

How Canadians overestimate their financial knowledge — and pay the price



Report prepared by:

Romana King

Romana King is an award-winning personal finance writer, real estate expert and the current Director of Content at Zolo Homebase.

Romana has contributed to business and lifestyle publications including CBC.ca, Toronto Sun, Maclean's, MoneySense, Globe & Mail Custom Content Team, and The Toronto Star.

Among her achievements, Romana won silver for her annual Where to Buy Now real estate package in the 2019 Canadian Online Publishing Awards. In 2015, she won a SABEW Business Journalism award. When she was editor of CI Top Broker, Romana helped guide her team to obtain its first KRW Business Journalism nomination, and in 2011, she was part of a small team that helped MoneySense win Magazine of the Year at the 34th annual National Magazine Awards.

Her north star is to consistently provide actionable, valuable and accurate information that helps elevate the financial literacy of everyone.

and

Alyssa Davies

Alyssa is an award-winning personal finance blogger and founder of MixedUpMoney.com.

She writes about being a mom, overcoming personal debts, and how to get away with affording your ridiculously expensive latte habit.

A new homeowner, Alyssa brings her real-life knowledge of the Canadian real estate market and smart money matters to this growing brand.

@ 2020 Zolo

Zolo is one of Canada's most popular national real estate marketplaces and the largest tech-powered independent brokerage.

Each month more than 10 million home shoppers use Zolo to buy, sell, rent, finance and learn about real estate.

Born as a digital-first company, Zolo gives Canadians access to real-time data, market updates and listing details, while allowing clients an opportunity to work with real estate professionals throughout the entire home buying, selling and rental process.

For more details about Zolo, visit our [About Us](#) page.



Table of Contents

How Canadians overestimate their financial knowledge — and pay the price	5
How we handle money tells a different tale	5
Infographic: Canadians get a passing grade on financial literacy	6
Risks of poor financial literacy	7
Gap 1: Higher debt levels	7
Gap 2: Unprepared for the unexpected	8
Infographic: Majority of Canadians won't survive job loss	8
Gap 3: Cash flow problems now, cash flow problems later	8
Impact of COVID-19 on our financial health wasn't good	9
Gaps in financial literacy causes gaps in financial sufficiency	10
5 key skills for financial literacy	12
#1: Budgeting Basics	12
Plan for emergencies	14
#2: Better Banking	15
7 basic facts about bank accounts in Canada	16
#3: Prioritize Saving and Investing	17
#4: Know your Credit-Debt Cycles	19
#5: Understanding Interest, Rates & Taxes	22
How — and why — you should improve your credit score	24
What is a credit score? What is a credit report?	24
How credit scores are calculated	25
Where to find your credit score (a primer on credit reports)	25
Why are Canadians still buying homes in a pandemic?	27
Homeownership desire fuelled by the need for security	27
Stability shouldn't overshadow prudent financial practice	28
Infographic: Desire to buy a home still strong in 2020	28
Millennials: Here's how to save for a down payment on a home even after a pay cut	29
Canadians needed financial assistance during COVID-19	29
Homeownership still a priority, particularly for millennials	29
3 tips to help save for a down payment on a home	30
4 infographics included in this report	31
#1. Canadians get a passing grade on financial literacy	31
#2. Desire to buy a home still strong in 2020	33
#3. How to save a down payment even after a pay cut	35
#4. Majority of Canadians won't survive job loss	38
Survey Data	40

How Canadians overestimate their financial knowledge — and pay the price

There is a dangerous gap between what we think we know about our finances and what we actually know about money management.

Between September 19 and October 12, 2020, Zolo undertook a nationwide online survey to assess how prepared Canadians are when it comes to their finances.

The data collected revealed a big disconnect between how confident Canadians are in their finances and the knowledge and actions required for good money management.

Of the 6,551 respondents:

- 70% felt confident about their overall financial knowledge;
- 82% report they are good at keeping track of money;
- 79% report they are good at making ends meet;
- 76% believe they have a clear idea on what financial products they need;
- 70% report they have a “good idea” of how much money they’ll need in retirement.

This is good news, given the relationship between financial confidence and financial well-being. According to a [2016 report](#) for the Financial Consumer Agency of Canada: “Financial confidence is a better predictor than financial knowledge when it comes to outcomes associated with day-to-day money and debt management.”

How we handle money tells a different tale

While our confidence may be high, when tested on our knowledge of money management and financial decisions, our performance told a completely different story.

Key results, from the data, showed:

- Almost half (46%) failed the basic financial literacy test;
- 78% said they'd run out of money in **90 days or less** if they lost their job today;
- 77% are willing to **neglect saving for retirement** in order to buy a home sooner;
- 66% of renters are willing to buy a property where household payments would exceed 30% or more of their income;
- 1 in 5 don't have life insurance;
- Only a little over half of Canadians (56%) have a written will.

Infographic: [Canadians get a passing grade on financial literacy](#)

Link to full infographic [here](#).

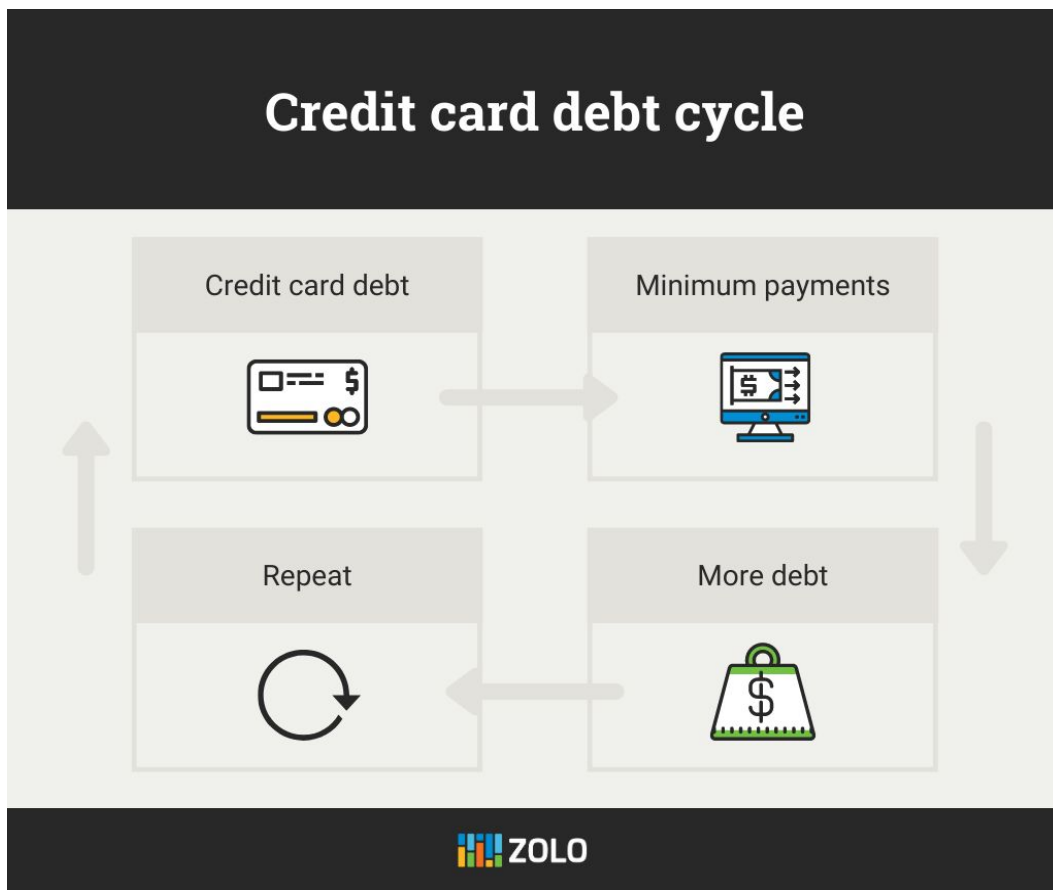


Risks of poor financial literacy

Poor money management can lead to serious budget crunches as well as current and future lifestyle consequences.

In particular, the *Financial Literacy vs. Financial Sufficiency 2020* report showed a few major gaps between what Canadians believe they know and how they act.

Gap 1: Higher debt levels



The data suggests that despite confidence in money matters, those who lacked financial knowledge tend to carry higher levels of debt — and appear unaware of the short and long-term impact of high-interest debt.

For example, 60% of respondents understand compound interest and 80% knew that making late payments to credit cards (or loans) can hurt your credit score, yet 33% of respondents

typically carried a balance of \$1,001 or more on their credit card and 27% believed it was “ok to skip a payment now and then as long as you eventually pay it.” (Turns out 5% of respondents didn’t know if it was OK or not.)

Gap 2: Unprepared for the unexpected

The best way to manage debt wasn’t the only area where our knowledge and actions were incongruent.

When it came to protecting ourselves from future financial pain, most Canadians (82%) knew that an emergency fund should hold at least six months’ worth of expenses.

Based on this rule-of-thumb, the average Ontario resident would need just over \$45,000 in a just-in-case-slush-fund (based on Statistics Canada 2018 [cost of living standards](#)).

Yet, data collected for the *Financial Literacy vs. Financial Sufficiency 2020* report shows that only 13% of respondents have an emergency fund with more than \$10,000 saved. Worse, 2% don’t know if they have an emergency fund and 7% report no savings to cover unexpected costs.

This is particularly a problem given the uncertain economic situation, both in Canada and across the world. Turns out that without that emergency fund, most Canadians would not survive a sudden job loss. Worse, 23% of Canadians would run out of money in 30 days or less.

Infographic: [Majority of Canadians won’t survive job loss](#)

Gap 3: Cash flow problems now, cash flow problems later

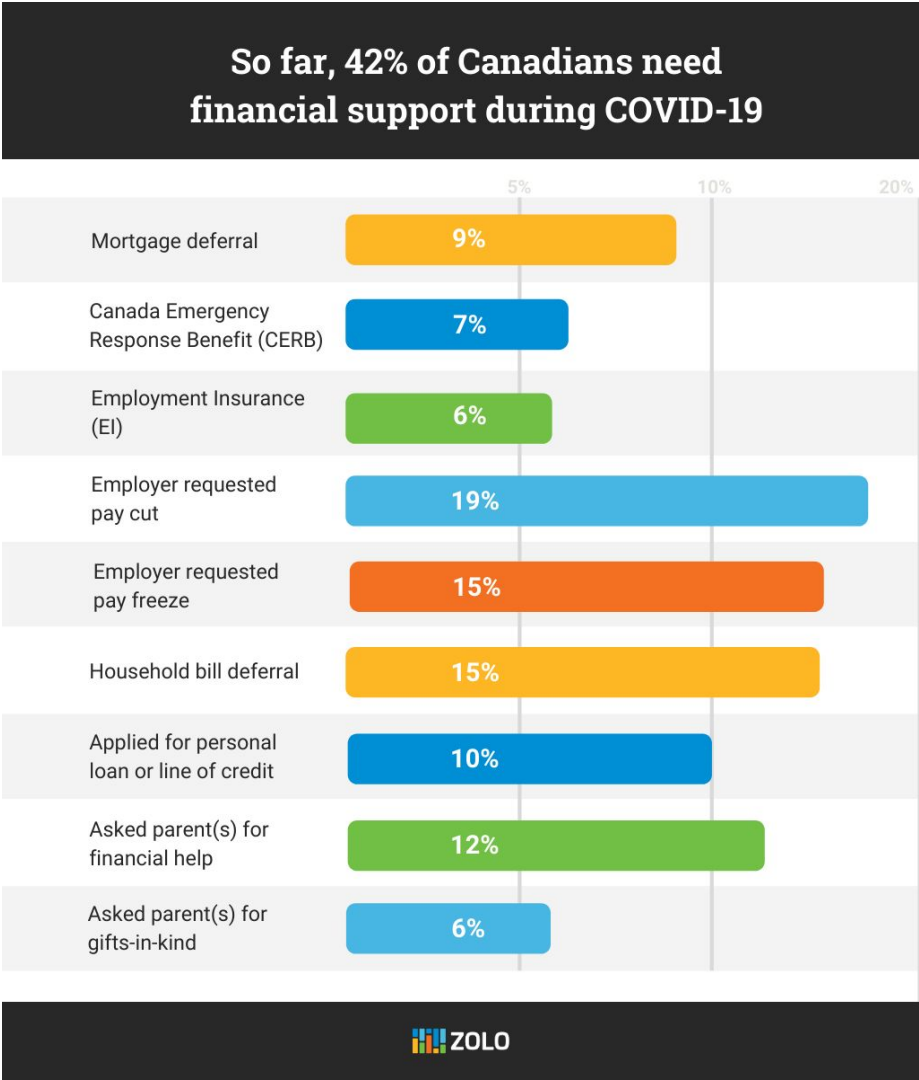
Most Canadians now realize the importance of using a budget with 88% believing that it’s one of the primary tools to manage financial decisions — and, yet, only 30% of respondents stick to their budget.

This lack of planning and monitoring of our finances can impact our day-to-day money management — a situation made worse by the impact of the novel coronavirus.

Impact of COVID-19 on our financial health wasn't good

Since the COVID-19 pandemic, confidence in our ability to make sound financial decisions has not wavered; however, our ability to meet our financial obligations has suffered:

- 55% reported being behind on two or more consecutive months in paying a bill;
- 47% were behind on two or more consecutive months in making a loan payment; and
- 47% reported being behind on two or more consecutive months in paying their rent or mortgage.



Gaps in financial literacy causes gaps in financial sufficiency

There is little doubt that confidence is a key component of financial literacy, but as the results of the *Financial Literacy vs. Financial Sufficiency 2020* report highlight: **When it comes to financial literacy, one of our biggest obstacles is our own pride.**

This isn't an unknown fact. In a [2017 study](#) published in the *Journal of Behavioral and Experimental Finance*, author Camilla Stromberg et. al, illustrate how confidence leads to self-control — and self-control is the biggest predictor of how well a person will manage their money.

The decisive factor, then, is self-control, not the tenacity of the individual — a distinction that is clearly illustrated in the data results found in *Financial Literacy vs. Financial Sufficiency 2020* report. As such, the report highlights our need to acknowledge an uncomfortable truth: **When it comes to financial literacy, one of our biggest obstacles is our own pride.**

What is financial literacy?

Financial literacy is a set of skills combined with knowledge that allows someone to make informed and effective financial decisions.

To overcome the uncomfortable truth that pride gets in the way, we need to work at making financial education and money management tools more accessible; at the same time, we need to nurture a culture where mistakes and errors are considered opportunities and not setbacks.

It's time to shift the focus. Too often we want to hide our money management missteps as if it's some shameful secret. We need to celebrate learning, not hide our ignorance.

To elevate financial literacy, we need to focus on these three key components:

- **Knowledge:** refers to an understanding of personal and broader financial matters;
- **Skills:** refers to the ability to apply that financial knowledge in everyday life; and
- **Confidence:** allows each individual the self-assurance to make important decisions.

Virtually every Canadian would benefit from access to free financial education.

As a nation, we need to start focusing on the skills that will help build knowledge, habits and confidence. From an early age, this means focusing on learning the tools that help with:

- budgeting;
- banking;
- saving and investing;
- using credit and debt;
- and the impact of interest and taxes.

5 key skills for financial literacy

While we all may agree that financial literacy is crucial to successful “adulting,” the question is exactly how do you get financially literate — and should we bother?

Ideally, basic financial literacy concepts would be taught in high school (although, earlier is even better, according to a [University of Minnesota study](#)). Studies show that teaching financial concepts to kids and young adults directly impact a student’s ability to make wise financial decisions. Plus, students who have some personal finance classes under their belts are much more likely to save money successfully, budget wisely and invest smarter.

To increase financial literacy we need to develop and strengthen our money management skills.

Despite a greater awareness of the importance of financial literacy, virtually every province continues to omit formal, standardized lessons on financial literacy topics. Until widespread change happens, the onus is on us to educate ourselves (and our children). To help, here are five key concepts to tackle.

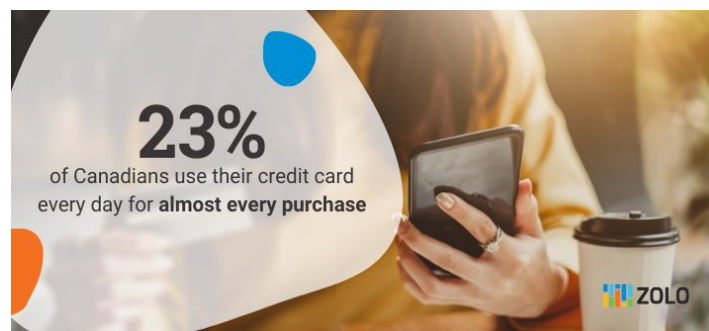
We examine each concept based on how we rate our knowledge (our confidence), how much we actually know (through our financial literacy quiz) and where we can go to learn more.

Mastering these aspects won’t always be easy. However, with a little bit of practice, they will benefit you and those you love for a lifetime.

#1: Budgeting Basics

In the past, virtually all transactions were made in cash. As a tool, cash helped us to manage our budgets. If we didn’t have the cash, we didn’t buy the item or didn’t use the service.

These days, however, few of us use cash daily; some of us rarely use it at all. Instead, we rely on the simple tools provided by digital banking, as well as the ease of using credit or debit cards.



However, the ultimate impact is that many consumers now have very little understanding of how to budget and the effect of debt on their finances — and the impact of this knowledge gap can be dramatic.

Take, for instance, the difference between knowledge and practice when it comes to creating a budget. According to the study, 88% of Canadians agree that “a budget is one of the most important tools you can use to manage your finances,” and 87% actually have a budget, but only 30% “always” stay within their budget. And it turns out almost 1 in 5 (18%) “rarely, never or don’t even know” if they stay within their budget.



What a budget helps you do:

- Plan for expenses
- Reduce or eliminate expenses
- Save for future goals
- Spend wisely
- Plan for emergencies
- Prioritize spending and saving

While we may have difficulty sticking to a budget, at least 87% of respondents have made a budget — almost the same number of respondents who believe a budget is a fundamental tool for personal fiscal management. By creating a budget you get a clear picture of what you earn and what you spend, and this helps you plan and act on other priorities, such as saving up an emergency fund.

Plan for emergencies

Turns out, 82% of respondents agree that an emergency fund should equal at least six months' worth of expenses. However, in practice, 62% have less than \$7,000 saved up in their emergency fund and another 9% either didn't have or didn't know if they had an emergency fund.

It gets worse. According to the survey, only 11% of Canadians report saving enough that they could pay the bills for up to six months if they lost their job today. Of the remainder:

- 23% would run out of money in less than 30 days;
- 34% would run out of money in less than 60 days;
- 22% would run out of money in less than 90 days.



For many, the lack of budgeting skills meant either a reliance on high-interest debt tools, such as credit cards or taking actions that will impact their future financial well-being. For instance, 23% (or almost a quarter of Canadians) use their credit card as “an alternative to an emergency fund.” Since most credit cards charge 19.99% interest — that’s compounded daily — this method of meeting budget constraints is less than ideal.

Given that 79% believe they are “good” or “very good” at “making ends meet,” — despite what our actions show — means we need to focus on the basics of budgeting when it comes to building a solid foundation in financial literacy skill-building.

Read more on how to budget:

[Making a budget](#)

[How to adjust to the cost of owning a home](#)

[How to budget for housing expenses](#)

[How much does the first year of homeownership cost?](#)

[Teach kids about money: Saving, Budgeting, Spending](#)

[The 7 most common monthly expenses for renters](#)

[How to garden on a budget: 10 simple steps to follow](#)

[How much should you actually budget for home furniture?](#)

#2: Better Banking

Opening a bank account is a typical step in learning about finances, but the reasons for taking this action aren’t always clearly explained.

A bank account is critical for virtually all major life events or big purchases. For example, most employers now provide a direct deposit — meaning your first paycheque is no longer a piece of paper, but an emailed PDF of a statement confirming that money was deposited directly into your bank account.

You also need a bank account to cash or receive automatic deposits from the government — such as Old Age Security, a tax return or other benefits.

Finally, a bank account is the first step to building a credit history — a snapshot of what you are like as a saver and spender. It’s this credit history that will become the lynchpin to how easy or hard it will be for you to get a job, rent an apartment, get a credit card or qualify for a mortgage.

Unfortunately, many Canadians still lack basic knowledge when it comes to banking.

To help, here’s a breakdown of why bank accounts are integral to establishing a stable financial future for you and your family and the basic accounts you need to open.

7 basic facts about bank accounts in Canada

#1: You don't need a credit check or even a credit history to open a bank account, but a bank may conduct a check (with your consent) to determine conditions on the account, such as ATM withdrawal limits or hold policies on non-electronic deposits.

#2: You will need at least one and possibly two or three official pieces of identification to open a bank account. Examples of ID you can use include: driver's license, passport, or utility bills.

#3: Basic accounts or specialty accounts (like those for seniors, youth or students) typically don't charge fees. Standard accounts can range in fees. There are now plenty of no-fee options available to suit most banking needs.

#4: Bank accounts help to build a credit history.

#5: Some banks will charge fees for non-activity, so be sure to check in on your account and close any accounts no longer in use.

#6: There is no obligation by any bank or lender to open a bank account for you. If a bank suspects a personal account will be used for illegal or fraudulent purposes, they may deny your request to open an account or freeze and close your current account.

#7: If you have declared bankruptcy, you can still open a personal account with most banks as long as there is no evidence of fraud or any other illegal activity in relation to your bankruptcy.

For most Canadians, a simple chequing account is sufficient. A chequing account, also known in the industry as a transaction account, makes it easy for the account holder to deposit, withdraw and spend your money. This is the account you are expected to use for transactions: paying bills, depositing money, writing cheques and sending e-transfers.

Paying for the privilege for a bank account

A typical Canadian will pay, on average, \$3,500 per year in banking fees, which includes monthly fees, ATM and transfer fees, foreign transaction fees and overage use charges.

*Only 59% know there are **no-fee options** when opening and using a chequing account, while 34% believe you can get **cash from any ATM, anywhere in the world, for free.***

If you plan to get into the habit of saving, a good option is to open a savings account. This type of account does not offer cheques and, typically, limits the number of transactions each month (before a fee is charged), and no overdraft protection. It does, however, offer interest on any money kept in the account. Most savings accounts offer small interest rates, often at rates lower than inflation, but these accounts are still popular for holding money you need in the short-term.

You can opt for a high-interest savings account instead. Like a savings account, high-interest savings accounts are not good for frequent use. Still, they can offer higher interest — at or above inflation — that helps savers hedge against the erosion of their purchasing power. If opened at a traditional bank, most high-interest saving accounts will require larger initial deposits and/or a minimum balance to avoid fees. Options with fewer restrictions, lower or no minimums and fewer (or no) fees can be found in online banking options, such as EQ Bank or Tangerine.

What is inflation? It is the general rise in the level of prices, which decreases the purchasing power of your dollars.

Read more:

Moneysense: [Summary of the best chequing accounts in Canada in 2020](#)

Greedy Rates: [Best chequing accounts in Canada 2020](#)

#3: Prioritize Saving and Investing

Now that you are armed with a budget and a bank account, it's time to prioritize savings and learn the principles of investing.

With your budget in-hand, consider setting aside a specific amount regularly, such as through a pre-authorized contribution plan where funds are taken from a paycheque and deposited in a savings account or in an investment vehicle (such as a high-interest savings account, Tax-Free Savings Account (TFSA), or registered retirement savings plan (RRSP), among others).

This step is an important habit to combat “lifestyle inflation” — a phenomenon where we spend more money because we have more money to spend. This typically happens as people advance in their careers and earn higher salaries. While there is nothing wrong with spending

on consumer and lifestyle goods and services, it can become a problem if saving and debt-repayment are not prioritized.

Unfortunately, many people stumble in this area of financial literacy either because they believe they know more than they do (more confidence, than knowledge) or because they don't know where to start (less knowledge and no skills).

This was clear from the [Financial Literacy Quiz](#) results that were collected as part of the Zolo *Financial Literacy vs Financial Sufficiency 2020* report.



Another advantage of setting up a “pay-yourself-first” habit is because the earlier you save, the better off you will be financially in the future. This is due, in part, to the power of compound interest.

To explain, let’s assume you want to save \$1-million by the time you turn 60 and retire. Assuming a consistent investment return of 5% per year and no initial investment sum, here’s what it would take:

- If you start saving at 20, you’d have to contribute \$655.30 per month — or \$314,544 over 40 years.
- If you waited until 40 to start saving, you’d have to contribute \$2,432.89 per month, to reach your goal — for a total of \$583,894 in savings over 20 years.
- If you waited until 50 to start saving, you’d have to contribute \$6,439.88 per month, to reach your goal — for a total of \$772,786 in savings over 10 years.

The sooner you start to save, the easier it is to reach your goal.

Typically, however, saving isn’t enough. You will need to get your money working for you. That’s where learning to invest helps. While just about everyone wants to know what the next hot stock will be, the safest and easiest way to use investment returns to your advantage is to set up a balanced investment portfolio using a passive investment strategy.

Active investment strategy: Requires a hands-on approach (either through a portfolio manager or through active direct investing trading). The aim is to select the funds, strategy or stock that will beat the market and provide exceptional returns.

Passive investment strategy: Requires less involvement, typically uses well-diversified index funds (either mutual funds or low-fee exchange-traded funds) and aims to replicate the gains (and losses) of the overall market.

For more, read [Active vs. Passive Investing: What’s the Difference?](#).

For more on passive investment strategies, read the [Canadian Couch Potato blog](#).

#4: Know your Credit-Debt Cycles

Earning money and paying bills is an integral part of financial literacy, but so is the ability to manage cash-flow and the use of borrowed money. While credit can be an extremely useful tool, it’s essential to manage this tool correctly. Unfortunately, our lack of knowledge in this area has serious consequences.

In a 2016 [report](#) by the U.S.-based Center for Household Financial Stability as the Federal Reserve Bank of St. Louis, Director Ray Boshara [quoted his economists](#) by stating:

“[H]ouseholds, in particular, have become dependent on debt to maintain their standard of living in the face of stagnant wages.”

Boshara added that “rising levels of private debt have also fueled consecutive investment asset bubbles, whose bursting not only caused the Great Recession but also left a large and burdensome debt overhang that is still being dealt with today. The entirety of [North] America’s debt build-up from the 1990s to 2008 was the result of a dramatic increase in private debt, not public debt.”

The biggest problem is a lack of understanding on how debt works and how the choices we make as consumers impact us now and into the future.

For instance, while most of us appreciate that a credit score is a numerical rank of how responsible we are as consumers of borrowed money, many Canadians still don’t understand how our credit scores are calculated and used.

According to report data, 65% of Canadians understood that checking your own credit score had no impact on the score itself; however, only 53% of respondents understand that if a store or credit card checks your credit score, it did have an impact on your score. (For more, read [How to improve your credit score](#)).

Not understanding how credit bureaus (like Equifax and TransUnion) calculate credit scores can lead to poor credit management — and worse, a life cycle of debt.

According to report data, 68% of Canadians know that it’s not OK to skip a debt payment; however, only 1 in 4 Canadians (25%) know that credit card interest is calculated on a daily basis; most (51%) believe it’s calculated monthly. While most of us (40%) understand that late fees are charged on credit accounts that are not paid in full, only 16% realize that some credit accounts will charge a penalty rate — an interest rate that is higher than the standard high-rate already attached to the account. (To understand if this is the case, consumers need to read their credit card agreement — the package of information that first comes with your new credit card.)

For those who carry a balance on their credit cards, this misunderstanding can have far-reaching implications.

Given that most of us (38%) use credit cards in order to “collect rewards,” and only 14% of credit card users **never carry a balance**, more awareness and better education about the impact of debt needs to happen.

We really need to consider how to educate all demographics on the importance of responsible consumer debt-spending. While enticements and rewards are great, they should not be the primary motive for using a credit card — particularly, if it leads people to carry balances on high-interest rate credit cards.

Q94. Why do you use a credit card? (multiple responses allowed)			
To collect reward points (e.g. loyalty program)	2,485		38%
Short of money, no choice	1,874		29%
Convenience, accounting purposes	2,281		35%
To build my credit rating	2,337		36%
As an alternative to an emergency fund	1,495		23%
Other	318		5%
Prefer not to say	119		2%

When you combine our easy access to credit with our lack of financial knowledge and skills, the gap in financial literacy becomes apparent. While most Canadians (over 97%) say they would use other methods than credit cards to make ends meet, almost a quarter (23%) consider a credit card a stand-in for an emergency fund. With interest charges at almost 20%, these high-interest credit alternatives can seriously hamper a person’s ability to get out of a financially stressful situation. This is particularly worrisome, given the way 2020 unfolded.

Since the pandemic outbreak, Canadians definitely felt the pinch. According to our survey, 42% of Canadians aged 18 and older, sought some form of help since the start of COVID-19. This appears to be in-line with [research](#) conducted by [other studies](#). While men tend to seek less help with emotional stress, they tend to seek more support for financial difficulties, with 57% of men asking or accepting assistance during COVID, compared to 43% of women.

However, the biggest financial impact of COVID was the need to accept an employer requested pay cut (10% of men and 9% of women), or the need to accept an employer requested pay freeze (9% of men and 6% of women).

This lack of understanding can seriously damage our ability to get out of debt cycles — and, quite surprisingly, can impact all areas of our life. In a [Gallup poll released in 2016](#), results found that the amount of credit card debt you’re coping with can affect your physical health. The report authors state: “It is possible that those with enough money to do everything they want to do may have more access to healthy food. But it is also possible that people who manage their money don’t have as much financial stress –stress that could result in unhealthy eating habits.”

The big takeaway: It’s much easier to lose credit than it is to gain it. Many of us don’t realize how easy it is to ruin our credit or how difficult it can be to rebuild it. Knowledge is crucial in this area, as is access to tools and education that help us understand the link between credit cards, spending, debt and saving.

#5: Understanding Interest, Rates & Taxes

While we may obtain a cursory introduction on the basics of interest rates and how taxes work, most of us can't effectively use this information to make better-informed decisions for ourselves. This becomes a problem given how much more responsibility we have to find, use and invest on our own.

Decades ago, homeowners had only a handful of mortgage products to choose from, getting a credit card was privilege reserved for the gainfully employed and many employed workers relied on defined benefit pension plans to fund their retirement.

Now, homeowners have a list of products and rates to select between, post-secondary students are bombarded with credit card and loan offers and the vast majority of working-age adults must make their own investment decisions if they plan to save for retirement.

For example, interest can work against you, or it can work for you. When you take out a loan with an interest rate, it's working against you, but when you invest early and take advantage of compound interest, it's working for you.

***60% of Canadians understand the power of compound interest
15% of Canadians aren't sure but believe it "sounds bad"***

Compound interest: The interest earned or charged on money that was previously earned or or charged on money that was saved or borrowed.

Compound interest is good for savings and investments but bad for loans and debt.

The power of compound interest is impacted by frequency of contributions (or payments), interest rate, principal amount saved (or borrowed) and the length of time money is invested (or borrowed).

Given that taxes and interest rates have a direct impact on how well we use credit such as high-interest credit cards or mortgage loans, and whether or not we can save enough for retirement, it's key that we understand how best to use these financial tools.

Yet, data shows that many Canadians still struggle with basic concepts when it comes to interest, taxes and investments. This is where financial education shows the biggest gaps when it comes to financial literacy.

For example, less than half (49%) of respondents correctly understood that if the interest rate on their savings was less than the inflation rate, after a year their savings would have less purchasing power; only 35% of respondents correctly predicted that if interest rates rise, bond rates fall.

When asked when interest is charged on a fixed-rate mortgage, only 17% of respondents correctly identified “semi-annually,” while most (33%) believed that the interest was charged monthly.

Not all is lost, however. The ongoing pursuit of financial education, even in an ad hoc fashion, appears to be helping Canadians, as exemplified by some of the answers provided in the Financial Literacy Quiz portion of the survey.

For example, 61% of respondents knew that high-interest savings accounts were not the same as Tax-Free Savings Accounts; when asked what factors impact the amount of interest you pay on a loan, 53% of respondents correctly identified all three factors (your credit rating, how much you borrow and how long it takes you to repay the loan).

When it came to housing and investments, ongoing financial education and awareness seems to have helped here, too. For example, when asked what would help lower the cost of a house purchase, 57% of respondents correctly stated that “making a larger down payment at the time of the purchase.” When it came to investments, 74% of respondents correctly understood that if they saved \$100 at the start of the year and earned 2% interest, they’d have more than \$102 at the end of the year.

Still, to become financially literate, we must go beyond the basic mathematical calculation and begin to connect the dots on how to use these tools to grow our net worth.

How — and why — you should improve your credit score

What is a credit score? What is a credit report?

Your credit score is based on your credit history which is captured in full by your credit report. Your credit report is used by lenders and investors to determine the likelihood that you will repay your debts. Essentially, a credit report is an itemized list of all of your credit accounts and, essentially, is a summary of how well you pay your financial obligations.

Lenders also report back to the credit reporting agencies, known as credit bureaus, about your activity. Lenders systematically provide details on whether or not you make payments on-time, how much credit you have available and how much of that credit is used and how long each account has been open.

Since credit reports are being continually updated, credit scores can change quite frequently based on the information reported back to the bureaus. This means how much you owe, how much you put towards paying your debts, as well as the number of credit accounts you hold and how long you've held these accounts, can all impact your credit report and your credit score.

Credit Score: *A number that represents your credit history and helps lenders and creditors quickly assess the level of risk associated with doing business with you.*

Credit History: *Is a report that lists your history as a consumer. A credit history will list loans and credit accounts that you have opened, closed and still use, along with your payment history and length of time you have held each account. A credit history is determined by information collected from lenders and listed in your report by a credit bureau.*

In the simplest terms, your credit score is a numbered ranking. The number tells creditors, such as banks, credit card companies and mortgage lenders, whether or not to approve you for a loan or charge account. It also helps lenders to determine what type of loan terms to offer you. Credit scores range from 300 to 900 with higher numbers considered better; those with higher scores get better loan and mortgage rates, better loan terms and greater access to credit.

How credit scores are calculated

Credit scores are calculated using proprietary algorithms created by credit bureaus. In Canada, there are two major credit bureaus that collect data on your consumer transactions: TransUnion Canada and Equifax Canada.

Each bureau calculates scores using your credit history and various, proprietary algorithms — statistical formulas that emphasize different factors, based on the needs of the lender or business that is paying for access to those scores. Typically, lenders and businesses will only subscribe and pay for only one score per bureau (and sometimes, only one score from one bureau). Since each algorithm will vary in what types of accounts and what weightings are used, the score can differ, sometimes quite dramatically, from one algorithm to another and from one credit bureau to another.

Regardless of what calculation method is used, there are five main factors that contribute to the calculation of your credit score:

- Your payment history (35%)
- The amount of debt you hold (30%)
- The length of your credit history (15%)
- The number and type of new credit applications (10%)
- Your credit mix (10%)

A good credit score in Canada can make it significantly easier to get approved for low-interest loans, get better access to quick credit, and opportunities for higher credit limits (for home buyers, that means a bigger mortgage loan).

In Canada, credit ratings are broken down into five categories:

1. Poor credit score: 559 and under.
2. Fair credit score: 560 to 659
3. Good credit score: 660 to 724
4. Very Good credit score: 725 to 759
5. Excellent credit score: 760 and over

Where to find your credit score (a primer on credit reports)

Although **credit reports don't generally contain your credit score**, you'll be able to learn invaluable insight about your credit history, as well as being able to check for any errors that may be present.

[According to the Federal Trade Commission](#), an estimated 1 in 5 American consumers have errors in their credit reports. Which is exactly why it's important to check your credit report regularly to make sure nothing is affecting your score when it shouldn't be.

This prevalence of errors was reinforced in the data collected for this report with 46% of respondents reporting that they'd found at least one error in their credit report.

This small error can become a big problem, particularly when making bigger life decisions. There are numerous horror stories of people who go for a mortgage pre-approval only to find a mistake or a forgotten credit account on their file that has badly damaged their credit score.

The problem is only 36% of respondents could accurately identify what a credit report is: A loan and bill payment history. Quite surprisingly, 33% thought a credit report was a "list of financial assets and liabilities" — which is a net worth statement — while 19% thought it was a monthly credit card statement and another 8% believed it was the name of a "credit line with a financial institution." (The remaining 4% just didn't know.)

To avoid the problems associated with a low credit score, it's best to review your credit report at least once per year.

You can get a free credit report in Canada by requesting it online, through writing or in-person from [Equifax](#) or [TransUnion](#). To be safe, it's a good idea to request your report from both agencies. As of 2020, TransUnion Canada now offers consumers a chance to review their own credit report [once per month for free](#).

Why are Canadians still buying homes in a pandemic?

The data clearly shows that despite global economic troubles and ongoing uncertainty, the majority of Canadians are still pursuing the homeownership dream.

- 77% of Canadians are willing to push back saving for retirement if it means they will be able to buy a home sooner;
- Pre-pandemic, 74% of Canadians were saving for a down payment on a home; post-pandemic and the number still saving decreased only slightly to 71% of Canadians;
- When asked if COVID-19 changed their opinion about becoming a homeowner, 25% of Canadians agreed with the statement: “I want to be a homeowner now more than ever.”

Homeownership desire fuelled by the need for security

Buying a home isn't always about building wealth or gaining another asset. This pandemic has made people realize how much they value stability and a safe space to call their own.

This feeling of safety — both from the stability of owning and from the financial role real estate plays in personal net worth — is a likely contributor to why real estate and home buying is still top of mind for most Canadians.

The data collected for this report supports this theory. According to the 6,651 respondents that participated in the online survey, the top 4 motives to buy a home are:

1. To live in a stable and safe environment (23%);
2. The freedom to customize their home (22%);
3. To start a family (22%);
4. More permanence in the neighbourhood they love (15%).

As of today and based on everything Canadians are facing financially, an overwhelming 74% of respondents say their desire to become a homeowner has increased (based on those who self-reported their level of desire on a 1 to 10 scale).

Stability shouldn't overshadow prudent financial practice

Statistics Canada reports that Canada's gross domestic product (GDP), the economic snapshot for the nation, is still 6% below what it was in February 2020. The sluggish global and domestic economy means it is essential for Canadians to stay vigilant with their finances.

Given that 63% of survey respondents intend to purchase a home in the next two years, Zolo Homebase suggests:

- Save a significant down payment — the more equity you have, the stronger your financial position and the lower your monthly housing costs will be;
- Set a budget — to avoid house rich, cash poor, establish a budget that includes saving an emergency fund;
- Shop for the best mortgage rate and terms — rates are aggressively low, right now, so it pays to shop around and to nail down the best terms.

Infographic: [Desire to buy a home still strong in 2020](#)

Millennials: Here's how to save for a down payment on a home even after a pay cut

Data from the report shows that **26% of Canadians** are struggling to save money because of the current economic downturn and continue to face a job loss or pay cuts.

- 33% of Canadians have had to take an employer requested pay cut or pay freeze since the start of COVID-19
- 71% of Canadians are still saving for a down payment regardless of the current economy
- 42% of Canadians have required financial support since the start of COVID-19

Canadians needed financial assistance during COVID-19

According to survey data, 42% of Canadians required some sort of financial support during the pandemic.

The primary types of financial support needed by Canadians include employer requested pay cuts (19%), employer requested pay freeze (15%), asking parents for financial help (12%), and applying for a personal loan or line of credit (11%).

Homeownership still a priority, particularly for millennials

Even with pay cuts or freezes, most millennials are still prioritizing saving a down payment and buying homes.

Report data shows that 71% of Canadians are still saving for a down payment — with millennials and Gen X cohorts leading the pack on those actively looking and eager to buy a property “as soon as possible.”

Overall (based on all survey data):

- 35% plan to buy as soon as they find the right home at the right price,
- and another 29% plan to buy in the next year or two (in 2021 or 2022).

The biggest obstacles to purchasing a property, when broken out by cohort, included:

- Young millennials (aged 25 to 29) and millennials (aged 30 to 39) both reported needing to save a larger down payment before buying, 31% and 30%, respectively;
- 29% of Gen X (aged 40 to 55) respondents said that “homes are too unaffordable” as the biggest obstacle, while 28% said they needed to save up a larger down payment.
- For 33% of Baby Boomers the biggest obstacle was that “homes are too unaffordable.”

So, how can you overcome these barriers and save for a down payment earning less?

The best strategy is to buy less home and to take on a smaller mortgage, while taking advantage of prepayment privileges that let you double-up your mortgage payments and pay off your mortgage sooner.

3 tips to help save for a down payment on a home

Here are some ways to save up a down payment even during economic difficulties:

1. **Get your financial house in order.** Now is the perfect time to adjust to living within or below your means. If you have less income, check in with your budget to see where you can cut back and how you can continue to contribute a realistic amount of money to your down payment fund.
2. **Use down payment assistance programs.** If you are eager to buy but can't seem to finish off your savings, consider the RRSP Home Buyers' Plan (HBP) or the RRSP First Time Home Buyer Incentive. Both options can provide you with an extra push to get your down payment fully funded quicker than you'd think.
3. **Be patient.** Many Canadians consider now the time to buy, given the current economic climate. What they should remember first and foremost is that regardless of the economy or real estate market, their current financial situation should always be a priority. It's okay to wait until you are ready – homeownership is a costly investment.

4 infographics included in this report

#1. Canadians get a passing grade on financial literacy

Canadians get a passing grade on financial literacy



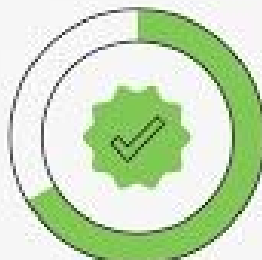
Almost half of Canadians failed a basic financial literacy test, but most (70%) rated their financial knowledge to be "good or very good."



What is financial literacy?

The ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing.

Are we too confident?



70%
of Canadians rated their financial knowledge as



82%
believed they are good or very good at "keeping



79%
reported good or very good skills as

#2. Desire to buy a home still strong in 2020

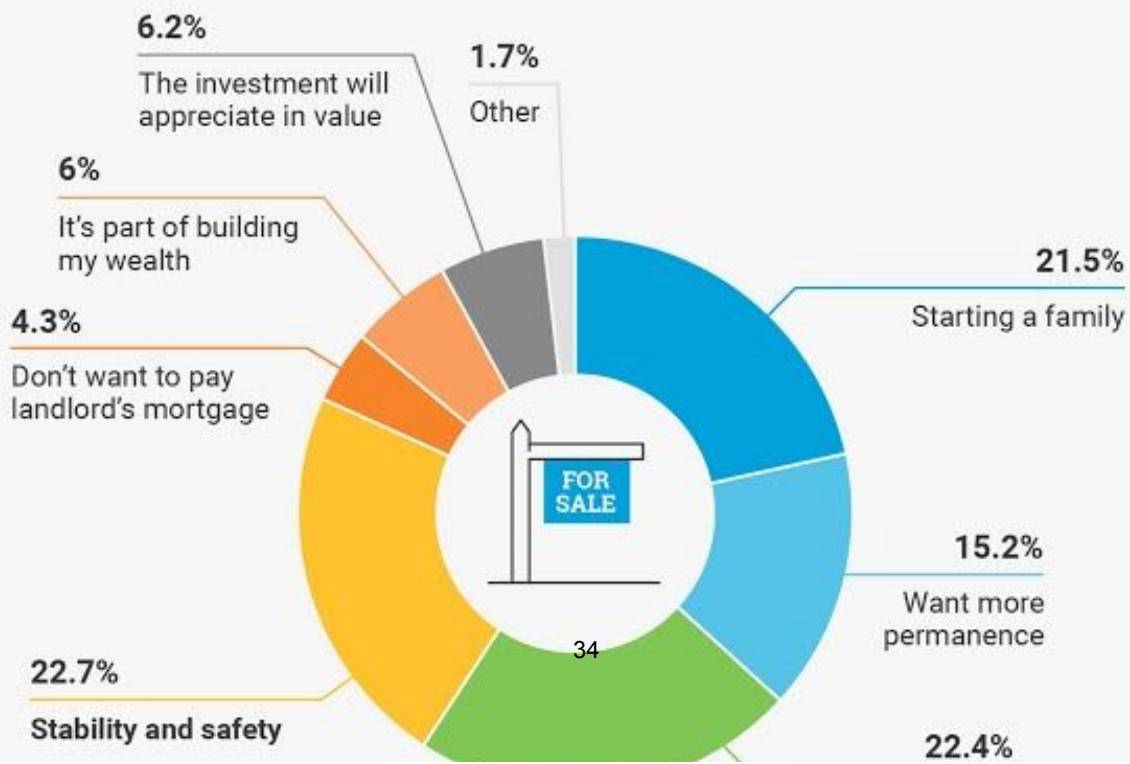
Why Canadians keep buying homes during a pandemic

The **desire for homeownership** continues to be very high in most markets across Canada despite uncertainty.



The fear, among many financial planners, is that buyers are looking to shore up their financial well-being through homeownership. Turns out the drive for **property ownership is far more psychological.**

Primary motives for potential home buyers



#3. How to save a down payment even after a pay cut

Canadians' desires to buy a home amidst economic uncertainty



Despite headwinds, Canadians still plan to buy a home in 2020.



34%

of Canadian home buyers would buy now if the home and the price were right.



74%

reported an increase in their desire for homeownership after COVID hit.



23%

say stability and safety are their biggest motives for home buying.

Current obstacles to home buying



#4. Majority of Canadians won't survive job loss

Majority of Canadians won't survive job loss



Traditional advice says to save a minimum of three to six months of expenses in an emergency fund yet **23% of Canadians** would run out of money in 30 days or less if they lost their job.

Worse, establishing an emergency fund still isn't a priority for most.



Only 4%

consider having an emergency fund a top priority in 2020.



Only 3%

consider establishing an emergency fund as a top priority in 2021.



Of the **42%** of respondents who sought help during COVID, **two-thirds** ended up with less money in their pocket due to a pay freeze or a mandatory pay cut.

Survey Data

The survey data used for the *Zolo Financial Literacy vs. Financial Sufficiency 2020 Report* was collected through an online survey between September 19 to October 12, 2020.

The online survey asked 6,651 respondents a variety of opinion, self-report and knowledge-based questions in order to measure financial knowledge, confidence and skills — all of which are integral to financial literacy.

The estimated margin of error is +/- 1.59 percentage points, 19.8 times out of 20.

A copy of the survey data can be found [here](#).

