay my rent for several months. I have nowhere to go so I am just staying here. Can my landlord change the locks while I am out? (5 *marks*)
  
19. I have been smoking in my non-smoking apartment. Now I have been given 10 days written notice to move out. Do I have to go? (5 *marks*)
  
20. My landlord wants me to give her a refundable deposit for the security keys. Do I have to do this? (5 *marks*)

## **Appendix C**

### **Assignment 3: How Much House Can You Afford?**



## Assignment 3: How Much House Can You Afford?

**Directions:** Read the case study and answer the questions in the spaces provided. You will need to use the websites as indicated to help answer some of the questions. Show workings where applicable.

### Case Study

Jack and Dianne have been together for five years and have decided to buy a home. Jack earns \$33,000 a year at his job, while Dianne earns \$38,000. They have a car lease of \$290 a month, and they each have student loans that they are repaying at a total of \$300 a month. They each have \$5000 saved in RRSPs that they are planning on withdrawing to help purchase the house. They are interested in buying a bungalow with a basement apartment to help pay for the mortgage. They hope to be able to afford a house in the \$200,000 range.

They decide to visit the Canada Mortgage and Housing Corporation website ([www.cmhc-schl.gc.ca/en/co/buho/](http://www.cmhc-schl.gc.ca/en/co/buho/)) to determine the maximum house price and monthly mortgage payments they can afford. They click on the Homebuying Step by Step Interactive Version link for more information. Click on Step 2: Are You Financially Ready? in the Homebuying Step by Step interactive guide to answer the following questions.

1. What are Jack and Dianne's current monthly debt payments? (2 *marks*)
2. What is Jack and Dianne's total gross household monthly income? (4 *marks*)
3. What is their Gross Debt Service Ratio? (2 *marks*)
4. What is their Total Debt Service Ratio? (2 *marks*)

5. What should their maximum monthly housing costs (PITH) be? (2 *marks*)

While they have a total of \$10,000 available for a down payment, they will also need money for closing costs, furniture, etc, so they are only putting down \$2000. They have decided to go with a 30 year amortization to help lower their monthly mortgage payments. They research mortgage interest rates at various financial institutes and compare rates at [www.canadamortgage.com](http://www.canadamortgage.com) to decide which institute and rate to go with. To calculate the property tax, they use the town's mill rate of 11, which means 1.1% of the appraised value of the home. They anticipate their heating costs to be no more than \$180 a month on average.

6. After doing some research, they decide to go with a five year closed term mortgage. What is the best five year closed term interest rate available to them? Which financial institution offers this rate? (4 *marks*)

7. What are the anticipated monthly property taxes on a \$200,000 home at 11 mill? (4 *marks*)

8. What is the maximum house price they can afford? (2 *marks*)

9. What is the maximum monthly mortgage payment they can afford? (2 *marks*)

# **Appendix D**

## **Assignment 4:**

## **Reading the Nutrition Facts Table**

# **Appendix E**

## **Worksheet:**

## **Private Consumer Protection Agencies**

## Worksheet: Private Consumer Protection Agencies

**Directions:** Visit the website of each protection agency and answer the questions that follow in the space provided.

Visit the Better Business Bureau website ([www.cbbb.ca](http://www.cbbb.ca)) and answer the following questions:

1. What is the purpose of the Better Business Bureau (BBB) system?

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2. Does the BBB report only on its members?

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3. What 3 ratings are given by the BBB?

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4. Describe how you would go about checking a company's BBB report.

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5. Describe the process you would follow to file a complaint.

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Visit a credit counseling website such as Credit Counselling Services of Atlantic Canada ([www.solveyourdebt.com](http://www.solveyourdebt.com)) and answer the following questions:

1. What is the purpose of credit counseling?

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2. What is the difference between debt management and bankruptcy?

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3. Use the debt calculator to complete the following:

You have a credit card debt of \$5000. At 19% annual interest, what minimum monthly payment would you have to make to pay off your debt in 5 years? How much interest would you have paid?

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Visit the Canadian Standards Association (CSA) website ([www.csa.ca](http://www.csa.ca)) and answer the following questions:

1. What is the purpose of the CSA?

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2. How does the CSA directly benefit consumers?

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Visit the Consumer Association of Canada's website ([www.consumer.ca](http://www.consumer.ca)) and answer the following questions:

1. What is the function of the Consumer Association of Canada?

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2. What are your rights as a consumer?

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