Money Smarts

A Guide to Financial Literacy

Woodburn Press
A Student Success Company

Dear Student,

For better or worse, much of our lives revolve around money. We earn it, save it, invest it, donate it, and of course, spend it. How much money we have can determine where we live and what we're able to buy. But more important than how much money you have is how well your money supports you on your life's journey.

The information in this book will help you make wise financial choices and decisions—choices and decisions that will enable you to achieve your goals, and live the life you want to live.

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Introduction

Learning how to manage your money is one of the most important skills you will learn in life. While some of the information in this book will be more useful to you down the road, learning how to manage your finances now will put you ahead of the game—and on your way to financial success.

Acquiring Money

You can't manage money you don't have, so let's talk about acquiring money.

Unless you have a family fortune at your disposal, you're going to have to get your money like most people—you will need to earn it. Earning money typically requires hard work. But earning your own money can be very rewarding, especially if you are working in a career you love.

Many people have a job—something they do to make money to pay the bills. *You don't want to just have a job—you want to have a career.* A career not only provides you with an income, it also provides you with personal satisfaction and a sense of accomplishment. A career is something you've trained or studied for, something you want to get better at, and something you plan to do for a long time.

So, think about your skills and talents, what you're interested in, and what's important to you. This will help ensure that you choose a career that's going to be a good fit for you.

To prepare for your career, you may need to go to a two-year or four-year college—or it may be best to go to a career or trade school. Regardless of what career you choose or how you prepare for it, if you work hard and do your best, personal and financial success are sure to follow.

Money in the Bank

We keep our money in banks because the alternative...well, there really isn't a good alternative. Banks, however, are not all the same, which is why it's important to understand how banks operate, and why they want you as a customer.

Which bank should you choose?

You may want to put your money in the bank your family uses; however, if you're looking for a bank, do some comparison shopping. Visit different banks online and in person to compare their products, services, and fees. Just be sure to choose a bank that's convenient for you to use, and one that offers free "in network" ATMs. (You might also want to check out credit unions—they're like banks, and have similar services and products.)

Which type of bank account is best?

Banks offer a variety of accounts where you can keep and access your money. These include checking accounts, savings accounts, and Certificates of Deposit (CDs).

Let's start with the account that's most often used—the checking account.

Checking account

If you have money in a bank and want to use it to make purchases and pay bills, you need to have a checking account.

Once you open a checking account and deposit some money, the bank will provide you with checks. You can also get a debit card or an ATM (Automated Teller Machine) card to go with your checking account.

When you have a checking account, you can write checks and use your debit card for purchases. You can also use your ATM card or debit card to withdraw money from an ATM. Just make sure that you have enough money in your checking account to cover the transactions.

Other popular bank accounts

- **Savings account** – It used to be that most people kept their money in a savings account that generated interest of 3%, 5%, or more. But with today's low interest rates, many people keep their "spending money" in a checking account, and invest any additional money in CDs, mutual funds, stocks, and/or bonds.
- **Certificate of Deposit (CD)** – Sold by banks, CDs pay a slightly higher interest rate than a traditional savings account. When you purchase a CD, you agree to keep your money in the bank for a specific period of time (usually one month to five years). At the end of the term, your money is returned to you with interest. If you want to withdraw your money early, there's a hefty penalty.

Banking is big business

Banks are in business to make money. They do this, in part, by charging their customers fees on their accounts and interest on their loans.

- **Bank fees**

  These are just a few examples of the many fees banks charge:

  - ATM fees
  - Minimum balance fees
  - Overdraft fees
  - Lost debit card fees

  Financially literate customers do everything they can to avoid or minimize bank fees.

- **Loans**

  Banks use their customers' money to make loans—loans to individuals (e.g., college loans, car loans, real estate loans) and loans to companies (business loans). Banks make substantial profits from the interest on these loans.

Something to understand about interest...

You pay interest when you take out a loan, and you receive interest when you have an "interest-bearing account," such as a savings account or CD. But here's the thing—the interest you're charged on the loans you take out (e.g., college or auto loan) is always higher than the interest you receive on your interest-bearing accounts (e.g., CDs, savings accounts). This is how banks make a profit.

Being a Smart Consumer

Now that we've gone over where to keep your money and how to access it, let's shift gears and discuss spending your money.

Needs vs. Wants

To be a smart consumer you must differentiate between needs and wants. Needs are things that are necessary in your life, such as food, clothing, and shelter. Wants are things you don't have to have; they are things you would just like to have or do (e.g., larger TV, new phone, concert tickets).

Of course, businesses work hard to convince you that you don't just want what they're selling—you *need* it. Smart consumers are aware of these sales tactics and don't let them to influence their spending decisions.

So, before you spend your hard earned dollars, ask yourself, *"Is this something I need?"* If it's not, make sure that you're being selective, and that you are spending your money on things that are really important to you.

Spending Tips

- If you're not sure whether you should buy something, wait a day or two and see how you feel. Waiting helps eliminate bad decisions.
- Beware of online purchases that have additional fees or extravagant shipping and handling charges. Companies use tactics such as these to hide the actual cost of their products.
- Don't purchase extended warranties. Businesses love you to buy these, but they are seldom a good deal for the customer.
- Do your research. Read customer reviews, do some comparison shopping, and check out "Consumer Reports."

As you think about how you want to spend your money, make it a habit to donate money to a program or cause that's close to your heart—even if it's only a small amount.

Ways to Pay

How you spend your money can be just as important as how much you spend, and what you spend it on. Let's look at some different ways that you can pay for things, starting with the most popular—debit cards.

Debit Cards

If you have a checking account, you can get a debit card. When you use a debit card to make a purchase or get cash from an ATM, the money is automatically deducted from your checking account.

There are some definite advantages to using a debit card. There are no interest charges, no end of the month bill to pay, and debit cards are relatively easy to obtain.

One thing to remember though—if you don't have enough money in your checking account to cover the cost of a purchase, your card may be declined. Or you may find that you have an overdraft fee on your next statement. So, that $3 sandwich you charged may end up costing you an extra $35.

Also important to note, a debit card does not help you build your credit history. (More on this later.)

More young people use debit cards

Most students and young adults today use a debit card instead of a credit card, in part because of a law that was passed in 2009. This law states that people under 21 cannot have their own credit card unless they earn an income, have a co-signer on the card (usually a parent), or are an authorized user on a parent's card.

Credit Cards

Every consumer should understand how credit cards work—and also how the misuse of credit cards can get you into serious financial trouble.

When you use a credit card, you're getting a loan

A credit card allows you to borrow money from a bank or business to make purchases. You are then given a period of time (usually a month) to repay the loan. If you do not pay the balance within the designated time period, you're charged interest on the unpaid amount.

Credit card companies want you as a customer

You've seen the commercials. *Use our card and get rewards...or a low annual fee...or double bonus points...or a low introductory rate.* Credit card companies make a lot of money off their customers through annual fees, late fees, and by charging interest on unpaid balances. This is why they will all try to convince you that their card is the one you need. Before you apply for a credit card, check out their fees, interest rates, rewards programs, etc. Read the fine print.

Pay the balance in full

Many credit card users pay off their balance in full each month—and pay no interest. They pay just the amount they charged on their card that month. *This is very smart!*

The majority of credit card holders, however, make minimum or partial payments each month. Because they carry balances on their cards, they're charged interest, and those interest charges compound month after month until the balance is paid in full. *Credit card companies love these people—they are the industry's bread and butter!*

Pay credit card balances on time

Paying a credit card balance in full isn't enough—it also needs to be paid on time. People who pay their credit card bill even a single day after the due date could be charged a late fee of $25 to $35. This fee will be reflected in their next billing statement. *Using a credit card responsibly helps you build a good credit record, which is very important. (More on this to come.)*

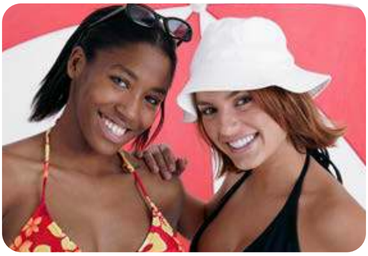
There's a credit limit

Every credit card holder has a credit limit (the maximum amount he/she can charge). A credit card will be rejected when a person reaches his/her limit, which is about $800 for the average first-time credit card user. This is called "maxing out" your card—a nice safeguard against overspending.

Some people, however, do not let a maxed out credit card stop them from making additional purchases. They use a second card—or a third, fourth, or fifth card. They buy more and more stuff, max out multiple cards, and accrue more and more debt. *It's a formula for financial disaster.*

We pay interest on the interest?

When you don't pay the entire balance on your credit card, you're charged interest (generally 10% – 20%) on the unpaid balance. The following month you will again be charged interest on the unpaid balance, and also on the prior month's interest. S*o now you are paying interest on the interest.* This is called compounding interest. And this is why when you only pay the minimum amount each month (which credit card companies love you to do), it takes a long, long time to pay off the balance. This is how a $300 TV turns into a $500 TV.



Fun in the sun!

Mia went on spring break and charged $1,500 on a credit card with a 19% interest rate. When she got the credit card bill, she paid the minimum—and since she didn't have a lot of extra money, she continued to just pay the minimum.

If she pays only the minimum amount each month (say 4% of the outstanding balance), it will take her more than SEVEN YEARS to pay off the debt! And she will end up paying a total of almost $2,400—approximately $900 extra in interest.

Comparing Card Features

All of the card options today can make things very confusing. Here is a quick comparison of debit cards, credit cards, and ATM cards.

	Debit Card	Credit Card	ATM Card
Can get cash out of ATMs	yes	yes	yes
Can use for purchases	yes	yes	no
Charges interest	no	yes	no
Affects credit rating	no	yes	no
Connected to bank account	yes	no	yes

Mobile Payments

"Mobile payments" refers to the transfer of money using a mobile app, email, or online account. Mobile payments are also called mobile money, peer to peer (P2P) payments, and digital wallets.

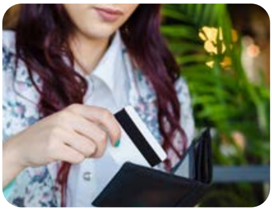
Mobile and online payment systems are becoming more popular—and new ones are popping up all the time. PayPal, Google Wallet, Apple Pay, Venmo, and Zelle are just a few of the businesses making it possible to transfer money and make payments online. A number of retailers have embraced this new trend and encourage people to use their app to find a store, order ahead, pay for purchases, earn rewards, etc.

But beware of fees. For example, Venmo allows you to send money from a debit card, bank account, or Venmo balance at no cost, but there is a charge if you use your credit card to send money.

Mobile payment systems aren't accepted by all businesses, and some people have concerns about security. But because of their convenience, they are likely to become more widely used as time goes on.

Prepaid Cards

Prepaid cards are not credit or debit cards, but they look and work just like them.



Prepaid cards can be purchased online, at banks, and at numerous retail stores. You load a dollar amount and then use these cards as you would a debit or credit card.

You don't pay interest on a prepaid card, and these cards are available to anyone. But there are often hidden fees. For example, there are fees for set-up and reloading, transferring money from a checking account, and for ATM use. Therefore, it is important that you do some comparison shopping to ensure that the cards you purchase have the lowest fees. Like a debit card, using a prepaid card has no effect on your credit history.

Personal Checks

Although less popular these days, checks are still widely used—and they are sometimes the required form of payment.

When you rent an apartment, you often need to write a check for the security deposit and for each month's rent. Many people simply like paying bills by check, and some smaller retailers prefer checks or cash over credit cards.

Cash

Currency and coins are the old school way to pay, but still a good payment option, especially for making small in-person purchases.

The advantage to using cash is a psychological one—people tend to spend less with currency than with plastic (which for many, doesn't seem like "real money"). The disadvantage of cash is that there's nothing you can do when it's lost or stolen, and there's no online record of your purchases or payments (which is why you want to save receipts for all cash payments).

Regardless of how you pay for items and services, be smart. Make decisions that are consistent with your goals and values, and recognize that money is a tool that, when used correctly, can help you live your best life.

Building Good Credit

Just like your high school GPA tells others how well you did in school, your credit record lets others know how well you manage your money.

Your credit history is important

Before a bank or business will loan you money or give you credit, they want to feel reasonably certain that you will make the agreed upon payments. Banks and businesses want to give their loans and extend their credit to people whose past behavior has shown them to be financially responsible. *This is why having a good credit record is so important.*

How do you build good credit?

The best way to build good credit is to *always* pay your bills on time. Being late with just one or two payments can adversely affect your credit report. Other things are taken into consideration when determining your credit rating, but paying your bills on time is the most important.

Businesses are reporting on your performance

When you have a credit card, take out a loan, or open a bank account, lenders and creditors provide information on your accounts (and your performance) to one or more of the three major credit bureaus. The credit bureaus then use this information to create, maintain, and update your credit report.

When James went to buy a car, the dealership checked his credit report. James didn't know he had a credit report, and he was even more surprised to learn that his credit report included information on the date his credit card account was opened, his credit limit, payment history, and account balance.

James was nevertheless happy to learn that because he had a good credit score, he was able to get a better interest rate on his car loan.

Banks and lenders check your credit report to help them make decisions about you. *Having a good credit report is, therefore, very important.*

There's a score?

The “big three” credit bureaus (Experian, TransUnion, and Equifax) use the information from a person's credit report to create his/her FICO credit score. Scores range from 300 to 850, and typically break down in the following manner:

720 or higher	Excellent	630 – 689	Fair
690 – 719	Good	629 or lower	Poor / Bad

Most young adults have low credit scores simply because they haven’t yet established a strong credit history. But a bad credit score can have negative consequences. Your score can mean the difference between being denied or approved for a loan or for credit. It can also mean the difference between getting a low or high interest rate.

A good score can help you lower your car insurance premiums, get a better cell phone plan, qualify for an apartment rental, and more.

How do people see their credit report and/or score

Anyone can request a free credit report from annualcreditreport.com. Certain banks and credit card companies also offer free credit reports, and sometimes free credit scores. Avoid companies that provide credit reports and scores, but require you to sign up for a credit monitoring service.

It's only common sense

Would you be eager to loan money to a friend who hasn’t paid you back for the money you loaned him in the past? Probably not. His past history has shown that he isn’t reliable when it comes to paying his debts. He is a bad credit risk, and he’s going to have a hard time getting any of his friends to loan him money.

Just like you, banks and businesses don’t want to loan money or give credit to people who don’t repay their debts. Banks and businesses want to work with people who pay their bills, and who have a good credit record.

Borrowing Money

At some point, you will likely make a purchase that requires you to take out a loan. Just make sure that you're getting the best interest rate possible—and that you can afford to make all of the payments in full and on time.

The application process

When people need a loan, they typically go to their bank (or credit union) and complete a loan application. The bank then checks their credit report and/or credit score to determine if they are a good risk.

If the bank approves the loan application, they will go over the terms of the loan (interest rate, amount and length of the loan, etc.) with them.

If the loan is rejected, the bank should provide a written explanation of why. If the rejection was the result of a credit search, the person requesting the loan might want to check his/her credit report for errors. *When people are turned down for a loan or credit, they should view it as a wake-up call—a message telling them to take control of their finances.*

Terms to know

When you apply for a loan, you should be familiar with the following terms:

Co-signer – an additional person who signs the loan documents, and agrees to be responsible for the loan if the payments aren't made

Default – failure to repay a loan

Down payment – the initial amount you must pay when you purchase something on credit

Installment loan – a loan with a set number of payments

Interest – the amount you're charged for borrowing money

Term – the length of the loan

Title – a document that shows ownership

Creating a Budget

If you have an income and expenses, it's a good idea to create a budget.

Many people are uncertain as to how much they spend, what they can afford, how much they earn, and what they owe. They spend more than they can afford, and then wonder how they're going to pay off all of their debt. The first step in avoiding this situation is to create and maintain a budget.

A budget is a plan

A budget is simply a plan used to decide the amount of money that can be spent—and how it will be spent. A budget involves managing your money by tracking your income and your spending, and living within your means.

First select a tool

To create a budget, you need a way to track your income (money coming in) and expenses (money you spend). You can go old school and create a simple pen and paper entry system, or use an online spreadsheet such as Microsoft Excel or Google Sheets.

Budgeting apps are a popular option among young adults, and there are dozens of them (e.g., Monefy, Mint, Money Lover, Goodbudget). These tools offer convenience. Every time you make a purchase, withdraw cash, or deposit a check, you simply enter it on your app.

Select a time period

Some people organize their budget by the month (or six months); others prefer to create a weekly budget. Select the time period that works best for you.

Create your own custom budget

- **Enter your estimated income**
  Consider your sources of "income" (i.e., money from parents, wages, gifts) and enter the amount you expect to have available to spend during your selected time period (e.g., week, month, six months).

- **Categorize your expenses**
  Think about what you spend your money on and create a list of expense categories that makes sense to you (e.g., Eating Out, School Supplies, Entertainment, Phone, Clothes, Car Loan).

- **Determine if a category is a fixed or flexible expense**
  Fixed expenses are the same every time period. $125 each month for car insurance is a fixed expense. No surprises here—you know exactly how much you'll spend each month. Flexible expenses are those that vary. $30 for clothes one month; $75 the next.

- **Budget an amount for each expense category**
  Take each category and budget a dollar amount for that time period (e.g., $75 for entertainment, $100 for car insurance, $50 for eating out). Put your fixed expenses into your budget first. This will help determine how much you have available for your flexible expenses.

Keep track of your income and your expenses

Enter all of your income and expenses into your spreadsheet or app. When you sit down to review and balance your budget, you'll then know exactly how much money has come in, and how much you've spent in each category.

Review and balance your budget

At the end of your budget period, compare your income with your expenses. If your income exceeds your expenses, you've achieved a "positive balance." Good for you! Your "savings" can be set aside for the future.

A "negative balance" reveals that your expenses have exceeded your income. You are spending more money than you're taking in. How is this possible? You're either eating away at your savings or you're running up debt. If you have a negative balance, think about how you can reduce your expenses and/or increase your income.

"I think I need a budget."

Josh has a job at a grocery store and he's taking classes at the local community college. He recently moved into an apartment with his best friend. They paid the first month's rent and the security deposit, which they hope to get back when they move out. Josh, however, soon realized that living in an apartment involves many more expenses than just the rent. There are bills for cable/internet, gas, electricity, water, renters insurance—not to mention food.

Knowing that it will be tough to make ends meet and keep on top of his finances, Josh created a monthly budget, and vowed that he'd stick to it.

Josh's Monthly Budget Worksheet

	Estimated Monthly Income $__________________		
	Expenses	Budgeted	Spent
Fixed Expenses	Rent		
	Utilities		
	Insurance		
	Car loan		
	Internet / Cable		
Flexible Expenses	School supplies		
	Cell phone		
	Food		
	Entertainment		
	Clothes		
	Misc.		
	Total Expenses		
	Balance____________________		

The goal of creating and maintaining a budget is to take charge of your finances. People who record and track every transaction are much more likely to reign in their spending and live within their means.

Earning While You Learn

It's good for students to have a job at some point, whether it's working part-time after school or full-time during the summer. Working will teach you time management, develop your skills, expand your professional network, and give you an appreciation for the value of money.

Be smart about when and where you work

How many hours you work depends on how much money you need (or want), and how much time you can devote to work without interfering with your academic performance, activities, and other obligations.

It is ideal (but not always possible) for your work to relate to your eventual career path. For example, office, sales, and customer service jobs provide experience for students who want to go into business, and child care and tutoring jobs are ideal for those who want to teach.

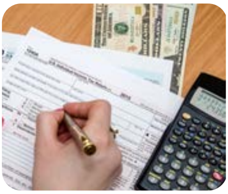
Regardless of where you work, give every job your best effort. You never know where a job may lead, or how valuable a recommendation from a supervisor can be to your future. Every job builds your resume and your professional network (people who can offer advice, introductions, etc.).

Check out employee benefits

Many businesses offer their employees vacation days, sick days, health insurance, and/or a 401(k) or 403(b) plan. Before you take a job, check out their employee benefits—these can be worth a lot of money.

Freelance Work

If you have a skill or passion, you can use your talents and interests to make some extra money. Common freelance jobs include babysitting, creating websites, computer troubleshooting, car detailing, and tutoring. Of course, it takes an "entrepreneurial spirit" to find customers and market your services.



Paying Taxes

Anyone who works and receives a paycheck needs to have a basic understanding of how they will be paid, and of the taxes they are required to pay.

When you're hired for a job, the law requires that:

- you complete IRS Form I-9 before you start working (to establish your identity and eligibility to work in the U.S.).
- you complete IRS Form W-4 (Employee's Withholding Allowance Certificate).
- your employer gives you information on your pay for each pay period.
- you receive an IRS W-2 Form at year's end to submit with your tax return.

Paychecks and pay stubs

When you have a job, you will either receive a paper check (paycheck) for your work, or your pay will be electronically deposited into your bank account (direct deposit). Regardless of how you're paid, most states require that employers provide their employees with information on their pay for each pay period. To accomplish this, a pay stub is typically attached to each employee's paycheck, or it's sent electronically.

Most people pay little attention to their pay stubs. But as a young earner striving to be financially literate, it's important for you to understand all of the entries. Here is some of what may appear on your pay stub:

- your name and Social Security number
- your Employer's I.D. number (EIN) and contact info
- the pay date and pay period (e.g., Oct. 15 to Oct. 29)
- your gross wages, deductions, and net pay for that pay period
- your year-to-date (YTD) gross wages, deductions, and net pay

Gross wages reflect how much you've earned. Net pay reveals how much you actually get to keep after deductions. The difference between gross and net pay is a cause of dismay and confusion for many wage earners!

Where did my money go?

Payroll deductions are the amounts withheld from your paycheck by your employer. While taxes will account for most, if not all, of your deductions, additional deductions may be taken for retirement, insurance, etc. Here are four major deductions you are likely to see on your pay stub.

FICA Social Security Tax and FICA Medicare Tax

Federal Insurance Contributions Act (FICA) tax is a U.S. federal payroll tax imposed on both employees and employers to fund Social Security and Medicare (federal programs that provide benefits for retirees, the disabled, and others). You chip in 6.2% of your gross income for Social Security and 1.45% for Medicare. Your employer chips in the same.

These programs will benefit you personally by providing you with income (Social Security) and health care (Medicare) when you retire.

Federal Tax

This portion of your salary goes to the federal government to fund a budget that exceeds $4 trillion per year. Federal tax dollars are used to pay for education, defense, roads and highways, veteran's benefits, and much more.

State and Local Taxes

The amount of these tax deductions depends on the city and state in which you work.

What is a W-4?

When you get a new job, you must complete a W-4 to let your employer know how much money to withhold from your paycheck for federal taxes. Completing your W-4 accurately can keep you from having a big balance due at tax time, or from overpaying your taxes.

What is a W-2?

The IRS requires employers to report your wage and salary information to them on Form W-2. Your employer must also send you a W-2 by January 31. (This will be a summary of your pay stubs from the previous year.) You need the information on your W-2 to complete your tax return, which is due April 15.

Sample pay stub

Sophia worked 40 hours a week at Johnson's Diner during her summer break. She made $10 an hour and worked for eight weeks. Sophia's weekly gross pay was $400 ($10 x 40 hours). After deductions, her net or "take home" pay was $296.05.

Here is Sophia's pay stub for one week in June.

Johnson's Diner

EMPLOYEE	Sophia Adams	PAY PERIOD	6/5/20 - 6/11/20
SOC SEC #	XXX-XX--6789	PAY DATE	6/16/20
CHECK NO.	06501	NET PAY	$296.05

EARNINGS			TAXES & DEDUCTIONS		
Desc	Hrs	Amount	Desc	Current	YTD
Regular	40	$400.00	Federal Tax	$48.25	$386.00
			State Tax	$16.15	$129.20
			Local Tax	$8.75	$70.00
			Social Sec	$24.80	$198.40
GROSS YTD		$3,200.00	Medicare	$6.00	$48.00
NET YTD		$2,368.40	Total	$103.95	$831.60

Tax returns must be filed on or before April 15

Taxes can be very confusing, and many people need some assistance the first time they file an income tax return. Just be sure to start early.

If your employer withheld more money than you owe, the government will send you a refund. If it turns out that you owe the government additional money, you will need to include the money you owe with your tax return. Most young people end up getting a refund.

Tax Rates

The greater your income, the higher your tax rate. For example, if you earned $9,000 last year, your tax rate is 10%. If you earned $400,000 last year (wouldn't that be nice), your tax rate is 35%. So, the more you earn, the larger the percentage you need to pay in federal taxes.

Growing Your Money

The younger you start investing, the more time your money has to grow.

Make your money work for you

Wealthy people seldom get rich overnight. Unless they've won the lottery or inherited their wealth, they work hard, spend less than they earn, and grow their money through investments.

When you have money invested, your investments can make money for you while you sleep. *That's the way to really get ahead financially.* But this takes self-discipline. When you get a paycheck, the first thing you need to do is take a set amount of money (maybe it's only $10), and "pay yourself first." Put this money into a savings account, purchase a CD, or invest it.

Someone who spends every paycheck is not going to have anything extra when he/she retires. On the other hand, someone who starts investing $50 every month as a young adult...well, this person is likely to have hundreds of thousands of dollars when it's time to retire.

Investing

There are numerous ways to invest your money, but investing can be overwhelming and complicated—which is one of the reasons that many people don't bother with investments.

People who have a lot of money to invest generally work with an investment banker, stockbroker, or financial advisor. But you don't need a lot of money or an expert at your side to begin investing. You just need a small sum of money, an interest in growing your money, and the willingness to do a little research. E-trade, TD Ameritrade, and T. Rowe Price are inexpensive online brokers, and they can be a good place for a young investor to start.

Be Smart

There is a saying, *"If it sounds too good to be true, it probably is."* When it comes to growing your money, this is definitely the case. Don't fall for “get rich quick” schemes or proposals—they never work.

Types of Investments

The most popular types of investments are stocks, bonds, mutual funds, and 401(k) plans.

Stocks

When you purchase stock in a company such as Coca-Cola, Apple, or Ford, you are purchasing shares in that company, and you become part owner. If the company has a good year, you may receive a portion of the profits (a dividend).

If the company does well over time, the value of your stock will increase, and you'll make a profit when you sell the stock. Of course, if a company doesn't do well, their stock becomes less valuable and you could lose some, or all, of your investment.

Bonds

The federal government, cities, and companies sell bonds as a way to raise money. When you purchase a bond you are loaning your money to the bond issuer for a specific period of time. At the end of the term (when the bond "matures"), you get your money back, with interest.

The safer the bond, the lower the interest rate. The riskier the bond, the more interest your money will earn. For example, a Treasury bond is issued by the U.S. government. It's a very safe investment, but it has a lower interest rate than most other bonds.

Mutual Funds

Rather than purchasing individual stocks or bonds, many people purchase mutual funds. This makes investing simpler, and less risky.

When you invest in a mutual fund, you are adding your money to a pool that's made up of many people's money. This pool of money is managed by financial professionals, and it's used to buy shares of stock in many different companies.

Since mutual funds are made up of many stocks (and perhaps bonds), purchasing a mutual fund is an easy way to diversify your investments—and not "have all of your eggs in one basket."

401(k) Plans

A 401(k) plan is a smart way to grow your money—it allows employees to invest pretax dollars in an employer sponsored retirement plan.

When you invest in a 401(k) plan, your employer deducts the amount that you've designated from your paycheck, and puts it into your account. The money in your account is then invested in an option of your choosing.

The biggest advantage of a 401(k) plan is that many employers will make a matching contribution—*which means that they will add their money to your account.*

Here's how Jacob's 401(k) plan works:

Jacob has a new job earning $40,000 a year. He has instructed his employer to take 10% of his salary and put it in his 401(k) plan. Jacob knows that his employer will match his contributions up to 4% of his salary.

At the end of the year, Jacob will have put $4,000 (10% of $40,000) into his 401(k) plan, and his employer will have added another $1,600 (4% x $40,000). This means that at the end of the year, Jacob will have $5,600 ($4,000 + $1,600) invested in his retirement plan.

A 401(k) plan is an excellent, and relatively easy, way to grow your money. If you have an employer that offers this benefit, you would be wise to take advantage of it. If you don't have access to a 401(k), you can save for retirement on your own by investing in an IRA (Individual Retirement Account).

The Rule of 72

Want to figure out how long it will take to double your money? Divide the number 72 by the interest rate you're getting on your money. This will give you the number of years it will take.

For example, if your money is making 6% interest, your money will double in 12 years (72 divided by 6 = 12). Here's another example: Alyssa invested $1,000 and made a 9% return on her money. In eight years, she'll have $2,000 (72 divided by 9 = 8).

Protecting Your Assets

Protecting your money is easy—you put it in a bank. Protecting your health, your property, and your identity, however, are more complicated. To protect these, you need to take certain steps and precautions.

Protect your health and belongings with insurance

Having insurance provides peace of mind. If you have the proper insurance coverage, you know that if you're dealing with an accident, illness, or theft, your insurance will cover some or all or the costs (minus your deductible).

What's a deductible?

A deductible is the amount that you must pay. For example, if your car insurance policy has a $500 deductible and you have an accident that costs $4,000, you pay the first $500, and your insurance company covers the remaining $3,500. The higher your deductible, the lower the cost of the insurance.

Auto insurance

Purchasing insurance of any kind (health, property, flood, life) is optional, except for auto insurance. Auto liability insurance is mandatory in virtually every state.

Here is some important information regarding auto insurance options:

Auto Liability Coverage has two components:

1) Bodily Injury Liability helps pay for costs related to another person's injuries if you cause an accident.
2) Property Damage Liability helps pay for the damage you cause to another person's car or property while driving.

Collision Insurance helps pay to repair or replace your car if it's damaged in an accident.

Comprehensive Coverage protects your car against damage not resulting from a collision, such as vandalism, fire, and theft.

Protect your identity (and your assets) online

As we increase the number of transactions we make online, security becomes more and more of an issue. Be aware of the dangers of doing business online, and protect yourself from disreputable people and companies trying to steal your identity, money, and/or personal information.

- Because you're required to provide your debit or credit card number for online purchases, only use reputable, recognizable sites (e.g., Amazon, Apple).
- Use uncommon usernames and passwords, and choose a hard-to-guess 4-digit Personal Identification Number (PIN). Don't use the day and month of your birthday, or 1234, 1111, 2222, etc.
- Change usernames, passwords, and PINs regularly, and don't give them to anyone other than a parent.
- Regularly check your financial statements for anything that looks incorrect or suspicious.
- Phishing is the fraudulent practice of trying to get people to reveal personal information such as credit card numbers and passwords. To avoid being a victim of phishing, never link to a retail website from another website. Instead, visit retailer websites directly.
- Decline when asked if you want your account or payment information saved to your computer.
- Use anti-virus protection. When using an anti-virus service you have professionals working to keep you safe.
- Be smart. Never click on or respond to anything that looks the least bit suspicious.
- If someone wants your social security number, that should be a red flag. Give out your social security number only when you are certain of who is using it and why they need it.

Paying for College

For 2018-2019, the average cost of attendance (tuition, fees, room and board, books, transportation and personal expenses) for one year at a public four-year college (in-state) was approximately $26,000. The average cost for one year at a private four-year college was over $50,000.

College is expensive, and students today are borrowing more and more money to pay for their education. The average 2017 college loan debt was over $30,000.

Students who default on their loans soon find that being delinquent or defaulting on a loan has serious consequences. Their wages may be garnished, they may face legal action, and their credit rating is damaged—which can make it difficult to rent an apartment, buy a car, or even get a cell phone plan.

Smart students explore their financial aid options, look for ways to cut college costs, and work to minimize their student loan debt.

Financial Aid Overview

Financial aid is money that is given, earned, or lent to help students pay for their education. Except for merit-based scholarships, financial aid is generally awarded on the basis of financial need.

The four types of financial aid are grants, scholarships, loans, and work-study. Grants and scholarships are considered "free money." Loans and work-study are considered "self-help" programs.

- **Grant** – money given, usually because of financial need
- **Scholarship** – money awarded for exceptional academic achievement, outstanding talent, and/or financial need
- **Loan** – borrowed money that must be repaid
- **Work-Study** – money earned by working at a part-time job

Financial aid is often awarded on a "first come, first served" basis, so applications should be completed early.

Completing the Necessary Forms

To receive financial aid, you must complete and submit the necessary forms. The FAFSA is the most important of these forms.

The FAFSA (Free Application for Federal Student Aid)

Because most financial aid awards are based on need, it's necessary to determine how much a family can afford to pay for college. The FAFSA is the federal form that's used to determine this amount. *In order to receive any government aid, you must complete a FAFSA*. For information on the FAFSA, go to fafsa.ed.gov.

Grants – When you complete a FAFSA, you automatically apply for a Pell Grant, and in many states, a state grant.

Pell Grant – The Pell Grant provides billions of dollars each year to lower-income families. This grant is available to students in all states, and it can be used to pay for expenses at any accredited college.

State grants – All states have financial aid programs that award grants to students who go to college in their home state. In most states you apply just by filling out a FAFSA.

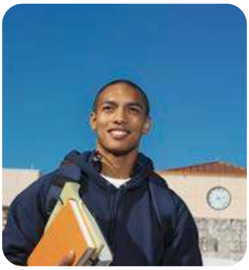
Scholarships – It's not easy to obtain scholarships, but students who are willing to invest the time and energy often find that their efforts pay off handsomely. If you're looking for scholarships, tell everyone. Check for scholarships at your place of employment, your parent's place of employment, your church, temple, or mosque, and any organizations to which you or your parents belong.

Also search for scholarships online. These websites are able to match a student's interests, plans, background, and special circumstances with thousands of government, community, and campus-based scholarship programs.

fastweb.com scholarships.com

Figuring out how to pay for college can be confusing, but there are people who can help. School counselors can provide information and advice, and all colleges have financial aid counselors available to assist students and parents. There is also a wealth of information online at sites such as studentaid.ed.gov.

College Loans



There's a great deal of talk these days about the amount of debt college students are incurring. Smart students understand how difficult it can be to repay a large student loan, and they do whatever they can to minimize the amount they need to borrow. *With over half the financial aid awarded in the form of loans, it is important that students understand their loan options—and their repayment obligations.*

Direct Loans

Students with financial need are usually offered a Direct Subsidized Loan as part of their financial aid package. Students without financial need can get a Direct Unsubsidized Loan. A Direct Subsidized Loan is preferable—the government pays the interest on the loan while the student is in college.

Repayment on a Direct Loan doesn't begin until six months after a student leaves college. First year students can borrow up to $5,500 a year. Second year students can borrow up to $6,500 a year.

PLUS Loan (Parent Loan for Undergraduate Students)

PLUS Loans are available to parents with good credit. Parents can apply for a PLUS Loan for the total cost of attendance, minus any financial aid the student has received. The college's Financial Aid Office can provide information on applying for a PLUS Loan.

Private Loans

Many banks and lending institutions offer supplemental educational loans to credit-worthy families. Because these loans are privately funded, the fees and interest rates are likely to be much higher. Many of these loans promise low introductory rates, but the rates may change.

Federal loan programs have a variety of options to help students pay off their loans. Private loans do not. Families should exhaust their federal loan options before ever considering a private loan.

Ways to Cut College Costs

- **Go to an in-state public college**
  Public colleges are supported by tax dollars and are generally less expensive than private colleges. Also, attending a public college in your home state usually costs much less than attending a public college in a different state.

- **Spend less time in college**
  Students can shorten the time they spend in college by taking AP and dual credit courses in high school, and by taking heavier loads and going to summer school while in college.

- **Live at home and commute**
  Living in a dorm on campus can add a significant amount of money to the cost of a college education. Students can save a great deal of money by living at home and commuting to a local college.

- **Take classes at a community college**
  It typically costs much more to attend a four-year college for one year than it does a community college. Students who want to earn a bachelor's degree can save money by starting at a community college and transferring to a four-year college after a year or two.

- **Earn money through a co-op program or paid internship**
  Co-op students, and students with paid internships, often earn enough to cover a large portion of their college expenses. When they graduate, they not only have a degree, they also have valuable work experience.

- **Take advantage of tax credit programs**
  The American Opportunity Credit allows families to claim a tax credit of up to $2,500 per year for education expenses, and the Lifetime Learning Credit allows families to claim a credit of $10,000 in tuition expenses.

- **Take advantage of military programs**
  The military has programs to help students pay for college. Under the Montgomery GI Bill, enlistees can receive over $50,000 for college.

College is an investment in you and in your future.

Money Smarts

A Guide to Financial Literacy

Learn how to manage your money and make wise financial decisions.

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