

Teens and Money

Money. You have a whole lifetime to earn, save, invest, and spend it. Yet, in order to avoid costly mistakes and wasted time, you probably do not want to wait a lifetime before learning how to do any of these things well. This is your opportunity to learn how to make the most of every penny so you can achieve the financial independence you want – when you need it. This course will cover important financial topics, including:

- Money Management
- Buying a Vehicle
- Checking and Savings Accounts
- Credit Cards
- Investing

Chapter 1: Money Management

Money management is the process of knowing where your money is going now and having a plan in place for where you want it to go in the future.

Setting goals

Goal setting is your chance to figure out what you really want to do with your money and to get what you want without having to borrow for it.

There are three basic types of goals: short-term (achievable in under a year), mid-term (achievable in one to five years), and long-term (achievable in five-plus years). Determine how much your goals will cost you and the dates you want them by. If you have multiple goals, you can either work toward them all at once or concentrate on one and then move to the next. You can use the Financial Goals Chart to list your goals.

- **Complete the Financial Goals Chart on page 7.**

How much do you need to put aside each month? For short- and mid-term goals, the calculation is simple: the price divided by the months you have to save equals how much you need to put aside each month. For long-term goals, you may want to factor in the interest you expect to earn on your savings. You can use a financial calculator to determine how much you need to put aside each month.

Budgeting

While the idea of budgeting may sound overwhelming, it's just knowing what you have coming in and restricting what goes out. A well-designed budget allows you to make the most of your money – you will get rid of wasteful spending while having the money to pay for expenses that are really important to you.

To design a budget, you can use the old-fashioned system (pen and paper), a computer spreadsheet, or budgeting software. The method matters less than the result.

- **Complete the Budget Worksheet on page 8.**

Begin with your income, as it will determine what you can afford to spend and save each month. Total up every net (already taxed) dollar you make in a month. Now move on to your expenses. When developing this section, you should have two columns to work with – a “current” column, for what you have been spending your money on, and a “proposed” column, for the changes you want to make. In the current column, list everything you spend your money on in a month. Include periodic expenses, such as birthday gifts, weekend trips, or concert tickets, as well. Just total what you think you spend in a year, and divide the number by 12 to get a monthly figure. Don’t forget to include money for savings – both for your goals and emergency, unexpected expenses.

Though everyone’s budget is different, there is one basic rule that applies to all – your expenses should never be more than your income. Total your expenses and subtract the sum from your net income. Are you over or under? If you find there is more going out than is coming in, it’s time to make changes. You can increase your income, decrease your expenses, or do both. Using the current column as a guide, consider each expense carefully. Which are wants? Which are needs? In the proposed column, decide where you want your dollars to go each month and what you can cut.

A budget is born. Make a commitment to follow it in the future. Otherwise, your budget is only a piece of paper. You may not be able to perfectly stick to it every single month, but do the best that you can.

Chapter 2: Buying a Vehicle

A vehicle is the first major purchase many young adults make. However, before you buy, make sure you know how much you can really afford. It is easy to get carried away and end up with a car or truck that is out of your price range. To know the amount you can afford to spend, revisit your budget. Consider not just the monthly payment, but also the cost of insurance, maintenance and repairs, gas, and parking too.

If you are not going to buy a car or truck outright, you will be borrowing for it. The more you borrow (finance), the more the vehicle will cost, so try to make as large a down payment as possible. When shopping for the best deal:

- **Don’t be fooled by an advertised low monthly payment.** If the length of the loan is long and the interest rate high, you may be paying more than you have to.
- **Look for incentives.** Dealers may offer reduced finance rates or cash back on specific models. However, avoid buying an expensive car just to get incentives. You may wind up spending more money on a fancy car with a low, promotional interest rate than an economical car with a higher interest rate.
- **Negotiate.** It is common to haggle over the price of the car, but if there is no special financing offer available, you may also be able to negotiate the interest rate and other repayment terms with the dealer.

- **Do research.** Compare the dealer's financing with the loan you can get through your financial institution or other lenders. If you go to your financial institution before you start your car search, you will have a better idea of how much you can borrow and, thus, what cars you can afford. Furthermore, you may be able to get a better interest rate with your financial institution than a dealer. Even though dealers often offer incentives, they do not always have the best financing.

Before signing any documents, read the contract carefully. Make sure you understand and agree to the:

- Price you're paying for the vehicle
- Amount you're financing
- Annual percentage rate (APR – the rate of interest you are charged annually)
- Additional finance charges
- Number and amount of payments
- Total sales price

Chapter 3: Checking and Savings Accounts

An important part of financial independence is having your own checking and savings accounts. Some financial institutions offer teen accounts for people under 18, but if yours does not, chances are they do offer custodial or joint accounts if a parent co-signs.

Checking accounts

Because you will use it to write checks and pay for purchases and bills, having a checking account requires active management. There are several steps you can take to manage your checking account responsibly:

- Be careful with your ATM and debit cards. Keep cards in a safe place, and never share them. Report lost or stolen cards to the financial institution immediately. Know your balance before making a purchase, and make sure that you have enough money in your account. To avoid paying unnecessary fees, only use your financial institution's ATMs.
- Avoid bouncing checks. A check bounces when there is not enough money in the account to pay the check. Typically, there are hefty fees charged for bouncing checks, so this is an expensive habit to have. Having overdraft protection, which prevents checks from bouncing, is usually cheaper than having to pay bounced check fees, but it is still not a good idea to overdraw your account. It can be a sign that your spending is not under control. Check your account balance before writing a check. Most financial institutions will let you do this over the phone or on-line.
- Keep track of all of your transactions in your check register. It is one way to know what the balance is in your checking account, and it also allows you to see if any errors have been made when you get your statements. If you notice any problems when checking your statements, contact your financial institution immediately.

- If available, take advantage of automatic bill pay. It is usually very simple to set up and free to use. When your bills come in, all you have to do is log into your account and enter the amount you owe. Click, and you're done! It is faster than writing checks, and you'll save on stamps.

Savings accounts

Using a savings account can help you save. People who leave their savings in their checking accounts often wind up spending the money. With a savings account, you can put the money in there and forget about it until you need it. What should you save for? As discussed in the first chapter, goals can be more easily achieved by regularly saving. It is also a good idea to save for emergencies and unexpected expenses, such as job loss, car repairs, and health problems. Aim to put aside at least two to three months worth of essential expenses.

If you prioritize your savings and treat it like any other important bill you have to pay, you will be more likely to save than if you wait and see what money you have left over at the end of the month. Deposit money in your savings account as soon as you receive your allowance or paycheck, or set up a regular, automatic transfer from your checking account to your savings account. Most financial institutions will allow you to do this.

Chapter 4: Credit Cards

Getting your first credit card is an exciting step toward true financial independence. Credit cards can cause major problems if they are not sensibly used, but they have important advantages as well. First, having and responsibly using credit cards allows you to build a positive credit history and score. In the future, having a good credit score can help you to get a car loan or mortgage with a low interest rate, rent an apartment, get a job, and get good insurance rates. Second, having credit allows you to borrow money interest-free for a short period of time. You can buy something, and you do not have to pay the bill until the next month. However, if you charge more than what you can afford to pay back when the bill comes, you will have to pay interest on the portion you do not pay off. When you do not pay off the balance in full each month, you are said to "carry a balance". Some people wind up paying thousands of dollars in interest on their credit cards because they carry a balance.

What to look for in a credit card

Not all credit cards are created equal. Just as you wouldn't purchase the first car you saw on the lot without comparing it to other cars, neither should you automatically accept a random credit card offer that comes to you in the mail. When shopping for a credit card, look for the following:

- **Low interest rate (APR).** The lower the APR, the less money you'll be charged to hold onto the balance. However, if you never carry a balance (the most financially savvy thing to do), the APR won't matter.
- **Grace period.** A grace period is how long you have to pay off the balance before you are charged interest on new purchases. It is best to go with a card that gives you a grace period (although be aware that it only applies if you paid off your balance in full the previous month).
- **No annual fee.** Why pay for the privilege of holding a card if you don't have to? If you are new to credit, you may have to pay an annual fee, but after a year or so of responsible use, ask for it to be reduced or eliminated.

- **Low penalty fees.** If you make a payment after the due date or go over your credit limit, you could be charged a fee. While you should manage your account so neither of these events occurs, look for a credit card with the lowest penalty fees - just in case.

Are you responsible for payments?

Whether or not you are legally responsible for payments depends on what type of user you are:

- **Authorized user.** Authorized users have spending privileges, but the primary cardholder is responsible for the bill.
- **Co-signer/joint account.** Both signers are equally responsible for payments, and the payment history will be evident on both signers' credit reports.
- **Individual.** The account holder is solely responsible for the bills, and the activity will be reported on that person's credit report.

If you are under 18, you are unlikely to get a credit card by yourself – either you will need a co-signer or you can be added as an authorized user to someone's card. If you are an authorized user or a co-signer, be especially conscious of making good on your debts. If you made an agreement to pay for what you bought, do so. Someone trusted you enough to give you access to credit – don't ruin it by running away from or forgetting about your obligations.

Stay out of debt

Credit cards allow you to run up huge balances. Starter cards may begin with low limits, but it is not uncommon for creditors to increase the limits after a year or two of use. The increased availability of credit can make it very easy to “go crazy” and spend what you can't pay back. It does not take long for a few purchases to add up to hundreds of dollars, then thousands. Remember, credit cards should be used to build your credit score, not to supplement your income. Never charge more than you can afford to repay by the time the bill rolls in. To avoid overspending, keep a record of all of the credit card purchases you make during the month. When you reach the limit of what you can afford to pay off, stop using the card until the next month.

Chapter 5: Investing

Now that you have saved some money and become an expert money manager, you can do what some adults never do – have your money work hard for you, instead of just the other way around.

Your investment portfolio

A portfolio is a collection of investments, which can include stocks, bonds, cash equivalents, and mutual funds. So what should you have? That depends on many factors, including your risk tolerance, goals, and age. Since you are young, time is on your side. You can afford to take more risk with your investments than someone who is older and doesn't have decades to recoup a loss. If you are a minor, you may have to open a custodial account with a parent in to make purchases or have a parent make them. Once you turn 18, you should have no problem investing on your own.

Stocks

A share of stock represents a percentage of ownership in a corporation. In other words, if a company is divided into a million shares, and you buy one share, you would own one millionth of that company. They are an important part of a portfolio because, long-term, they have the greatest potential to make the most amount of money. However, stocks are naturally volatile – one day your stock may be worth more than what you paid for it, the next, less.

Bonds

A bond is a loan to a company or government, with you, the bondholder, as the lender. Organizations issue bonds when they want to raise funds. Generally, you receive the principal, called the par value, at maturity of the bond and the interest, called the coupon interest rate, periodically while you are holding the bond. Bonds tend to be more stable than stocks, so having both in your portfolio is a good way to spread risk. However, the return (profit) on bonds is usually lower than the return on stocks.

Cash equivalents

Cash equivalents are assets that can be readily converted into cash. They tend to be low-risk, so there is little or no danger that you will lose the money you deposit. Because they are safe, cash equivalents provide a low return, which may not even keep up with inflation. Still, having a portion of your savings in cash equivalents provides a safety net – you know you will be able to access some money if you need it. There are many types of cash equivalents:

- Savings and checking accounts. With savings and checking accounts you deposit money in a financial institution and receive interest or dividends in return. You can withdraw your money at any time. The interest rate is usually low or may even be non-existent for some checking accounts. Savings and checking accounts are insured, meaning you will still be able to access your money if the financial institution goes out of business.
- Certificates of deposit (CDs). Like with savings and checking accounts, with CDs you also deposit your money in a financial institution, but you are required to leave it there for the term of the CD, or, in most cases, you will have to pay an early withdrawal penalty. CDs are insured and generally have higher interest rates than savings and checking accounts.
- Money market deposit accounts. Money market deposit accounts are similar to savings accounts, but the interest rate is variable, not fixed, and usually higher as well. They are insured and may come with limited check writing privileges.
- Money market mutual funds. Money market mutual funds are mutual funds that invest in short-term debt obligations, such as Treasury bills and CDs. While generally safe, money market mutual funds are not insured and provide no guarantee against loss.
- U.S. Treasury bills. Treasury bills are short-term debt obligations of the U.S. government.

Mutual funds

A mutual fund pools together money from many investors and purchases different stocks, bonds, and/or cash equivalents. Because each fund is made up of a wide variety of investments, they are already diversified, which is important for spreading risk. After all, if all of your money is invested in one company, and it does poorly, you could lose everything. With a mutual fund, you don't have to research hundreds of companies to know which stocks and bonds should be in your portfolio because the fund manager does this for you. However, professional management comes at a price - management fees are built into the cost of funds.

Financial Goals Worksheet

Your financial goals are specific things you want to do with your money within a certain time period. Short-term goals are accomplished under 1 year, mid-term goals are accomplished within 1 to 5 years and long-term goals generally take over 5 years to achieve.

	Target Date	Total Needed	Current Savings	Additional Savings Needed	Pay Periods Until Target Date	Savings Needed Per Pay Period	Savings Needed Per Month
Short-term Goals (under 1 year)							
Mid-term Goals (1-5 years)							
Long-term Goals (over 5 years)							

Teens and Money: Budget Worksheet

Monthly Income	Gross (Pre-tax)	Net (Post-tax)
Job	\$	\$
Allowance	\$	\$
Student loans (living stipend)	\$	\$
Other	\$	\$
TOTAL FOR MONTH	\$	\$

Monthly Expenses	Current	Proposed
Rent/mortgage	\$	\$
Gas/electric (average)	\$	\$
Water/sewer/garbage	\$	\$
Telephone (landline)	\$	\$
Cell phone	\$	\$
Internet access	\$	\$
Cable/satellite	\$	\$
Groceries/household items	\$	\$
Health/life insurance	\$	\$
Prescriptions/doctor visits	\$	\$
Car payment	\$	\$
Gassoline	\$	\$
Car maintenance	\$	\$
Car insurance	\$	\$
Car registration	\$	\$

Tolls/parking/mass transit	\$	\$
Tuition/lessons	\$	\$
Beauty/barber	\$	\$
Movies/music	\$	\$
Dining out	\$	\$
Sports/hobbies/gym	\$	\$
Vacations/travel	\$	\$
Books/magazines	\$	\$
Clothing purchases	\$	\$
Laundry/dry cleaning	\$	\$
Gifts/cards	\$	\$
Pet care	\$	\$
Banking fees/postage	\$	\$
Religious/charity donations	\$	\$
Savings (emergency account)	\$	\$
Savings (goals)	\$	\$
Credit card payments	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
TOTAL FOR MONTH	\$	\$

The Bottom Line		
Monthly net income		Monthly surplus or deficit
	-	=