Top 10 personal-finance myths

By Gail Johnson | Pay Day – Fri, 20 Mar, 2015 1:43 PM EDT

Common myths are everywhere: sharks don't get cancer (not true); the Great Wall of China is visible from space (ditto). They exist in the world of personal finance, too.

Myth: I don't need to worry about our budget or finances because my partner manages the money.
Fact: "Even if someone else is in the driver's seat, you should be an active passenger; not asleep in the backseat," says Linda MacKay, senior vice president, retail savings and investing at TD Canada Trust. "Sit down at least a few times a year to review your finances, budget and goals. You should know where your accounts are and have access to your investment, credit, and bank statements. And even though you're not the driver, you still might be responsible for any financial accidents, so taking ownership of decisions is important for everyone involved."

Myth: I should avoid saving until all my debt is paid off.
Fact: "While it's important to pay off your debt, it's also important to save for your future," MacKay says. "One easy way to build savings is to set up an automated transfer of a set amount each month into a savings account. Whether it is $20 a day, a week or every pay, setting aside money on a regular basis adds up in the long term. And then when you're debt is eliminated; you can increase your automated savings contributions with the money you were originally using for your debt repayments to save even more."

Myth: Things would be better if I made more money.
Fact: "Regardless of how much money you make, if you don't have good financial habits, making more money alone likely won't solve all your problems," says MacKay. "Mapping out what income you're earning, and actually taking home, as well as how you're spending your money, is an important first step in creating a realistic budget. A realistic sense of your cash flow will also help identify opportunities to cut back, spend smarter or save money."

Myth: I'm too young to worry about saving for retirement.
Fact: "The best time to save for retirement or future goals is when you don't need to worry about them," MacKay says. "The earlier you start, the more time you have to invest and reap the rewards."

Myth: Cash is "king" so avoid credit cards as much as possible.
Fact: "While carrying a high balance on your credit card is not a good thing, there are benefits to using credit cards responsibly," MacKay says. "Credit cards are a simple way to help you establish a credit history and rating, they can help you keep track of your spending, and they can help manage your cash flow."

Myth: RRSPs can only be accessed in retirement.
Fact: "You can access your RRSPs beforehand through The Home Buyers' Plan (HBP), a program that allows you to withdraw funds from your RRSPs to buy or build a qualifying

home yourself or for a related person with a disability," says Investors Group's Christine Van Cauwenberghe, assistant vice-president, tax and estate planning. "You can withdraw up to $25,000 in a calendar year. You can also access the funds through the Lifelong Learning Program (LLP) if you decide that you would like to go back to school.

Myth: People who save money in a bank account are wise.
Fact: "If you're putting your money into a savings account, it could sit there gaining lower interest and stunting the growth of your investment," says Investors Group's tax and estate planning specialist Todd Sigurdson. "However, there are opportunities to invest in other accounts, such as mutual funds, that yield a higher interest rate, allowing you to grow your investment over a shorter period of time. Also, any interest earned is taxed on an annual basis, whereas capital gains earned in an investment aren't taxed until you sell the investment, and then they are only 50 per cent taxable as opposed to 100 per cent."

Myth: Tax Free Savings Accounts can only house GICs or regular savings
Fact: "The list of eligible investments for TFSAs is the same as for other types of registered plans such as RRSPs and RRIFs," says Van Cauwenberghe. "TFSAs provide great flexibility, as the funds can be withdrawn tax-free at any time, and you will be able to re-contribute those funds to the plan during the next calendar year. Another TFSA Myth is that you can withdraw the funds one day and recontribute the next – in reality, you need to wait until the next calendar year to re-contribute or you could be subject to penalties."

Myth: I don't need a financial plan until I have lots of money saved.
Fact: "People are under the impression that for a financial plan to be worth anything, they have to have a good-sized chunk of money ready to invest," says money coach and certified financial planner Noel D'Souza with Money Coaches Canada. "Unfortunately most people confuse a 'financial plan' with an 'investment plan'. An investment plan can form part of a comprehensive financial plan, but a financial plan is much more: it covers your whole financial situation, including life and lifestyle goals, debt and debt repayment, cash flow timing and priorities, tax, insurance, banking, estate planning, and yes, investing. At its core, a financial plan helps you understand how best to use the resources available to you now to make smart financial decisions which will get you closer to your goals."

Myth: CPP will not be around when we retire.
Fact: "As a government program, it's hard to say with absolute certainty what CPP will look like decades down the road," D'Souza says. " But then that's true of anything. What we do know is that the CPP Investment Board reports CPP assets at almost $240 billion, and that the Chief Actuary of Canada has affirmed that the CPP remains sustainable throughout the entire 75-year period of his report. We can also reasonably expect that if something unexpected were to happen, the government would make changes to the program to keep it sustainable, which might include increasing contributions or decreasing/delaying benefits. But it's highly unlikely that it will be scrapped altogether and contributors would see no benefit."