Building Your Money Skills…

Taking Charge of Your Future
Taking charge of life can be fun and exciting. You get to make your own decisions and plans. You can decide where your life is headed and what you want to do. You can decide to move to a new city, find a better job, or get more education and training so you can reach your dreams.

The time you have spent with YouthBuild has helped prepare you to take charge of your life. You have learned how to build a new home or fix an old one. You have learned how to get the education you need so you can become a leader in the future.

This has been an important time for you. In fact, this may be the first time that you have focused on yourself—your goals and your future.

But taking charge of life also can be scary, especially when it comes to money. Perhaps you will have to start paying all of your own bills soon, and you are unsure if you will be able to do it. Maybe you want to go to college or rent an apartment, but the cost seems out of sight. Or perhaps you already owe a lot of money, and you don’t know how to get out of debt.

This booklet, prepared by YouthBuild® and the National Endowment for Financial Education® (NEFE®), will answer some of the questions you may have about managing money. Whether you are living on your own or with your family, the booklet will help you build your money skills so you can take charge of your future.
As you read the chapters in this booklet, always remember that your net worth is not the same as your self-worth. Net worth is simple: It is the amount that you own minus the amount that you owe. Your self-worth is that combination of qualities and values that makes you special and unique.

Some people believe that individuals who have lots of money are somehow “better.” Not true—it is what is inside you (your character) that determines your true worth to others. A good reputation and loyal friends are “possessions” that simply cannot be bought.

Of course, people look at money differently, depending on their experiences. In a way, they have a relationship with money, just like they have relationships with people.

For example, you may know people who are afraid of money. They are afraid to make a lot of money, or they are afraid that they are not smart enough to handle their finances.

Or, you may know individuals who think that money is their best friend. They
spend money to impress other people, even if that means going into debt.

Some people distrust places that handle money. They might refuse to open a checking account or savings account. All of these attitudes toward money can keep people from reaching their financial goals.

Do you have attitudes toward money that are keeping you from reaching your financial goals? That’s OK. As you learn more about money and how to handle it, your attitudes will probably change. You will realize that money is only a tool—a tool you can use to build your life, just as you use a hammer and saw to build a home.

“Money is only a tool—a tool you can use to build your life, just as you use a hammer and saw to build a home.”

You may have had previous money problems, such as large credit card bills or never having enough money to live on. Regardless of what has happened in your past, you can start now to take control of the present and begin to focus on the future.

Using the information in this booklet, you can start to make better choices with your finances. This is a skill you can build. And, like the construction skills you are learning at YouthBuild, learning to use money wisely will pay off now and for years to come.

Three Reasons to Learn About Money

When you learn about personal finance, you can:

• Make better decisions
• Be more in control of your money
• Feel more confident about your life and your future
For example, your friend might have the goal of buying a car in six months. Your roommate’s goal might be to go to college. What are your goals?

To set financial goals, you need to know three things:

1. How much the goal costs
2. When you want to reach the goal
3. How much money you will need to save every week (or month) to reach the goal

For example, a short-term goal might be to save $100 to buy a new jacket in two months. To reach that goal, you would need to save $50 a month, or about $13 a week.

A medium-term goal might be to buy a car that costs $2,000 in 10 months. You would have to save $200 a month, or $50 a week, to reach that goal.

A long-term goal might be to go to a trade school in three years that costs $6,000. You would have to save $40 a week for three years to reach that goal.
• Write down your goals. Post them on the refrigerator or in your room where you can see them often.

• Be specific about your goals. For example, if your goal is to go to college, what college do you want to attend? When? To study what?

• Estimate the cost of the goal and how much you will need to save or invest each month to reach the goal.

• Determine if the goal is realistic.

• Put your list of goals in order. Which goal do you want to achieve first?

• Share your goals with a friend or family member, so they can cheer you on.

After you have set your goals and made a plan, try to remain flexible. Life is full of unexpected situations, so you may have to adjust your goals sometimes. But having goals in the first place will help you face unexpected challenges and stay on track.

The rest of this booklet has more ideas you can use to stay on track financially. Let’s start by taking a look at paychecks and checking accounts.

As you can see, when you have goals, you can start to make plans to reach them. In the trade school example, for instance, you might decide that you will get a part-time job on weekends to earn the extra $40 a week you need to save to pay for school in three years.

**Tips for Setting Goals**

When people don’t have goals, they tend to waste their money and their time. But when they have specific, realistic goals, they are often surprised at how easy it is to reach them. On the next page are some tips for setting your goals.
People are excited when they receive their first paycheck, but often are confused after they look at it. You will quickly realize that your salary or pay wage is not the same as the amount of money that you take home.

For example, if you are making $12 per hour and you work 40 hours a week, your salary is $480 for one week. That is your gross pay or the amount of money before your employer takes out deductions.

But deductions—money that is taken out for taxes, insurance, retirement plans, or other items—can lower your paycheck by 20 to 30 percent. Instead of receiving $480, your take-home pay might only be $388. This actual paycheck amount is called your net pay.

<table>
<thead>
<tr>
<th>Earnings rate</th>
<th>hours</th>
<th>this period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>12.00</td>
<td>40</td>
</tr>
<tr>
<td>Gross Pay</td>
<td></td>
<td>$480.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deductions</th>
<th>Statutory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>-37.88</td>
</tr>
<tr>
<td>Social Security Tax (FICA)</td>
<td>-29.76</td>
</tr>
<tr>
<td>Medicare Tax (FICA)</td>
<td>-6.96</td>
</tr>
<tr>
<td>State Income Tax</td>
<td>-15.79</td>
</tr>
<tr>
<td>City Income Tax</td>
<td>-1.45</td>
</tr>
<tr>
<td>Net Pay</td>
<td>$388.16</td>
</tr>
</tbody>
</table>
Taxes and Other Deductions

Everyone pays taxes on money earned. Taxes are payments to the government. The money is used to pay for programs and services, such as roads, schools, the military, and fire and police departments. Tax deductions from paychecks typically include the following:

- **Income tax withholding.** Money is withheld for federal, state, and even local income taxes.

- **Federal Insurance Contributions Act (FICA) tax.** This tax pays for Social Security and Medicare. Social Security is a government program that pays retirement and disability benefits to workers. Medicare provides health insurance for retirees and the disabled.

An employer also might take money out of your paycheck to pay for health insurance, life insurance, or disability insurance. Some employers also have a retirement plan, such as a 401(k) or 403(b) plan. If you decide to participate (which is a good idea), the employer will take some money out of your paycheck and put it into the retirement plan.

Another potential deduction is a wage garnishment. This is ordered by the court to pay overdue child support or other debts. The employer receives a notice from the court and must take this money out of an employee’s paycheck and send it to the court. The court uses the money to pay the debt.
**Filing Your Taxes**

By January 31 of each year, you will receive an earnings summary from every employer you have worked for during the previous year. This summary, called a W-2 form, shows the amount you earned and the taxes withheld from your paycheck for that year. You will need this form when you file your income taxes.

You are required to file an income tax return with the Internal Revenue Service (IRS) by April 15 of each year. Most states also require you to file a state income tax return.

Most young people’s tax returns are fairly easy to complete. Simply follow the instructions in the tax booklet. Or, check into the IRS’ Volunteer Income Tax Assistance (VITA) program, in which volunteers prepare basic income tax returns free of charge for individuals with low-to-moderate incomes, senior citizens, non-English speaking taxpayers, and individuals with disabilities.

For more information about this program, contact the IRS at 1-800-829-1040 or visit their Web site (www.irs.gov).

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**Withholding**

On your first day at work, your employer will ask you to fill out a W-4 form. This form, called the “Employee’s Withholding Allowance Certificate,” is required by law and is used to determine how much money to take out of your paycheck to pay taxes.

One of the questions asked on the form is the “number of withholding allowances.” You can claim one withholding allowance for yourself. You can take extra allowances for dependent family members (such as children) and other deductions.

The more allowances you claim, the less money is taken out of your paycheck for taxes. However, if you claim too many allowances, you may not have enough taxes withheld, and you’ll have to send money to the government when you file your taxes.

The worksheet on the top of the W-4 form helps you decide how many allowances to take. If you are unsure how to fill out the W-4 form, don’t hesitate to ask your employer to help you.
Opening a Checking Account

When you receive your paycheck, you might be tempted to run out and cash it as soon as possible. Having a wad of cash in your pocket might be fun, but cash can easily be lost, stolen, or spent before your bills are paid.

A better idea is to open a checking account. A checking account is the simplest way to keep your money safe and available when you need it.

Here are some advantages to having a checking account:

- Many paychecks and government checks can be deposited directly into your checking account. This is a free service. The money is available in your account sooner than if you had to go to the grocery store to cash the check or mail a deposit to the bank.

Earned Income Tax Credit

The Earned Income Tax Credit assists low-income families by reducing their taxes. In many cases, a refund is given. Qualifying for this tax credit depends on four things:

1. Amount of money you earn
2. Marital status
3. Number of children you support
4. Amount of money in savings or investments

You must file an income tax return to claim the Earned Income Tax Credit. You can claim this credit on either the “long form” (Form 1040 or Form 1040A) or the “short form” (Form 1040EZ). There is a worksheet to figure out the amount of your credit, or you can ask the IRS to figure it out for you.
You may know people who cash their paychecks at a check-cashing store. It is usually easy to find a check-cashing store, and it may be open later than a bank.

Even though check-cashing stores seem convenient, try to avoid them. All of this convenience comes at a high cost. These stores charge fees from 2.5 percent to 8 percent to cash a check. For example, if you cashed a $500 check, the 8 percent charge would cost you $40. If you cashed the same check at your bank, there would be no charge.

Avoid Check-Cashing Stores

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If you don’t have a checking account yet, consider cashing your paycheck at a grocery store instead of a check-cashing store. Grocery stores will often cash checks for free if you have an employer or store ID card.

- It is easier to pay bills or to send money to family members who live somewhere else. You just write the check at home and mail it.

- A checking account usually costs less than buying several money orders each month. It takes time to buy money orders at a store, and you must pay for each one. Compare the cost of a checking account with the cost of using money orders. You may find that a checking account is the cheapest way to “store” your money.

- Some day you may want to take out a loan. If you have a checking account at a bank (and have managed it well), you may be more likely to get a loan from that bank.

- Your canceled check (one that the bank has paid) is proof that you have paid a bill. Even if you don’t keep your canceled checks, or your bank doesn’t return your canceled checks to you, the bank will keep an electronic copy of them.
Banks, credit unions, and savings and loan offices offer checking accounts. (A credit union is a special type of bank formed by people who have something in common, such as a career or workplace.)

These institutions may charge different amounts for the same type of checking account. They may even offer a free checking account if you maintain a minimum balance or if you use direct deposit to deposit your paycheck. Shop around for the best deal.

Any bank or savings and loan that is a member of the Federal Deposit Insurance Corporation (FDIC) is a safe place to open your checking account. If you can join a credit union, make sure it is insured by the National Credit Union Share Insurance Fund (NCUSIF).

Writing Checks

A check is simply a note that tells your bank how much money to take out of your account and pay to the person or company to whom you wrote the check (called the payee). The bank gives the payee that amount in cash or electronically transfers that amount from your account to the payee’s bank account.

By filling out and signing a check, you are telling the bank to take money out of your account and pay it to the person or company whose name appears on the check. Never give anyone a signed blank check (a check without the name of the person or company being paid or the amount of the check filled in). A blank check can be filled in by anyone and cashed. You will not be able to get this money back.

Example of a check

The name of the company or person that the check is for

LINDA JONES
111 MAIN STREET
City, State ZIP
(555) 123-4567

YOUR TOWN BANK
Office Location
City, State ZIP

Pay to the Order of
Electric Company

Forty  and  37/100

Utility bill

Linda Jones

The amount you’re paying

Today’s date

The amount you’re paying, written out

A note so you remember what the check paid

Your signature
balance to find out how much money is left in your account. If you make a cash withdrawal from the bank, write that in the check register and subtract the amount from your balance.

It is very important to keep good records so that you will know when you are running out of money. Otherwise, you may write checks that add up to more than you have in your checking account. This is called “overdrawing” your checking account or “bouncing” checks.

Your bank will charge you a fee for every check you bounce. This fee can be as much as $20 or more per check. The business to which the check was written also might charge you a fee.

In addition, other banks may refuse to open an account for you if they learn that you have bounced checks. You can avoid this situation by always filling in the current balance in your checkbook. This record keeping is not hard to do, but it has to become a habit.

Using a Check Register

When you have a checking account, you must keep track of all the deposits you make, the checks you write, and the money you withdraw. Each book of checks comes with a small record book called a check register. It is important to fill in the register so that you know how much money is in your checking account.

As you deposit money in your account, write the date in the register, where the money came from (paycheck, gift, etc.), and how much money you are depositing. Add that amount to your balance.

When you write a check, record the date, the check number, the amount of the check, and who gets the money. Subtract the amount of the check from your

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**Example of a check register**

<table>
<thead>
<tr>
<th>Number</th>
<th>Date</th>
<th>Description</th>
<th>(1) Amount of Check</th>
<th>(2) Amount of Deposit</th>
<th>(3) Check Fee (if any)</th>
<th>(4) Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1501</td>
<td>1/31</td>
<td>paycheck</td>
<td>400.00</td>
<td>0.00</td>
<td>0.00</td>
<td>400.00</td>
</tr>
<tr>
<td>1502</td>
<td>2/1</td>
<td>rent</td>
<td>45.00</td>
<td>0.00</td>
<td>0.00</td>
<td>45.00</td>
</tr>
<tr>
<td>1503</td>
<td>2/5</td>
<td>groceries</td>
<td>58.50</td>
<td>0.00</td>
<td>0.00</td>
<td>58.50</td>
</tr>
<tr>
<td>1504</td>
<td>2/9</td>
<td>clothes store</td>
<td>58.50</td>
<td>0.00</td>
<td>0.00</td>
<td>58.50</td>
</tr>
</tbody>
</table>

Balance: 400.00
Balancing Your Checking Account

Another good habit is to balance your checking account when the bank mails you a statement every month.

“Balancing your checking account” means that you compare the bank statement’s dollar amounts with the dollar amounts in your check register to make sure they agree. (The bank statement has instructions on how to balance your checking account.) If you have made any errors, correct them in your check register. Or, if you think the bank has made an error, talk to someone at the bank to straighten out the problem.

Using ATM Machines

An automated teller machine (ATM) is open 24 hours a day, seven days a week. ATMs are an easy way to withdraw or deposit money, especially when the bank is closed or when you are not near your own bank. You will need an ATM card to use the machine. Your bank will provide this card to you along with a personal identification number (called a PIN).

ATMs are handy, but they can get you into trouble if you forget to write down in your checkbook register how much money you took out of the ATM. You could end up overdrawning your account. Also keep in mind that the ATM may not have up-to-date information about how much money is in your checking account.

To get an accurate balance, call the bank. Even then, remember that if you recently have written a check that hasn’t cleared the bank yet, your balance will appear larger than it really is.

ATMs are located in many places, such as grocery stores, gas stations, malls, and banks. It is a good idea only to use ATMs that are run by your bank. Your bank probably won’t charge you a fee for using its machines, but ATMs run by other banks will charge a fee each time you use them. Your bank can provide you with the locations of ATMs that you can use at no charge.
Getting into the habit of saving and investing money is an important part of taking charge of your life. This chapter takes a look at how you can get into the savings habit.

**Savings Accounts**

The best way to save money is to open a savings account at a bank or credit union and then get into the habit of depositing money into it every week or every month. Savings accounts do not pay very much interest, but they are easy to open, and they do not require a large amount of money to get started. There are usually no fees as long as you keep a minimum balance (such as $200) in the savings account.

Most people know that having some money tucked away is a good idea, but few people think about this when their paychecks arrive. Most of us think that we will save whatever money is left over at the end of the month. Unfortunately, that is usually nothing.
Let’s look at how interest makes money grow over time.

When you have a savings account at the bank, the bank pays you money, called interest, for the privilege of using your money while it is at the bank. Interest usually is expressed as a percentage, such as 6 percent. For example, if you have $100 in your savings account and the bank pays a 6 percent interest rate, you would earn $6 on your money in one year, for a total of $106. The higher the interest rate and the more frequently interest is paid, the more money you will earn.

A savings account can help you to:

- Reach a goal that you have set for yourself
- Handle an emergency without going into debt
- Pay cash for an expensive item, such as furniture or a new computer, instead of renting from a rent-to-own store or using a credit card
- Get a good night’s sleep because you won’t stay awake worrying about being broke

Even though savings accounts may not pay a high interest rate, your money will still grow because your money will earn \textit{compound interest} over time. Because you are young, you have time on your side. That’s why compound interest can really work for you.

\textit{Compound interest} is “interest on interest.” Interest is paid not only on the original amount you put in your savings account but also on the interest that the money earns. Compound interest makes even small dollar amounts grow to large sums with time. Look at the chart on page 30 to see how money grows, or compounds, over time.
Pay Yourself First

Saving whatever is left at the end of the month almost never works. That’s why financial planners recommend that you “pay yourself first.” When you pay yourself first, you put some money from your paycheck into savings before you spend the money on anything else. Saving money becomes a top priority, like buying food or paying rent.

One way to pay yourself first is to put a dollar a day plus pocket change into a jar. At the end of the month, you may have saved about $50 to deposit into your savings account. At the end of the year, you could have $600 in the account. This is money you can use to reach your goals.

Here are some other ways to pay yourself first:

• Ask your employer to automatically deposit part of your paycheck into a savings account.

• Arrange to have your bank transfer money each month from your checking account into your savings account.

• Go to the bank and make a deposit to your savings account every payday before you spend money on anything else.

The chart below shows the power of compound interest if you save $50 a month for different lengths of time. The first row assumes your money stays in a savings account at a typical 3 percent interest rate, compounded monthly. The second row uses a 9 percent rate, which assumes that your money is in a long-term investment, such as a mutual fund.

<table>
<thead>
<tr>
<th>$50/month</th>
<th>2 years</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
<th>20 years</th>
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</thead>
<tbody>
<tr>
<td>3% return</td>
<td>$1,235</td>
<td>$3,212</td>
<td>$6,987</td>
<td>$11,349</td>
<td>$16,415</td>
</tr>
<tr>
<td>9% return</td>
<td>$1,309</td>
<td>$3,771</td>
<td>$9,676</td>
<td>$18,920</td>
<td>$33,394</td>
</tr>
</tbody>
</table>
Building an Emergency Fund

Money in a savings account can be withdrawn quickly if you need it. This is helpful if you have an emergency, such as an unexpected doctor’s bill. In fact, you might want to think of your savings account as your “emergency fund.”

How much should you keep in an emergency fund? A good rule of thumb is to have enough money to cover three months of expenses. This money would pay your bills if you suddenly lost your job or faced some other crisis.

It may take a while to save that much money, but don’t be discouraged. Having an emergency fund is worth the effort. It will help you to feel more in control of your life.

To build an emergency fund, you might want to take the following steps:

- Put a tax refund, raise, or bonus into your savings.

- Break costly habits, such as smoking or buying lottery tickets, and save the money you normally spend on these habits.

- After paying off a loan, keep making the same payments—but to yourself in your savings account.

If you have an emergency and must use the money, be sure to replace it. That way, you will be covered for future situations.

Investing Your Money

After you have built up your emergency fund and have some money in your savings account to pay for short-term goals, you may want to explore other ways to save and invest your money. For example, you could consider bank certificates of deposit (CDs), U.S. savings bonds, corporate and government bonds, stocks, and mutual funds.

Some of these options are riskier than others. For example, investing in stocks is riskier than getting a bank CD, but stocks also have the potential to earn more money than a CD.

Before you begin investing, make sure you understand the potential risks and rewards of various options. To learn more, see the list of recommended resources at the end of this booklet.
At first, you may not feel that you have much choice about where your money goes. It may be difficult to make the money stretch to pay your expenses and try to save for the future. That is why it is important for you to make a spending plan.

A spending plan helps you keep your eye on the big picture—how your money comes in and goes out. Think of a spending plan as your financial blueprint.

Making a Spending Plan

A spending plan involves two key things: your income and your expenses. Make a copy of the worksheet that follows and use it to create your own monthly spending plan. If your situation changes, make a new spending plan.

Some people think that having a job with a regular paycheck will take care of all of their money problems. But having a job with a steady paycheck is only one step. Once you start receiving a paycheck, you must decide what to do with your money.
Step 1: Identifying Income
For most young people, their income is money earned from a job. This money is usually a certain amount each month. Your income may change if tips or bonuses are included as part of your pay. Be careful that you don’t overestimate your income.

Sources Per Month

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-home pay (yourself)</td>
<td>$</td>
</tr>
<tr>
<td>Take-home pay (others in household)</td>
<td>$</td>
</tr>
<tr>
<td>Tips or bonuses</td>
<td>$</td>
</tr>
<tr>
<td>Child support</td>
<td>$</td>
</tr>
<tr>
<td>Unemployment compensation</td>
<td>$</td>
</tr>
<tr>
<td>Social Security or Supplemental Security Income</td>
<td>$</td>
</tr>
<tr>
<td>Public assistance</td>
<td>$</td>
</tr>
<tr>
<td>Food stamps</td>
<td>$</td>
</tr>
<tr>
<td>Interest</td>
<td>$</td>
</tr>
<tr>
<td>Other</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

Step 2: Listing Expenses
For expenses that change each month, such as groceries or telephone bills, use an average amount. For example, assume that your telephone bill for the last three months has been $28, $35, and $21. Add the three numbers ($84), divide by the number of months (three), and use the average ($28) on your expenses worksheet.

Some expenses, such as car insurance, are only due every three or six months. It is best to figure out how much you should save each month to pay these bills.
Note that “savings” is listed as your first expense. When you think of saving money as an important monthly expense, you are more likely to get into the savings habit.

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$</td>
</tr>
<tr>
<td>Rent or mortgage</td>
<td>$</td>
</tr>
<tr>
<td>Heating fuel and electricity</td>
<td>$</td>
</tr>
<tr>
<td>Water</td>
<td>$</td>
</tr>
<tr>
<td>Telephone</td>
<td>$</td>
</tr>
<tr>
<td>Other household expenses</td>
<td>$</td>
</tr>
<tr>
<td>(cable TV, etc.)</td>
<td>$</td>
</tr>
<tr>
<td>Groceries</td>
<td>$</td>
</tr>
<tr>
<td>Snacks/meals eaten out</td>
<td>$</td>
</tr>
<tr>
<td>Transportation</td>
<td>$</td>
</tr>
<tr>
<td>(bus fare or car payment,</td>
<td></td>
</tr>
<tr>
<td>plus gas and repairs)</td>
<td></td>
</tr>
<tr>
<td>Auto insurance premiums</td>
<td>$</td>
</tr>
<tr>
<td>Other insurance premiums</td>
<td>$</td>
</tr>
<tr>
<td>Doctor and dentist bills</td>
<td>$</td>
</tr>
<tr>
<td>Child care</td>
<td>$</td>
</tr>
<tr>
<td>Taxes</td>
<td>$</td>
</tr>
<tr>
<td>Pet care</td>
<td>$</td>
</tr>
<tr>
<td>Union dues</td>
<td>$</td>
</tr>
<tr>
<td>Clothing/uniforms</td>
<td>$</td>
</tr>
<tr>
<td>Credit cards</td>
<td>$</td>
</tr>
<tr>
<td>Personal</td>
<td>$</td>
</tr>
<tr>
<td>(hair cuts, shaving supplies, etc.)</td>
<td>$</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$</td>
</tr>
<tr>
<td>(classes, gifts, vacation)</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$</td>
</tr>
</tbody>
</table>
Step 3: Comparing Income and Expenses

Write down your total monthly income (from Step 1) $__________

Write down your total monthly expenses (from Step 2) $__________

Subtract expenses from income and list amount here $__________

Step 4: Setting Priorities and Making Changes

Was there money left over at the end of the month? Congratulations!

If your expenses were more than your income, don’t be discouraged. You can take steps to get back on track. Two ways to get back on track are to reduce your expenses or increase your income (or both).

Reduce Expenses
To cut back on your expenses, you have to know where your money is going. Look at your checkbook register to find out where you are spending money.

Or, keep a spending notebook for a few weeks. Write down everything that you spend money on, from sodas to rent. After a few weeks, go back and look at what you wrote down to see where you can cut back. Even small steps, such as bringing a lunch to work instead of eating out, can add up.

Increase Income
Increasing your income is another option to consider. Some ideas include:

- Taking on a second job or working additional hours (if you get paid for your overtime)
- Turning a hobby into extra income
- Selling rarely used items (for example, an old CD player)
- Asking for the money that you have loaned to others
**Housing Costs**
Spend no more than 30 percent of your monthly take-home pay on rent or mortgage payments. Although this is a reasonable guideline, this rule may not apply to you if you are living in urban areas such as New York City, San Francisco, or Miami, where the cost of housing is very high. In these cities, you probably won’t reach this guideline unless you share a place with roommates. If you have to spend more than 30 percent of your take-home pay on housing, then it’s important to keep your other expenses very low.

**Savings**
Save at least 10 percent of your take-home pay each month. If you can save more, great!

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**Analyzing Your Spending Plan**
To help you decide if your spending and saving habits are on track, use these three financial guidelines:¹

**Debt Payments**
Your total monthly debt payments (*not* including your mortgage or rent) should be less than 20 percent of your monthly take-home pay. For example, if your take-home pay is $1,000 a month, keep your debt payments to less than $200 a month.

List all the monthly debt payments that you owe, including credit cards, car loan, and other loans. Add these amounts together. If the total is more than 20 percent of your monthly take-home pay, you need to work on lowering your debt.

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Savvy Shopping

It is easy to spend money, and everyone likes to do it. It is *not* so easy to spend money wisely.

Very few young people have enough money to buy everything they want. It would be great if we could buy new clothes, a new car, or a DVD player whenever we wanted to, but that’s not realistic.

Instead, we have to make choices about our money. We have to make decisions about our *needs* and our *wants*. Learning to separate needs from wants is an important part of taking control of money.

*Needs* are essential things that you must have to survive, such as nutritious food, basic clothing, and a simple place to live. *Wants* are things that you would like to have, such as a new TV, $100 shoes, or eating out every day.

When you want to buy something, ask yourself, “Do I *need* this item, or do I just *want* it?” You may be surprised at how many things are “wants.” Try to buy only the things you need for now. Then, when you have saved up some money, treat yourself to something you want.

Live Simply, Dream Wildly

No matter how much money you make, if you spend more than you earn, you will eventually go broke. Your financial future is in your hands and is affected by the spending decisions you make today.

Live below your means. Don’t let other individuals determine your spending habits. When you see your dreams begin to take shape, you will be glad that you took charge of your financial life.
Here are some other ideas for becoming a savvy spender:

- Compare prices at three places before buying anything—from car insurance to a new coat.
- Buy generic or store brands. Use coupons.
- Eat at home. Make your meals from scratch and avoid convenience foods.
- Take your lunch to work.
- Ride the bus instead of driving, or carpool.
- Check out videos from the library instead of spending money to rent them.
- Repair things yourself—if you can do it safely!
- Save the money to buy items instead of using a credit card or going to a costly rent-to-own store.
- Find a roommate to share rent and other expenses.
- Learn about community organizations where you can volunteer in return for help with low-cost food or other assistance. A good place to start is at your local United Way. Check your phone book or visit United Way’s Web site at www.unitedway.org.
- Shop at garage sales and thrift stores.
- If you have children, find out about low-cost daycare offered by community and religious groups. Or, join a co-op where members trade baby-sitting time instead of paying for it.
- If you are in school, use your student ID to get discounts on everything from pizza to bus fare.
Paying for College

Perhaps one of your goals is to go to college or a technical or trade school. You might feel overwhelmed by how much it costs to get an education, but hang in there. An education is worth the expense! It will help you earn more money in the future and have a better life.

Here are a few ideas for reducing education costs:

• Attend a community college where tuition costs are lower than at a four-year university or private college.

• Cut your living expenses by living at home or sharing an apartment with other students.

• Work while you go to school. Many schools offer courses in the evenings and on weekends for students who have full-time jobs.

• Look for help in paying for college. Ask your YouthBuild counselor or college financial aid office for help in applying for financial aid, including scholarships, grants, work-study jobs, and loans.

• There is also a lot of good information on the Internet. Check out these Web sites: College Board (www.collegeboard.com); FastWeb (www.fastweb.com); and FinAid (www.finaid.org).
It also means you are making a promise to repay the money to the person or company that loaned it. In almost every case, you pay a price (called interest) for using someone else’s money.

**Establishing Good Credit**

People who pay bills and borrow money have a credit record. If you have good credit, it means that you pay your bills on time and repay your loans as promised. With good credit, lenders will be more likely to give you a loan if you want to buy a car or a house someday.

Here are four ways to build good credit:

1. Pay your bills on time. Late payments can hurt your credit rating.
2. If you have a loan, make the loan payments before you spend money on other things. Missed payments will hurt your credit rating.
3. Do not use a credit card if you are having trouble paying your bills. Put the card away until your finances are under control.
4. Do not bounce checks.

You have heard the word credit used many times, but what exactly does it mean? Credit means you are using someone else’s money to pay for things.
Credit Reporting Agencies

Credit reporting agencies keep track of how much debt you have and how well you repay your loans. The information that they collect is called a “credit report.” This credit report then is sold to banks, businesses, and other people. They use the report to decide whether to give you a new loan.

Some employers check the credit reports of people who apply for a job. Landlords also may check the credit report of people who want to rent an apartment.

Get a copy of your credit report once a year. The report may be free, or you may have to pay a small fee. Make sure that the information on your credit report is correct. If there is a mistake, you can get it corrected at no cost to you.

Three major credit-reporting agencies are listed below:

- Equifax 1-800-685-1111
  (www.equifax.com)
- Experian 1-800-311-4769
  (www.experian.com)
- TransUnion 1-800-916-8800
  (www.transunion.com)

Watch Out for Credit Cards

The most popular form of credit is a credit card. It is easy to misuse a credit card and get into debt trouble. So another part of building your money skills is to understand how a credit card works and how to use it wisely.

How Credit Cards Work

Credit cards are issued to individuals by banks and other financial institutions. These credit cards can be used at most businesses. Some stores also have their own credit cards.

When you use a credit card to pay for something, the business owner sends your sales ticket to the credit card company. Then, that company bills you. If you pay the entire bill by the due date, you will not have to pay any interest. (The time you have to pay the bill without interest is called the “grace period.”)
Credit Card Advantages
In addition to being convenient and easy to use, credit cards allow people to buy large items that might take years to save for. Credit cards also have other advantages. They can:

- Provide a way to pay for an emergency, such as an unexpected illness
- Make it easier to purchase items by telephone or over the Internet
- Be safer than carrying cash

Credit Card Disadvantages
The biggest problem with credit cards is that they tempt people to spend money that they don’t have, and they go into debt. Other disadvantages of credit cards include:

- If you make payments late or use too much credit, you will hurt your credit record. A poor credit record will make it difficult for you to get a loan in the future.
- You can be so busy trying to climb out of debt that you don’t have any money to save for your goals.
Ten Tips for Using Credit Cards

It is easy to get into debt and much harder to get out of it. Here are 10 ways to stay in control of your credit cards:

1. Have only one credit card. That way, you can easily keep track of how much you owe.

2. Shop for a credit card that has a lower interest rate, no annual fee, and a 25-day grace period.

3. Avoid cards with “teaser” rates. These are interest rates that start out low so that you will want to get the credit card. Then, the interest rate jumps after a few months.

4. Pay off your credit card balance every month and pay on time. That way, you won’t owe any interest or late charges.

How Old Will You Be?

Question: Let’s say you are 22 years old and owe $3,500 on your credit card. The interest rate on the card is 18 percent. If you make the 2 percent minimum payment each month, when will you be debt free?

Answer: When you are 49 years old! By that time, you will have paid more than $7,700 in interest, plus the original $3,500 that you borrowed.
5. If you are unable to pay the full balance, pay the largest amount that you can. Always pay more than the minimum amount to reduce interest charges.

6. Don’t use your card to purchase expensive items, such as a car or furniture. For large purchases, you can get a loan at a bank for a lower interest rate.

7. Never get a cash advance from a credit card unless you have a serious emergency. You will probably pay a fee just to get the money, and you will be charged interest immediately.

8. Never let someone else use your credit card. You may be tempted to help out a friend, but you will be responsible for paying the bill and any interest charges.

9. Tear up “convenience checks” that your credit card company may send you. These checks are just like using your credit card.

10. If your credit card debt is piling up, leave the card at home. Or, cut up the card and close your account. Even if the account is not paid off, you can still close it and continue to make payments.
About Loans

One of your goals may be to purchase a major item, such as a car. When you decide to get a loan to help pay for a large purchase, it is a smart idea to apply for a loan through your bank or credit union. Do not be tempted to purchase a car with your credit card, which has a higher interest rate than a bank loan.

Here are some tips for getting a loan:

- Check around at banks and credit unions for a low interest rate. Compare the interest rates on their car loans with the interest rates you can get from a car dealer.
- Make sure that the loan payment fits into your spending plan. In other words, do you have enough income to make the payment on time each month?
- Find out about late fees or other costs.
- Try to get a loan for as short a time period as you can afford, so you will pay less interest.
- Avoid loans that have prepayment penalties if you pay your loan early. That way, if you have a three-year loan and are able to pay it off after two years, you will not have to pay interest for the third year.
- If you are unable to get a loan on your own, a lender will sometimes give you a loan if a friend or family member with good credit co-signs the loan. Be sure that you can pay back the loan before letting someone co-sign for it. If you miss payments, you might hurt the cosigner’s credit history, as well as your friendship.
You may know individuals who have used a payday lender to borrow money. Payday lenders will make loans to people who have a bank checking account and a job.

For example, let’s say that you need a $200 loan. You go to a payday lender and write a “postdated” check for $250. The payday lender gives you $200. “Post-dated” means that a future date is written on the check. The date that is used is the date when you will get your next paycheck. On that date, the store will cash your $250 check.

As you can see, payday loan stores charge very high rates, sometimes as high as $25 for each $100 that you borrow. This is the “rent” that you pay for using their money. And what if you don’t have $250 in your checking account to cover the check when your next payday arrives? The payday lender might give you another loan, but then you will be even further in debt. After you begin to use payday loans, it is difficult to stop.
• Net worth is not the same as self-worth.
• Setting financial goals can help you reach your dreams.
• A checking account is a safe, convenient place to put your paycheck.
• Saving money becomes a habit when you “pay yourself first.”
• Time is on your side because you are young and can take advantage of the power of compound interest.
• A spending plan is your financial blueprint.
• One easy way to cut back on spending is to ask yourself, “Do I need this, or do I just want it?”
• Good credit means you pay your bills on time and repay your loans as promised.

We hope that you will keep building the money skills that you have learned about here and that your future is a bright one. Good luck!
Resources

Books:


- *Your Money or Your Life: Transforming Your Relationship with Money and Achieving Financial Independence* by Joe Dominguez and Vicki Robin (Seattle: The New Road Map Foundation, 1999).

Web Sites:

- American Savings Education Council, www.asec.org

- National Foundation for Credit Counseling, www.nfcc.org

- NEFE Teen Resource Bureau, www.NTRBonline.org
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NEFE is an independent, nonprofit foundation committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach financial goals. The National Endowment for Financial Education, NEFE, and the NEFE logo are federally registered service marks of the National Endowment for Financial Education. For more information about the National Endowment for Financial Education, visit www.nefe.org.

YouthBuild is a comprehensive youth and community development program, as well as an alternative school. YouthBuild, designed to run on a 12-month cycle, offers job training, education, counseling, and leadership opportunities to unemployed and out-of-school young adults, ages 16-24, through the construction and rehabilitation of affordable housing in their own communities. YouthBuild’s mission is to create and sustain a broad-based national movement in support of policies and programs that enable young people to take responsibility for themselves, their families, and their communities. For more information about YouthBuild, visit www.youthbuild.org.

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