

A Financial Education Program from  CollegeInvest®

Invest in Yourself: MAKING SENSE OF MONEY



HIGH SCHOOL EDITION

 **educationcents**
MAKING SENSE OF YOUR FINANCES

INTRODUCTION

Congratulations! You have just picked up a valuable tool for creating your own financial success.

Managing money is a skill that takes time and effort to develop and is important whether you have a small amount to begin with or a large amount. The exciting thing about learning how to manage your money is that YOU CAN DO IT!

It's true—you can learn how to change your money mindset, develop a savings habit, create a spending plan, build a positive credit history, choose investments that match your risk tolerance, protect your personal identity and pay for college. All of these money management skills will help you today, tomorrow and far into the future.

As a high school student, you may be more concerned about short-term goals, and it's possible that you can rely on other people for most of your expenses. As a result, you may wonder what all the "noise" is about when it comes to money management and financial education. The reality is, in a short time you may be thinking about being on your own. It's not too soon to be thinking about how to manage your personal finances so you can reach your goals.

So, take a deep breath and focus just on YOU. This guide is all about you and your personal financial success. As you begin, you'll notice that each section has the same resources to help you on your way.

Financial Cents – gives a sense of what you'll be learning in each section.

Good Questions – offer an opportunity to reflect on important issues. These questions are also good conversation starters to use with your friends and family.

Important Exercises – provide practical application of the ideas discussed.

Lessons Learned – recap the important points.

So What? Now What? – poses the tough questions that only YOU can answer on your way to financial success.

Terms to Know – lists important words that will be featured in the section and defined in the glossary.

Resources – are just the tip of the iceberg. We offer a few resources here and many others online to learn more and in some cases, gain in-depth information about a topic.

One last thing—if you have Internet access, you'll want to visit CollegenInvest's Education Cents, www.educationcents.org. The material presented here is just the tip of the iceberg. The website offers even more information, online activities, useful tools AND opportunities to win scholarships!

Ready to get started?

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PSYCHOLOGY OF MONEY

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Explain the link between self-worth and personal finances
2. Recognize the relationship between stress and personal finances
3. Describe how love, marriage and money interact



TERMS TO KNOW



Budget
Cognitive Behavioral Therapy
Irrational Beliefs
Rational Beliefs

Making payments, paying for college, and saving or investing in your future can be difficult. Changing financial habits that may be causing financial difficulties can be even more challenging. Let's begin with the belief that it IS possible to prevent financial meltdowns and take greater control over your financial life by learning about both the head and heart matters of your finances—how finances work (head) and how you feel about money (heart). Once you discover how to control your feelings, you can also control your money.

One of the first steps in taking control is realizing what is in your control. Your beliefs (thoughts, feelings, opinions, expectations) and your behaviors (spending, saving, investing) are all within your control. We've developed this program around the work of the famous psychologist, Dr. Albert Ellis. Dr. Ellis's theory, cognitive behavioral therapy, says that other people, situations and events aren't responsible for your mood and behavior—you are.



Here is an example: You feel hopeless (belief) because you are living from paycheck to paycheck (behavior). To compensate, you begin to use your credit card (behavior) because you think (belief) you deserve the good things in life even if your pay check isn't big enough to get them. Every one of these beliefs and behaviors are within YOUR control. We're going to focus on strategies to help you change those things so that you can grab hold of your dreams. Of course, the choice to do so is yours!

GOOD QUESTION:

Are our thoughts and feelings about money really that important in personal finance?

Self-worth and personal finances

So, what's your money history? Your money history directly affects your relationship with money. Everyone's history is different—even within the same family! Your money history is based on memories you have regarding having money or not, allowance, savings, and gifts. It includes your family's financial circumstances and traditions around money and work. Your money history is shaped by money messages from your friends, community, and society in general. It is part of what shapes your beliefs about money and your relationship with money.

How you feel about yourself will affect how you handle your money.



For example, if you don't believe you can be successful (you have low self-worth), you probably don't believe you'll be able to be financially successful. When that's your belief, you may not choose to do those things that help you be financially successful such as save, invest, or seek the advice of a financial professional. You may not go to college because you can't imagine yourself being successful there. But, the reality is that many people have been successful attending college even if they didn't do so well in their earlier educations.

Part of our money history may include a recurring sound bite—some of us might refer to that sound bite as an adage, a motto, a mantra, a slogan, a phrase, or just a wise saying. For example, did you ever hear anyone say, “Money doesn't grow on trees!” or “You can't take it with you”?

GOOD QUESTION:

Is your money history helping you or holding you back?



IMPORTANT EXERCISE: Money Mindset

Directions: Your money mindset is your “core” belief or feeling about money. It is that sound bite that plays over and over in your head – sometimes you don't even consciously hear it! Your money mindset influences how you behave with money. There are many familiar statements about money. As you read each statement below, indicate how close it is to your mindset or belief about money. Relax—there are no right or wrong answers!

RATING SCALE

The statement is:

3 = Very similar to my beliefs/feelings about money

2 = Somewhat similar to my beliefs/feelings about money

1 = Not related at all to my beliefs/feelings about money

Now, take a moment to think about you. What is your money mindset?

Consider your core beliefs and feelings about earning, savings, spending, investment, and credit and write your own money statement(s):

Money doesn't buy happiness.

A fool loses his/her money quickly.

The more money you make, the more money you spend.

The best things in life are free.

Manage the pennies and the dollars will take care of themselves.

Never spend your money before you have it.

When the going gets tough, the tough go shopping.

Lack of money is no obstacle to me living my life the way that I want.

Do your family and friends share your money mindset? Sometimes it's hard to talk about money with your family and friends. Asking about money mindsets could be a great conversation starter. So, why not take the time to share this activity and discover how other people think about money? Here's another idea: ask your friend or family member if he/she has seen you behave the way you believe. Do you walk the talk?

GOOD QUESTION:
What if your Money Mindset isn't helping you reach your goals?

Talking about money can be uncomfortable at first, but is really helpful in the long run as you begin to learn from others and take positive steps that can reduce stress.

The consequences of our beliefs and money mindsets

Rational versus irrational beliefs

It's important to understand that we hold two very different types of beliefs, rational beliefs and irrational beliefs. Rational beliefs are balanced and based on factual evidence. For example, we believe we can drive safely down a road because almost everyone is following traffic laws. Irrational beliefs are unbalanced and based solely on our judgments and opinions. For example, if everyone else is obeying traffic laws, I don't have to and I will still be safe.

Remember that you have control over your beliefs and thoughts... maybe it's time to think about changing them. Many times non-productive beliefs are actually irrational. By evaluating your beliefs and making them more realistic and achievable, you can dispute the irrational belief and turn it into a rational belief.



Let's look at an example: Rosie believes that she will never have enough money. With that as her money mindset, it's very possible that she won't ever feel that she has enough money. However, when Rosie evaluates her belief she realizes that "never" and "enough" are not defined and therefore not achievable. Rosie also realizes that she has control over her future. So, Rosie thinks about what will make her feel that she has enough money and when and how she wants to achieve her financial goals.

While Rosie's figuring things out, her new belief is: "I will define my financial goals and develop a plan to reach them."

Belief statements often include words such as "should," "always," "must," or "never." In life, few things are absolute. In other words, most things are true sometimes and untrue other times. For example, have your friends ever been upset with you? Probably so, but you work through the problem. So saying that "my friends should always be happy with me" is an irrational belief.

How do you know if your belief is rational?

To determine if your belief is rational or irrational, ask yourself five questions:

- ✓ Is your belief true?
- ✓ Is your belief healthy?
- ✓ Is your belief helpful?
- ✓ Is your belief realistic?
- ✓ Is your belief logical?

If you discover the answer to any of these five questions is "no," then your belief is irrational. You can choose to change your belief—it may take time and determination, but you are in control.

Stress and personal finance

Keep in mind that stress can affect your finances whether it's something positive, like getting accepted to your dream college, or negative, like the loss of a job or running behind on the bills. Even small stressors can affect our finances.

It's important to recognize the stressors and deal with them in a rational, organized way so that our response to stress doesn't cause more stress. Breaking your budget with a new pair of shoes or falling even further behind on the bills is not going to minimize your stress in the long run! The added stress of mismanaging your financial obligations will only make things worse. And, remember, it is in YOUR control to manage both your finances and your thoughts about them. The way you have managed stress in the past doesn't have to be how you manage it today. If you are dealing with stress, you may find several helpful websites listed in the Resource section.

GOOD QUESTION:

Do you see the stressor (i.e. what is stressing you) as a challenge that can be met OR just another thing that you have to deal with OR as an overwhelming burden you can't manage?

Money and relationships

Money can play a big role in relationships. It can change friendships, family relationships and love relationships. You have probably heard the advice to not lend money to family members or friends because it can put a strain on a valued relationship. As for love relationships, divorcing couples list disagreements about money as a common theme in failing marriages.

A positive, healthy relationship with money will enable you to develop friendships, family relationships, and even love relationships that are not based on negative feelings and beliefs about financial issues. You will be able to talk about money in a rational manner. In short, a positive relationship with money will ensure that it does not impact your personal relationships in a negative manner.

GOOD QUESTION:

How would a positive, healthy relationship with money affect your relationships with friends and family?



LESSONS LEARNED

1. **Your money history and your money statement shape your beliefs about money. How you view yourself (self-worth) is directly linked to how you manage your personal finances.**
2. **An inability to manage personal finances can cause stress—as soon as you start managing your own money, be sure to organize your bills, toss junk mail, post reminders of due dates for payments and stay in control of your finances.**
3. **Your relationship with money impacts your relationships with people—develop a positive and healthy relationship with your finances.**

Let's face it, taking control over your feelings and behavior is not always easy. We often feel paralyzed to make important changes in our lives because we don't know what to do or have negative feelings about changing. But you can do it! Taking control over how you earn, spend, save and invest is possible.

So What? Now What?

How can you use this information to gain control over your personal finances? Take a moment to think seriously about what you can do today, next week, or next month to develop a positive mindset about money and then write it down.

PSYCHOLOGY OF MONEY RESOURCES

Cognitive Behavioral Therapy
www.mayoclinic.com

Teens and Stress
<http://kidshealth.org/teen>

For more great resources,
visit www.educationcents.org/resources

INCOME

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Describe the relationship between income and career choice
2. Define income terms
3. Understand employer benefits and how to make the most of them
4. Read a pay stub



Wouldn't it be wonderful to make as much money as you could spend? Well, believe it or not, even people who make millions of dollars sometimes spend more than they make and find themselves in financial trouble.

TERMS TO KNOW



Correlation	Net Pay
Dividends	Unearned Income
Earned Income	Worker's Compensation Insurance
Gross Pay	
Income	

GOOD QUESTION:

What are your career dreams?

The key is finding a balance between what you spend and make, then, if necessary, taking steps to improve your income. Your income is directly connected to your career choice, and is often impacted by the amount of education and experience you have achieved.

It can be difficult to reach a decision about the career you'd like to pursue, since in your mind you may believe that once you have made such a commitment you are stuck with it. This isn't necessarily true, there are so many different options/opportunities available today, that many people enjoy more than one career in their lifetimes. According to the U.S. Department of Labor, the average U.S. worker changes careers 3-5 times during his/her lifetime.

The key to selecting a career lies in finding the right fit to match your interests, abilities, values and personality. There are many interest assessment tools available, which will provide you with invaluable insights. You can access great tools online through College in Colorado at www.collegeincolorado.org. It is important to know whether the career you are considering requires additional training/schooling before entering the field. For example, many medical fields require many years of additional education, while some financial services careers offer on-the-job training.

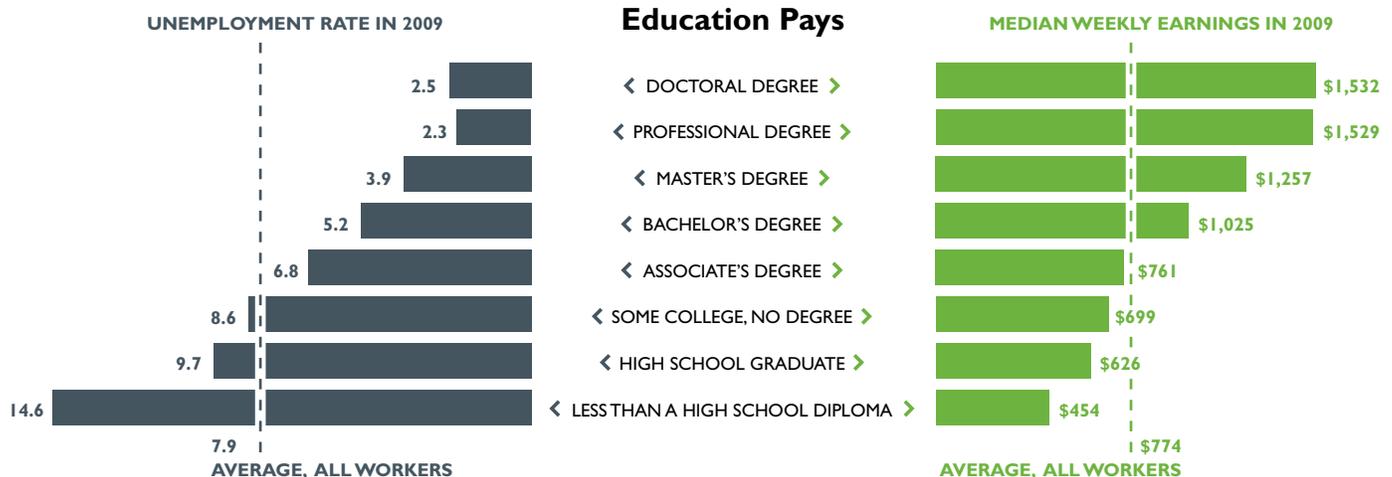
Money is important, but **how much** money is an individual perception. Identifying your life style expenses will help you determine what is a reasonable salary for you. For example, if you want to live in a big city, living costs may be higher than if you want to live in a small town. You will want to choose a career where you can easily live within your income.

GOOD QUESTION:

Besides income, are there other things to consider when choosing a career?

Income, education and career

Whatever career path you choose, it pays to be educated. Whether you decide to continue your education at a vocational or trade school, a community college, or a 4-year college or university, education after high school will expand your career options and increase your earning potential. There is also a correlation between education and unemployment—the higher your level of education, the lower your rate of unemployment.



Source: Bureau of Labor Statistics, Current Population Survey



DID YOU KNOW?

- A high school graduate, on average, earns nearly 50% more than a person who doesn't have a high school diploma.
- A vocational or technical school graduate earns roughly 98% more than a high school dropout.
- A graduate from a four-year college earns more than 80% more than a high school graduate and almost three times what a person who did not finish high school earns.
- A person with a master's degree earns more than twice what a high school graduate does and more than three times what a person who did not finish high school earns.
- A person with a professional degree, such as a lawyer or doctor, earns about four times the income of a high school graduate and almost six times the income of a person who did not finish high school.

Source: Bureau of Labor Statistics

Factors that influence average incomes

The average income earned depends on market demand for the occupation in the city or state, size of the company, cost of living in the location, education, and experience. Generally speaking, if you have skills that few people have and those skills are in high demand, you will be paid more, receive more employer-paid benefits, and enjoy a more expanded choice of jobs. But remember, what's hot today, may be cold tomorrow! When people learn of a high-demand or high-pay job, they get the training, which lowers the labor market demand. So, the need to upgrade your training and education never stops.

GOOD QUESTION:

Have you thought about the lifestyle that you want to achieve and the amount of income you will need to maintain that lifestyle?

To find out which jobs are currently in demand and the projected salaries of each—check out the **Occupational Outlook Handbook** either in your library or on the Bureau of Labor and Statistics website at www.bls.gov.

Income terms

Income is many things, depending on what type of income is being discussed. Earned income is total wages or salary and benefits. Your actual income is more than just your wages or salary. You also “earn” benefits from your employer. Some employers pay for part of your health insurance or a small life insurance policy. All employers pay a portion of social security taxes (e.g., FICA and FICA Medicare) for you. The amount that an employee earns is expressed in two different ways. First, there’s gross pay, which is usually the amount that an employee agrees to be paid. It’s the wage or salary before taxes and other deductions. So, the gross pay is not what an employee actually takes home. The amount that the employee takes home is called net pay, which is the income remaining after taxes and any other deductions are subtracted from gross pay.



For example, John just took a new job and agreed to be paid \$10 per hour (gross pay). He worked 20 hours the first week and when he got his paycheck he expected to receive \$200. He was upset when he received his pay check! John did not realize that taxes and insurance benefit costs were deducted from his gross pay, which resulted in his net pay of \$140.

Another type of income is unearned income. Unearned income is income that you don’t work to earn. Gift income could be considered unearned income, so could government assistance or student financial aid. A common type of unearned income is investment income—when you invest your money you may earn interest or profits on the investment’s growth, called dividends. We’ll talk more about investments in the saving and investing section.



IMPORTANT EXERCISE: Income Term Match

Directions: Read through the income terms in the left hand column. Next read through the definitions listed in the right hand column. Now, match the terms with the correct definitions by drawing a line from the term to the correct definition.

INCOME TERM

Earned Income
Gross Pay or Income
Net Pay or Income
Unearned Income

DEFINITION

Total wages or salary before deductions
Income you don’t work to earn
Total wages or salary and benefits
Total wages or salary after deductions

Taxes

When you look at your paycheck, the total amount you earned isn’t the same as the amount you take home. Some of what you earn goes toward taxes. In the U.S. we pay income taxes on money as we earn it so these taxes are deducted with every paycheck. This money is withheld from your paycheck before you get it.

Taxes provide money for the government to operate and provide services to you and others. Sometimes you may hear this irrational belief regarding taxes, “If I didn’t have to pay taxes, my life would be a lot better.”

GOOD QUESTION:
What do you get in return for paying taxes?

Taxes certainly do lower the disposable income we have left for our own wants and needs. But we also need and want what our taxes pay for—education, police and fire protection, roads, parks and other kinds of services.

How much federal and state taxes are deducted depends on your filing status, i.e., married or single, and the number of dependents you claim. Dependents include your spouse, children, and other people you support. You need to carefully decide on your filing status because it determines how much is deducted from your paycheck. Remember, a person may only be claimed once for tax purposes. For example, you cannot claim yourself on your tax return if your parents claim you on their tax returns. The fewer dependents you claim, the more tax will be deducted from your paycheck.

Sometimes people get excited about a big tax refund. Remember, the tax refund is just that—a refund. The government is refunding money that you overpaid during the year. It may be a better idea for YOU to have the money during the year so you can save it for your own short- and long-term financial goals. When you let Uncle Sam have your money during the year, you do not receive any interest on that money. If you set aside the money in a savings account, it will grow!

GOOD QUESTION:

Is it a good idea to have a big tax refund?

By understanding the tax system, you can increase your disposable income by lowering your tax expenses. For example, you might be able to reduce some of the payroll taxes you pay by making contributions to a retirement plan that your employer sponsors. These accounts often use pre-tax dollars and contributing to them lowers the total amount of your income that is taxed.



To learn more about taxes, go to the [Education Cents website](#). You will find helpful information and important tax terms will be explained.

Benefits – other compensation from your employer

Benefits are important to think about when you are comparing job offers. Remember that the value of the benefits is part of your “Earned Income.” Before accepting a job offer, be sure you fully understand the company’s benefit package and when you will be eligible for the benefits—some companies require that you work a certain number of hours per week or that you are with the company for a defined period before you become eligible for benefits.

Insurance

Your employer may have negotiated with a health insurance company to insure all of the company’s employees for a specific per person rate. A group rate will likely be lower than what you would pay if you had to purchase the health insurance on your own. Additionally, your employer may provide limited disability and life insurance benefits at low or no cost to you. The company or employer must also pay for Worker’s Compensation Insurance to protect you in the event you are injured on the job.

Retirement account contributions

Some employers match your contributions to a retirement account. There are many different types of retirement accounts. While we’ll spend more time explaining retirement accounts in the saving and investing section, the most important thing to consider is that if your employer offers to match any retirement account contributions, be sure to contribute at least the amount that they’ll match. By not contributing that amount, you’re leaving money on the table!

Time off and other benefits

Many employers allow their workers some paid time off in the form of holiday pay, vacation, or sick pay. The company pays for the time that you aren't there producing work so it is an expense for the employer and a benefit to you.

Bus passes, free or reduced meals or tickets to entertainment events are other examples of compensation not on your paycheck. A great benefit that some companies offer is tuition reimbursement, which can help to off-set the cost of education expenses.

Understanding your pay stub

Your pay stub provides a great deal of information—more than just what your income is!



IMPORTANT EXERCISE: Understanding a Pay Stub

Directions: Using the sample pay stub below, identify the items marked in red by writing the letter of the correct terms in the boxes provided.

- A. Gross pay for this period
- B. Net Pay for this pay period
- C. Net Pay for the year to date
- D. Insurance benefit deductions for this pay period
- E. Taxes paid this pay period
- F. Filing Status & Number of Allowances
- G. Paid time off benefit accumulated for the year to date

ABC Company 1239 Hill Rd., Columbus, NV 40293

Summary

Emp. No.	Name:	SSN:	Filing Status:	Start Period:	Ending Period:	Net Pay:	Net Pay YTD:
127834	John Garcia	123-58-1923	S I <input type="checkbox"/>	11/14/2009	11/27/2009	987.01 <input type="checkbox"/>	5,920.97 <input type="checkbox"/>

Earnings

Description	Rate	Hours	Amount	YTD
Holiday	17.31	16	276.96	276.96
Regular	17.31	64	1,107.84	7,200.96
Total		80	1,384.80 <input type="checkbox"/>	7,477.92

Deductions

Description	Amount	YTD
Medical	187.98	375.96
Dental	25.00	50.00
TOTAL	212.98 <input type="checkbox"/>	425.96

Taxes

Description	Amount	YTD
Federal Income	64.62	421.24
FICA - Medic	16.99	102.47
FICA - OASDI	72.66	438.17
CO Income	30.54	184.33
TOTAL	184.81 <input type="checkbox"/>	1,146.21

Paid Time Off

Description	Balance
Sick	10.52 <input type="checkbox"/>

Direct Deposit

Description	Route #	Bank Account	Deposit Type	Amount
Sick	838980	XXXXXXXXXXXX1467	C	987.01

MONEY MANAGEMENT

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Complete a financial responsibility inventory
2. Consider your needs and wants
3. Apply a decision-making process to personal financial choices
4. Discover the 5-step personal financial planning process



TERMS TO KNOW



Budget	Risk
Consumerism	Risk Management
Expenses	Saving
Income	SMART Goal
Insurance	Social Comparison
Investing	Wants
Needs	

Money management can be the key to having money you need for the things you need and want. Money is important to your future and your peace of mind. Having enough money to maintain your lifestyle comfortably can prevent worry and stress about paying bills and having a safe place to live and lead to more opportunity to do what you want to do such as continuing your education. Developing good habits with money can allow you to help your family in times of need and improve quality of life.

GOOD QUESTION:

Do you consider yourself to be financially responsible?

GOOD QUESTION:

What does financial responsibility mean to you?

Financial responsibility

Financial responsibility is an important skill for any individual. Before loaning you money, the lender—even a family member—will want to know how responsible you are. If you are applying for a job, an employer may look at how savvy you are with your own finances. Your employer may think this is an indicator of how responsible you will be in other matters.



IMPORTANT EXERCISE: Financial Responsibility

Directions: Identify actions that demonstrate your financial responsibility—both things you do well and things that could use work.

Suggested Ways to Demonstrate Financial Responsibility	I'm Good!	Needs Work
I regularly save money each month.		
I have a budget and stick to it.		
I have money in savings for emergencies and for my goals.		
I have financial goals for the future, which are written down.		
I pay bills on time.		
I am planning to continue my education after high school and am saving money toward this goal.		

Needs and wants

Being able to manage your money effectively depends in part on being able to dispute irrational beliefs. It also depends on you being able to distinguish between “needs” and “wants.”



For example, Maria likes to treat herself to a gourmet coffee drink once a week. She chooses to pack her lunch every day so she can have her weekly treat. If you don't budget for your wants you may be giving up financial security or giving up reaching your financial goals.

Loosely speaking, needs are things you must have and wants are things that would be nice to have. We put needs

on the top of our financial priorities because needs are necessary for our survival. Wants are a lower priority because they're not absolutely necessary for survival. However, it's OK to sometimes spend money on a want, as long as we realize we are choosing to give up something else.

It's easy to convince ourselves that “wants” are really “needs.” Think about being hungry and needing to eat, but choosing to go out to dinner instead of making dinner at home. We can avoid turning wants into needs through careful money management.

GOOD QUESTION:

Do you ever talk yourself into believing that a want is really a need?

Social influences

Often the “gut check” we use to discriminate between wants and needs fails us. The reason we confuse wants and needs is that often we are told by the media that we “need” certain things to be happy or popular. These “needs” are really not essential for health, happiness, or belongingness. We learn much from modeling what is presented in the media—from doing what we see others do. We compare ourselves to others and spend in the hope of appearing like them. This process is called social comparison.

In the past, people tended to compare themselves to people in their neighborhood or close geography and imitate their behavior. So, people were comparing themselves to others who maintained a similar standard of living as their own.

Now, people of all income levels compare themselves to the unrealistic images presented in the media by celebrities, athletes and other public figures. Sometimes we feel inadequate because we don't have what people on television and in magazines have. If we feel inadequate, we must NEED something else, right? Wrong!

The financial effects of our new consumerism are clear—a record high number of bankruptcies, record high amount of credit card debt, alarmingly high teenage credit card debt, and low savings rates.

Decision-making process

Making financial decisions can be difficult. Financial decisions can cause stress and greatly influence your feelings of self-worth. Besides wiping out your irrational beliefs, choosing accurate money mindsets, and managing your income, you also can organize your financial decisions.

GOOD QUESTION:
How can you take control of your financial life and toss off the burden of new consumerism?



For example, Cindy recently graduated from college. She was reminded by the financial aid office that her student loan payments were to begin six months after she graduated, although she could start paying earlier if she wanted. “Oh yeah,” Cindy thought, “that college loan I borrowed four years ago. How am I going to pay for it?” Cindy went to the financial aid office and they suggested she look at her current expenses to see if there was anywhere she could cut back. They also gave her the 5-step process for financial decision making.

Here’s how Cindy approached her situation and made a good financial decision:

Step 1: Identify the problem or issue.	My loan payments are due starting in December. “Why does this have to come during the holidays?” she thought. “I don’t have any extra money to pay this now.”
Step 2: Gather and evaluate information.	My balance on the loan is \$6,000, the interest rate is 6.8%, and the term is for 10 years. The payment is \$67, which is approximately the same amount as my current cable TV bill. Cindy called the cable company and asked how much it would be to cancel service and reconnect later. It is no charge to cancel and would be \$28 to reconnect. They asked why. When Cindy told them, they offered to knock \$20 off per month for three months. Cindy was surprised by their offer. She wasn’t going to decide for a few months, so she took them up on the rate reduction while she made her decision. Cindy also found out the price for the standard package was \$32 per month compared to the \$67 she was currently paying.
Step 3: Consider the costs and benefits of various alternatives.	Cindy looked through her budget and couldn’t find anything else to cut to pay the loan payment of \$67 per month. In fact, she would have to cut back in other places to get some better clothes for work, additional gas money, and insurance. Cindy thought about the standard cable package, but she still wouldn’t be able to afford that. Her friends came over often to watch movies with her and she didn’t want to miss out on those friendships. She talked to her best friend. Gloria said no problem, why don’t we come over to her house for the movies? She also talked to her mom, who said she was proud of her for looking at this so early. Her mother offered to record programs and told her that the public library had lots of movies that were free to borrow.
Step 4: Make a decision and take action.	After four months (and two months before the payments were to start) Cindy canceled her cable TV. She borrowed DVDs from the library, went to friends’ houses for movies, and had her mother record special programs for her.
Step 5: Modify the decision and action as conditions change.	Cindy continued to use her personal money management skills and they carried over to her work. A year later, when her boss was trying to decide on adding more hours for the business, Cindy shared the 5-steps for financial decision-making. Her boss was impressed and gave her more responsibility and a \$100 per month raise. The cable company had a special offer of three free months. Cindy decided to get the standard cable back and save the rest of her raise until she evaluated her options.

GOOD QUESTION:
Why is it important to create a personal financial plan?

You make decisions every day. For example, you make a decision each time you purchase an item. Depending on the item, your decision-making process may be done in a few seconds; in other cases, a few weeks. It may take you only two seconds to decide to buy a cup of coffee or bag of chips, but it may take you a couple of weeks or months to decide on a car. When faced with a tough financial decision, remember the 5-Step Decision-Making Process.

Developing a 5-step personal financial plan

When we handle money, it's sometimes easier to not think about the future and spend money as fast as we make it. We spend it on what we want right now. If we keep going in that direction we will be exposed to financial risk and decreased financial benefit. It's easy to get into debt—poor financial planning or one day of irrational purchasing can do it.

The most important money management goal is to have enough money to live on. That may mean money in the bank or in your wallet for food, gas, college books, and tuition. It means having enough money to pay for rent or a mortgage, utility bills, insurance, and more. And, we all want to save enough money while we're working so we can help pay for higher education for ourselves and our family and enjoy—rather than worry about—retirement.

If you don't already have a personal financial plan, it's time to sit down and create one!

There are 5-steps involved in creating your personal financial plan:

- Step 1** Create financial goals
- Step 2** Create a current income and expense record
- Step 3** Create an insurance plan
- Step 4** Create a savings and investing plan
- Step 5** Create a budget

Step 1: Create financial goals

Setting goals is important—making sure they are attainable (that you will be able to reach them) is critical. The best way to ensure your goals can be achieved is to set **SMART** goals. **S=specific, M=measurable, A=attainable, R=realistic, and T=time-bound.**

To help you develop and prioritize your financial goals, it may be helpful to create a Needs and Wants Table. A Needs and Wants Table allows you to prioritize, consider time frames, and identify total and monthly costs. Once you have completed the columns on the Needs and Wants Table, you are ready to write down your SMART financial goals!



IMPORTANT EXERCISE: Needs and Wants Table

Directions: List at least three items that you would like to purchase at some point. Determine if the item is a need or a want. Using the 1, 2, 3, ranking, prioritize each item. Determine how many months it will take to actually save up enough money to purchase the item. Note the total. Answer the tough question!

Item	Need or Want	Priority: 1=Got to have; 2=Really want; 3=Nice to have	Time Frame (Number of months to complete the goal)	Total Cost/ Monthly Cost	What will you give up to achieve the goal?

Write a **SMART** goal statement for one item that you may be able to purchase in the next three months.

Write a **SMART** goal statement for one item that you may be able to purchase in the next two years.



Check out the [Education Cents website](#) and discover a variety of tools. The Savings Goal Calculator is a great tool to use.

Step 2: Create a current income and expense record

Some people have a really good handle on their expenses, but many have no idea how they really spend their money. Tracking your expenses is critical to developing good money management skills!

Find a quiet space and take time to really think about your expenses. List them below and then estimate the amount of money you spend on a weekly and monthly basis. Next, track the *actual* amount you spend on each expense. You might be surprised at the end of the month!

Name of Expense	Estimated Weekly Amount	Estimated Amount	Actual Amount	Possible Ways to Control the Expense
TOTAL				

NOW –What is your estimated income per month (remember to include earned and unearned income)?

Step 3: Create an insurance plan

Risk management and insurance can protect your financial worth if something major goes wrong. If you choose to ignore risks or potential benefits from managing risks, time bombs could be waiting to explode your wallet and potentially cause consequences that impact you for a long time.

Many people don't realize that they have financial risk. But almost everyone carries some risk. These questions aren't meant to frighten you, but merely to help you think about what could happen and help you identify ways to manage these risks.



IMPORTANT EXERCISE: Knowing the Potential Risk

Directions: Read the questions below and answer yes or no.

QUESTION	YES	NO
Am I a licensed driver?		
Do I have a job?		
Am I in good health?		
Will I be able to take care of myself financially if I am injured or sick?		
Do I own valuable personal property, such as a computer?		
Do I rent an apartment?		

If your answer to any of the questions in the following exercise is “yes,” you have financial risks.

We all want to manage our financial risks to reduce stress and maintain a comfortable life style. To manage risks, you can **avoid** them, **reduce** them, **accept** them, or **transfer** them to someone else.

People use insurance to reduce their risk by transferring the risk to the insurance carrier. Of course, there is a cost to reducing/transferring risk—the cost = the insurance premium.

Remember, risk is a part of life. However, you can learn how to manage your financial risk so that you are not negatively impacted and/or surprised!

GOOD QUESTION:

Are you aware of your current financial risks?



Check out the [Education Cents website](#) for more information on risk management. You will be able to learn about different kinds of insurance and watch a great video that explains insurance in plain language.

Step 4: Create a savings and investing plan

Once you know your goals, income sources, expenses, and what insurance you need, you can create a savings and investing plan. **Saving** and **investing** are two unique concepts, and it's important to understand the difference between them and the need for each. Saving involves holding on to money and keeping it safe. Investing, on the other hand, means to make a long-term commitment of putting money in an investment and letting it grow. Investing involves *risk*, such as the inevitable ups and downs in the stock market; however, over the long-term (five years or more) those dips are expected to smooth out into an overall upward growth pattern.

The key to saving and investing is to start early! The sooner you develop a savings habit, the more money you will have when you are older. Too many people put off saving until they "have more money." Start saving NOW—\$1 a week, \$5 a week—whatever you can afford.

Look at your financial goals and decide how much you need to save each month to accomplish those goals.

GOOD QUESTION:

When should you start saving or investing?



For example, Michael has a car and wants to put in a new sound system. He is also saving money for day-to-day expenses for his first year of college so he doesn't have to work as many hours while going to college.

Here is Michael's savings plan based on his two short-term financial goals.

Goal ▼	Monthly amount to be saved ▼	Expense to be reduced ▼	Amount saved per month ▼
Car sound system	\$30	Reduce entertainment	\$20
College expense money	\$120	Limit eating out	\$80
TOTAL	\$150	TOTAL	\$100

Step 5: Create a budget

Some people think that budgets are boring and constraining. A spending plan is another name for budget and lets you determine how much money you can spend and what you can spend your money on. Budget, spending plan—the important thing is that you have developed a plan to enable you to manage your money. A budget or spending plan includes how much money you plan to make (Income) and how much money you plan to spend (Expenses and Savings).

GOOD QUESTIONS:

Have you created a monthly spending plan?
Did you stick to it?



BALANCING YOUR BUDGET

A balanced budget shows greater or equal income to expense—if a budget has greater expense than income, it is out of balance. And, an out of balance budget means trouble. It means you're spending more than you're making. The key to successful money management is to live within your income! A balanced budget or spending plan lets you do just that.



Take a look at the [budget worksheets available on the Education Cents website](#)—there’s one just for high school students! These interactive tools can really help you get your budget in order and they include helpful tips.



LESSONS LEARNED

1. **Financial responsibility is an important asset and there are many ways to demonstrate how savvy you are with your own finances.**
2. **Identifying your needs and wants helps you set realistic financial goals. It is OK to spend money on a want as long as you recognize that you are giving up something in return.**
3. **Financial decisions can be challenging. Using a decision-making process allows you to make good decisions.**
4. **The key to money management is creating and sticking to a personal financial plan. There are 5-steps in the planning process: set financial goals, record income and expenses, manage risk, set savings and investing goals, create a budget.**

Someone once said, “To err is human; to blame the other guy is even more so.” Mistakes, rotten timing, problems, bad luck! It is so easy to blame someone or something when we don’t have enough money to do what we want. Stop! The blame game ends right now. With these money management tools, you’ll soon be in charge.

So What? Now What?

How can you use this information to start managing your money today? Take a moment to think seriously about what you can do today, next week, or next month to establish a savings habit and then write it down:

MONEY MANAGEMENT RESOURCES

Budget Tool, check book balancing tool
and Insurance made simple video
www.educationcents.org

For more great resources,
visit www.educationcents.org/resources

SPENDING

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Understand the key factors to evaluate when making a purchase
2. Identify the opportunity costs of financial decisions
3. Recognize how emotions affect spending
4. Use a Spending Diary to track your daily expenditures



Does anybody ever really have enough money? It seems like there's always something that would make your life easier or more fun—if only you had the money. There are steps you can take to make your money stretch a lot further; so that you can buy what you need and a lot of what you want too.

Most people make purchases every week, if not every day. Buying things is an important part of our society and our economy. Because spending is such a big part of our financial and social life, it's important to put some thought into not only what we're buying, but where we're buying and how much we're paying. When we're more thoughtful about our purchasing decisions, we may be able to get what we need and want for less.

TERMS TO KNOW



Budget	Scarce
Gratification	Spending Plan
Needs	Unit Price
Opportunity Cost	Wants
Resources	

GOOD QUESTION:

What kind of shopper are you—impulsive, cautious, comparison, coupon, sale?

Evaluate a purchase

Quality and quantity

You may have heard the expression “You get what you pay for,” which refers to the quality of an item. When you are deciding between two items based on price, it's important to ask yourself if the more expensive item is a higher quality product that will last longer. Perhaps the less expensive item is of reasonable quality and will be just fine. Be careful, “alleged” quality, through marketing and branding can encourage us to spend more for an item JUST because of its brand. It may not actually be a higher quality than a less expensive option. The important thing is to think through your purchase.

Like quality, quantity needs your good shopper skills. Everyone knows that if you buy in bulk—large quantities or numbers of products—you save money, right? Not necessarily. Like comparison shopping, stores and merchants have learned that smart shoppers want to know the unit price when they buy something. Unit price is the cost per item purchased.

Most grocery stores will show the unit price on their shelves below the product. Here is an example:

94  041548-34586 DSD
25216 56 OZ 48B 3
ICE CREAM/LT CRML DELT

UNIT PRICE 9.80¢ PER OUNCE	\$5.49
---	---------------

To get the unit price of an item, you divide the total price by the number of pieces or ounces or pounds or whatever unit in which the product is sold.

For example, if you buy a pack of gum with 10 pieces in it for \$2.00, you pay .20 cents per piece of gum. The unit price is .20 cents. If you buy a pack of gum with 10 pieces in it and pay .99 cents, the unit price is 9.9 cents. Obviously a better deal!

Always compare the unit price among products before deciding what to buy. If you have a cell phone, you can use the built-in calculator to do this. You will find that bigger quantities aren't always cheaper and that often the store's generic brand offers the best per unit pricing.

Also, ask yourself if you really need (or even want) 20 boxes of brownie mix even if the per unit cost is less than buying one box. Tying up your money in a year's worth of brownie mix may not make sense.



IMPORTANT EXERCISE: Unit Pricing

Directions: Grab a pencil and a calculator and practice calculating the unit price of several items. Decide which purchase gives you the most for your money.

UNIT PRICE = PACKAGE PRICE DIVIDED BY NUMBER OF UNITS

PEANUT BUTTER: Which jar is the better buy?	How much is the unit price?	Which jar is the better buy?
A) 18 oz. jar of crunchy peanut butter is on sale for \$3.49.		
B) 12 oz. jar of crunchy peanut butter is on sale for \$2.59.		
DOG FOOD: Is bigger better?	How much is the unit price?	Which bag is the better buy?
A) A 24 lb. bag of dog food sells for \$15.99.		
B) A 12 lb. bag of dog food sells for \$8.99.		

Needs and wants

Understanding the difference between wants and needs goes beyond just deciding whether you want or need an item. Once you decide you need an item, be sure to think about what aspects of that item you want or need. You may need a new pair of shoes, but there are many different types of shoes and you'll want to consider what you need from a pair of shoes (perhaps low-cost, comfort and long-lasting) and what you want (maybe brand name). Sometimes you cannot satisfy both your needs and your wants with the same product.

Many different items can fulfill a need, it's up to you to make informed decisions about which wants you're willing to fulfill or live without and at what cost. Remember that a dollar you spend in one place is a dollar less you have to spend somewhere else or to save for something else in the future.

It's easy to turn a need into a want—but if you really think about your needs *and* wants (both short-term and long-term) before you go shopping you'll find it easier to stay on track so that you can meet your financial goals.

Options for purchasing

When you want or need something, you may have several ways to purchase it. Cash may be the easiest, but you may not have the money available when you need to make the purchase. There are several other options besides cash. This chart describes some of the advantages and disadvantages of different ways of purchasing.

GOOD QUESTION:

Is it worth paying more for convenience or style?

	ADVANTAGES	DISADVANTAGES
Buying	Lowest cost option No interest paid	Sometimes you have to wait to buy the item
Borrowing to buy	You get the item right away, or as soon as the loan is approved	Usually pay interest, which means the item costs more Must make on-going payments
Leasing	You get the item right away	Usually pay interest, which means the item costs more Must make on-going payments At the end of your lease term you do not own the item and will likely have to pay extra for wear and tear
Rent to own	You get the item right away	You may pay as much as twice what the item is worth If you miss a payment or can't continue to pay, the store will take your items back

Opportunity cost

A person's income represents his or her scarce resources. Because resources are scarce, every decision involves an opportunity cost. The opportunity cost is the most valued option that you refused because you chose something else. For example, let's say that you decide to buy a cell phone plan with unlimited text messages but it costs \$10 more a month. By making that decision, you have given up \$10 a month that you could have spent elsewhere such as buying a movie ticket. That is the opportunity cost of buying the unlimited text plan.

One important choice everyone faces is whether to consume goods and services today or to consume goods and services later. Spending today brings immediate benefits or gratification. The opportunity cost is that you will have less money to buy goods and services in the future. Saving builds wealth to buy goods and services such as a car, house or vacation in the future. The opportunity cost is not buying as many goods and services today.



IMPORTANT EXERCISE: Opportunity Cost

Directions: Read through the scenario below and identify the best option for Franklin.

Franklin is an 11th grade student at Enterprise High. He is a solid B student with the following options:

Option I Take a part-time job after school that pays minimum wage and requires him to work from 4:00 p.m. until 9:00 p.m. on school nights. The extra money would allow him to buy a nice used car now, and he could save some money for college. On the other hand, his grades could suffer.

Option II Join the football team, which means he must practice every day after school. Franklin loves football. His coach thinks he has a good chance to get an athletic scholarship to a local college, but his mother is concerned about his grades.

Option III Study harder to improve his grades, and qualify as a "Student Tutor" in the after-school program. This would give him some spending money, and help him score better on the college entrance exams. Some of his teachers think he could get an academic scholarship if he spent his spare time studying. But tutoring would not give him enough income to get that used car.

Franklin has all of the standard teenage wants in alphabetical order: car, college, friends, money, and sports. In fact that's his problem. He can't do all three options at the same time. What should he do? Why?

GOOD QUESTION:

What's your opportunity cost if you decide not to continue your education after you graduate from high school but to go straight to work instead?

we see as our "peers" is much bigger than it was in the past. We're comparing ourselves to people with very different financial situations—like movie stars and famous athletes. Being your own person and making spending decisions that are right for you, not other people, takes discipline and courage. Keep your goals in mind and you will be better equipped to ignore peer pressure!

Spending influences

Peer pressure

Have you ever gone to a restaurant that cost more than you were comfortable spending because a friend suggested it? Or perhaps you've gone to the movies when your friends wanted to go even though it took every last cent you could scrounge up? What about your clothes... have you ever spent more than you could really afford on a pair of jeans or shoes because everyone would think they were cool?

Perhaps one of the most common irrational beliefs that many people carry around with them, sometimes without even recognizing it, is that they're only as good as their material stuff. A similar idea is that people won't like you if you don't have the right stuff—whether it's the clothes, the car or even the phone.

Peer pressure is a very powerful influence in many areas of our lives, especially in how we spend our money. One of the biggest problems with peer pressure today is that the group of people

On sale!

Who can resist a sale? After all, every sale is a bargain you can't afford to pass up, right? Think again. Stores are in the business to make you spend money. When many people see something on sale, they assume it's a great deal that won't be around long. Those two thoughts often combine to make people buy things that they weren't planning to buy and sometimes even things that they don't need at all.

Sales can be a great way to save money. When you can buy something that you need for less, you can add the "left over" money to your savings to put it toward one of your short- or long-term goals. The key is to determine if the sale item is something you honestly need. Ask yourself if you would buy the item if it wasn't on sale—if the answer is "yes" then you're really saving money. If the answer is "no" you're spending more than you normally would. The merchant convinced you to spend more by offering the item for "sale."



IMPORTANT EXERCISE: Spending with Your Heart or Head

Directions: You purchase items based on two reasons: you need it or you want it. When you purchase something you want, you are usually driven by "heart" spending. In other words, your purchase is not based on factual reasons but on emotional reasons. For example, you may purchase the newest iPod because "all" your friends have purchased it, even though your old iPod is working just fine. In this activity, determine if the spending is heart-based or fact-based.

	Heart	Fact
Purchase a hamburger and a salad at your local fast food restaurant because you are hungry		
Purchase the latest cell phone because all your friends have one		
Purchase the latest cell phone because your current phone isn't meeting your needs		
Purchase a car to replace your old car because the old car would cost too much to fix		

When you spend money, which one wins—your heart or your head? _____

Why? _____

Paying for college

Being a smart consumer

When you decide to continue your education, you're making a big decision about your future—one that will have a positive impact on the rest of your life. Choosing a college is an important decision. You want to find the best deal possible but also a career and college that fit your unique needs, talents and ambitions. Education is an investment in yourself and you want to be sure that you're investing wisely—and considering all of your expenses.

When you're deciding which college to attend, one important consideration is the total cost of attending the school. Schools call this the "Total Cost of Attendance" and it includes tuition and books and supplies, as well as housing, transportation and living expenses.

Don't be hasty in ruling out schools just because of their price tag. Price comparisons are best made when you receive your financial aid award notification—that's where schools tell you how much financial aid they're able to give you. A more expensive school may be able to give you more financial aid or money that goes to your educational costs. With that help, your out-of-pocket cost may be about the same as a less expensive school. Sometimes a less expensive school may meet your needs just as well as a pricier school and leave you with less debt when you graduate. But be sure that you understand your award notification. Many schools include student loans in their financial aid packages. Loans can be a great resource to help you pay for school, but don't forget that you must pay them back, usually with interest.

Most importantly, remember that your investment in higher education will pay off the most when you complete a degree. Students, who leave their higher education program without completing it, are still responsible for any debt they incurred while in school. If you begin college or vocational school, be sure to finish your degree. Otherwise, you'll owe money without getting the benefit of the degree or certificate. Completing your program is the best way to pay off your investment!



TALKING ABOUT COLLEGE

When we talk about college or higher education, we are referring to any education program after high school—that includes four year public and private colleges and universities, as well as community colleges, and technical and vocational schools.



Check out the "Compare Award Packages" tool on the Education Cents website and the SLOPE calculator at www.collegeincolorado.org.

Using student loans wisely

Part of being a smart consumer of higher education is looking at whether you'll be able to comfortably repay any student loans that you'll need to borrow. Experts advise that debt repayment costs ideally make up 10 percent or less of your income. If you know what fields you might want to pursue after you graduate from college, even if you have a few that you're considering, you can use College In Colorado's SLOPE calculator to find out how much you can comfortably borrow in student loans based on your expected starting salary.

Don't forget that if you charge on a credit card or borrow from family to attend college, those loans will need to be repaid as well. Most federal student loans have lower interest rates than other loans or credit cards and lots of repayment options to help you stay on track when it's time to pay back the loan. You must complete the Free Application for Federal Student Aid (FAFSA) to get federal student loans, but people of any income level can qualify for them. If you're planning to borrow, always consider federal loans first!

Smart spending

Spending diary

Let's say it's Wednesday and you have a \$20 bill in your pocket. You figure you'll hang on to it so you can go bowling with your friends on Saturday. At lunch, a couple of your friends invite you to grab a bite to eat at the local fast food restaurant (\$7). Thursday morning, you run out of graph paper so you have to buy some from your math teacher (\$1). Thursday evening you stop by the library and have to pay a late fee before you can check out the book you need (\$2). Friday morning you treat yourself and your best friend to breakfast (\$10). Saturday you look for your \$20 bill and accuse your brother of taking it. Sound familiar?

It's easy to lose track of your spending—a couple dollars here, a few dollars there. It doesn't seem like much at the time, but it all adds up. A good way to get a clear picture of how much you are spending is to record every dollar you spend. It sounds like a pain, but it's worth the time and effort. A Spending Diary will help you take control of your money. Consider carrying around a small notebook or a piece of paper and jotting down every dollar that you spend. You may be surprised by how much you spend on small items and how much that really adds up.

Spending plan

A spending plan is a good tool to make sure that you're financially on track. When you create a spending plan, you're looking at how you use money right now and how you plan to spend money in the future. This is an important part of managing your money.

The reason a spending plan (or budget) is so important is that it requires planning. Instead of going shopping as soon as you get your paycheck and maybe not having enough to make ends meet before your next paycheck, you already have a plan for how you'll

spend the money. When you create a plan you can make sure that it helps you reach your financial goals, such as getting out of debt or building an emergency fund or buying that new pair of jeans you've had your eye on. If you create and follow a spending plan you can make sure that you have enough money for necessary expenses. If you plan appropriately, you'll also have enough money for savings and your wants.



LESSONS LEARNED

1. **When making a purchase, it's important to consider quality, quantity, needs and wants, and options for paying.**
2. **There are opportunity costs to consider when you spend and when you save.**
3. **If you can acknowledge the emotions that are affecting your buying decisions, you stand a better chance of controlling your spending.**
4. **Taking control of your spending starts with keeping a Spending Diary.**

Next time you are getting ready to spend, take a moment to really think about your spending and take responsibility for it. When you're about to buy something you can't really afford, think about the decision as your own—not to impress your friends or because the TV ad made it look cool. When you think about spending in that way, you may be able to make a more rational decision based on rational beliefs.

So What? Now What?

How can you use this information to spend wisely? Take a moment to think seriously about what you can do today, next week, or next month to take control of your spending and then write it down:

SPENDING RESOURCES

Better Business Bureau
www.bbb.org

SLOPE calculator (Student Loans Over Projected Earnings)
www.collegeincolorado.org

For more great resources, visit www.educationcents.org/resources

SAVING & INVESTING

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Recognize how emotions affect saving and investing
2. Describe the impact of time and compound interest
3. Evaluate financial risk
4. Understand the four common savings tools and the three major investment tools
5. Recognize that saving and investing can be achieved by anyone, regardless of income



Saving and investing are an important part of any financial plan. From short-term goals like an emergency fund or a new bike, to long-term goals like paying for college and retirement, understanding how to save and invest is crucial to reach your goals.

GOOD QUESTION:

Do you have financial plans for “someday?”

GOOD QUESTION:

Do you know when someday is?

TERMS TO KNOW



Bonds	Mutual Funds
Compound Interest	Principal
Diversification	Return
Financial Planning	Risk
Financial Professional	Risk Tolerance
Inflation	Savings Account
Liquidity	Series EE Savings Bonds
Money-Market Funds	Simple Interest
	Stocks

Emotions and saving

Your money history

Your money history directly impacts your relationship with money. Everyone’s history is different—even within the same family! For some of us, saving money is a habit we learned and practiced at an early age. For others, saving money was not a part of our history. Whether saving and investing are parts of your money history or not, you are in a position to save and invest for your future!

As you learn how to manage your money, it will be helpful to periodically evaluate your beliefs around money and decide whether those beliefs are helping you reach your financial goals or holding you back.

Your stage of life

During your lifetime, your financial needs will evolve with changes in your income levels, spending patterns, family concerns, and retirement plans. Starting out in your financial life looks very different to different people. Some of you will start working right out of high school; others will go through college, still others will do both at the same time. One thing will be the same for every young adult: you face the task of learning how to manage spending and saving within the constraints of your available income.

The good news is that time is on your side when it comes to saving and investing. However, as a young adult you may be challenged by the desire for instant gratification. Having money to spend often seems so much more exciting than saving money. If you open a savings account at a local bank or credit union and make it a habit to put money aside in a savings account, you will have a huge head start over your friends who decide to wait until they “have more money.”

Emotional barriers

You may be surprised to discover that there are a number of emotional barriers to saving and investing. The four most common barriers include: **risk tolerance, now versus future focus, procrastination, and choice.**

Risk tolerance

We all have a certain level of risk with which we are comfortable, we call that our risk tolerance. There are many factors that affect risk tolerance such as age, gender, income, financial goals, etc. Most of the time it is important to make decisions based on the level of risk tolerance we already have. However, sometimes it may be beneficial to take risks with which we are not necessarily comfortable.

GOOD QUESTIONS:

Do you have short- and long-term savings goals?
Are they written down where you can see them?

Procrastination

Feeling like you don't know enough about finances can be a real hurdle to reaching your financial goals. Many people feel intimidated and aren't sure where to start, so they put it off until “later.” You're way ahead of the game because you are taking the time right now to learn about money management!

Now vs. future focus

Another reason that people may not save or invest as much as they should is that we live in a “now” society. We like things to happen quickly and we often change course if we don't see fast results. Saving and investing are usually best practiced with a longer-term outlook. Just like it's easy to put off doing the dishes or mowing the lawn, it's easy to put off saving and investing too. However, the sooner you establish a savings and investment habit the better off you will be. Keep in mind, that the actual amount you start saving is not important—what is important is that you get into the habit of putting money aside.

Choice

The last barrier is one that many people don't even see as a barrier. We often think of choice as a good thing... and it can be! But when we have too many choices it can feel overwhelming. You might want to start with one or two goals and focus on the financial tools that are best suited to that goal. For example, if your goal is to save for a college education, check out [CollegInvest 529 College Savings Plans](#). If you focus on one goal at a time, it may seem more manageable. You may also want to consult a financial professional to get advice on which financial tools will best meet your unique needs.

Why save and invest

There are three major reasons to save and invest: stay ahead of inflation, create an emergency fund, and achieve financial goals. Inflation causes the increase of prices. When a fast food hamburger goes up from \$1.20 to \$1.50 or when gas goes up from \$2.40 to \$2.68 a gallon, we say that is inflation. You need to make more money just to keep up with the rising cost of living.

Financial stability is a primary financial goal. With proper financial planning, it is a goal that you can achieve. Financial planning is the process of setting financial goals, developing a plan to achieve your goals, and then putting your plan into action. People who use a financial plan usually learn to live comfortably within their means and don't have to worry about having enough money for the things they need and want.

Emergency fund

While there are several reasons to save and invest your money, creating an emergency fund should be your first goal. An emergency fund is money set aside in a bank account for unexpected expenses or for living costs for unexpected events like losing your job. For most people, an emergency fund of three to six months of expenses is their goal.

An emergency fund may not sound important if you are currently able to rely on your family for most of your expenses. However, if you own a computer or a car, it's wise to be prepared for the unexpected computer crash or engine trouble. If you are planning to be out on your own soon, you will most likely have new financial responsibilities.

If you start thinking about an emergency fund now, you'll be way ahead of the game when you discover you actually need one.

Financial goals

Financial goals can be divided into two types:

Short-term goals – Things that you need or want now or within the year, such as an iPod, a computer, or a cell phone. Generally, it takes less money to reach these short-term goals.

Long-term goals – Things that you need or want in a few years or more, for example, going to college, buying a house, starting a business, and even retirement. Generally, these goals are expensive and are easier to reach with some planning.

There should be a clear distinction between your other savings and an emergency fund. Your other savings can be used for a special purchase but an emergency fund needs to be strictly for emergencies. If your emergency fund is used, it should be "paid back" as soon as possible. Remember, a spur of the moment road trip or a great pair of shoes on sale is not an emergency!



IMPORTANT ACTIVITY: Making Every Cent Count

Directions: List your current plans for reaching your financial goals.

1	
2	
3	
4	
5	

The amount I save each week: \$ _____ The amount I want to save each week: \$ _____

The amount I invest each week: \$ _____ The amount I want to invest each week: \$ _____

One thing that I can do differently to make saving and investing a priority for my financial future:

Saving vs. investing

Saving is usually for short-term goals in very safe accounts. The amount you save is more important than what you earn on your money, which is called your "return." Liquidity, or the ability to access your money quickly without losing your principal (the amount you originally saved) is most important. You will not earn much interest but your money will be safer and easy to access.

For goals that are several years away, you probably will want to try to make your money grow and this requires an investment. When people talk about "making your money grow," what they mean is that you can actually get more money by putting your money into an investment. Most investments have risks or the possibility for losing the money you put in. You will need to decide how much risk you want to take to earn money or a "return" on your investment. In general, the more risk you take, the more potential return, or money earned, there will be.

Impact of time

A major factor that affects how much your savings or investments will grow is time. **The earlier or longer you save, the more savings you will have!** Here's an example of how time affects investments:



Here's an example: Mandy and Jason are both 22 years old. They each have an extra \$2,000 a year to invest or spend as they choose. Mandy opens an Individual Retirement Account (IRA) to start saving. Jason chooses to spend his \$2,000.

Mandy's IRA earns 12% per year. Mandy saves \$2,000 per year for six years, and never puts another penny into her IRA after six years. Jason spends his \$2,000 per year for six years. After that time, he invests \$2,000 per year until he is 65 years old. Jason earns the same 12% interest per year as Mandy.

This chart shows the value of Mandy's and Jason's respective IRAs, from the time they are 22 years old all the way to 65.

Remember: Mandy's total investment is \$12,000 (\$2,000 per year for the first six years), while Jason's is \$74,000 (\$2,000 per year for the last 37 years). Even though Mandy invested much less, they both ended up with the same amount of money. Are you surprised? Saving and investing early can make a huge difference in how much you earn on the amount that you invest!

Age	Mandy	Investment	Jason	Investment
22	\$2,240	\$2,000	\$0	\$0
23	\$4,509	\$2,000	\$0	\$0
24	\$7,050	\$2,000	\$0	\$0
25	\$9,896	\$2,000	\$0	\$0
26	\$13,083	\$2,000	\$0	\$0
27	\$16,653	\$2,000	\$0	\$0
28	\$18,652	\$0	\$2,240	\$2,000
29	\$20,890	\$0	\$4,509	\$2,000
30	\$23,397	\$0	\$7,050	\$2,000
35	\$41,233	\$0	\$25,130	\$2,000
40	\$72,667	\$0	\$56,993	\$2,000
45	\$128,064	\$0	\$113,147	\$2,000
50	\$225,692	\$0	\$212,598	\$2,000
55	\$397,746	\$0	\$386,516	\$2,000
60	\$700,965	\$0	\$693,879	\$2,000
65	\$1,235,557	\$0	\$1,235,339	\$2,000

Compound vs. simple interest

There are two basic kinds of interest: simple and compound. Simple interest is calculated on the original principal (the amount you put in) only. Compound interest is calculated each period on the original principal and all interest accumulated during past periods. The interest earned in each period is added to the principal of the previous period to become the principal for the next period.

Here's a table that shows 10 percent interest earned on an initial \$100 investment. Compare the two total columns. As you can see, after five years earning simple interest, you'll have \$150. However, after five years with interest compounded annually, you'll have \$161.

Year	Simple Interest Adds	Total Saving Simple Interest	Compound Interest Adds	Total Saving Using Compound Interest
1	\$10	\$110	\$10	\$110
2	\$10	\$120	\$11	\$121
3	\$10	\$130	\$12	\$133
4	\$10	\$140	\$13	\$146
5	\$10	\$150	\$15	\$161

The importance of the interest rate

How important is finding a good interest rate? Very important! The Rule of 72 is a simple way to illustrate the importance of interest rates. You can use the Rule of 72 to figure out how long it will take to double your money based on your interest rate, which is also called the rate of return on your investment.

Here's how it works – just divide 72 by the interest rate you expect to earn on your investment. Remember, this calculation assumes that you will leave all of the earned interest in the investment. 72 divided by the rate of interest being paid = the number of years it will take for your money to double when interest is compounded.

So, given the rule of 72, how long will it take an investment to double if it has a 10% interest rate and the interest is compounded?

$$72 / 10 = 7.2 \text{ years}$$

It will take an investment with compound interest at 10% 7.2 years to double.



IMPORTANT EXERCISE: Rule of 72

How long will it take Jen to double her savings at Bank A where she can earn 2.5% interest?

Answer:

How many years will it take Raul to double his money at Credit Union B where he can earn 4% interest?

Answer:

How quickly can Carla double her money in an investment where she can earn 6% interest?

Answer:

Understanding risk

Risk is the possibility that an investment will lose value and is a fundamental part of investing. Stock markets plunge. Companies go bankrupt. And there are countless other less dramatic ways to lose money. There's even risk in doing nothing. Because of inflation, money left in a savings account has to earn interest at least at the rate of inflation in order to have the same buying power. To earn the highest returns, investors must assume a certain amount of risk. To minimize risk, investors must accept lower possible returns.

There are five major financial risks:

Market risk	The risk that the stock market will go down and the value of your investment, will go down with it.
Financial risk	The risk that companies can go bankrupt. If you have invested in a company that goes bankrupt, you will likely not get all, or maybe any, of your money back.
Purchasing power or inflation risk	The risk that your investments won't earn more than the rate of inflation. This means that you don't earn enough on your money to keep pace with the amount that the costs of goods and services are rising. You are essentially losing money because your money doesn't buy as much as it did when you invested it.
Interest rate risk	<p>A more complicated concept, but an example will help. Say you buy a \$1,000 bond (or a CD) that pays 5% per year for 10 years. If you hold the bond for 10 years at simple interest, you will get your 5% payment each year and the \$10,000 back at the end of 10 years.</p> <p>If you need the money within five years and the going interest rate at that time has gone up to 7%, nobody is going to want to pay you \$10,000 for that 5% bond when they could earn 7% on other bonds. So, you must sell the bond at a price that will make the annual return to the new owner equal to 7% per year. You must sell your bond at a discount and take a loss.</p>
Fraud risk	The risk that someone is lying to you. Some investments are misrepresented. Therefore, it is important to investigate before you invest. A financial professional, like a Certified Financial Planner, can be a great resource to help you research and understand investments.



IMPORTANT EXERCISE: Risky Business

Directions: Consider the financial risk involved with each saving or investing activity and select the correct answer. Check as many answers as appropriate.

1. Keeping your money under your mattress involves the following risk:

- A. Market Risk
- B. Purchasing Power or Inflation Risk
- C. Fraud Risk

2. Investing in your Uncle's new coffee shop involves the following risk:

- A. Financial Risk
- B. Market Risk
- C. Interest Rate Risk

3. Investing in the stock market involves the following risk:

- A. Interest Rate Risk
- B. Financial Risk
- C. Market Risk

GOOD QUESTION:
What kind of risk taker am I?

GOOD QUESTION:
Do I have a low, medium or high tolerance for risk?

Common savings products

Finding the right product that matches your short-term savings objectives should be easy. There are four common products to choose from that offer low risk.

Savings Accounts

Savings accounts are often the first financial product people use. Most have a relatively low interest rate (usually at or below 1%). There are also tax-advantaged 529 college savings plans students can use for qualified higher education expenses. We'll discuss more on this in the Paying for College section.

Certificates of Deposit

Certificates of deposit are often referred to as a "CD." This is a specialized deposit made at a bank or other financial institution. Savers place their money in the bank for a specified period of time—usually several months or years—and the bank promises to pay a certain rate of return or interest. The money must be left in the CD for the entire specified time or a penalty fee for early withdrawal is charged. The rate of return is usually higher than that paid for a savings account.

Money-Market Funds

Money-market funds are specialized funds that invest in extremely short-term bonds. These funds usually pay a slightly higher interest rate than a savings account, but often less than a certificate of deposit (CD). Because a money-market fund invests in things that are guaranteed by the U.S. government, it is low risk.

Series EE Savings Bonds

Series EE Savings bonds are issued by the federal government. They can be bought for as little as \$25 and never lose their value. The interest earned doesn't change and is exempt from state and local income tax. The money is tied up for five years and there is a penalty if you redeem the bonds early.

How to open a savings account

Banks and credit unions will be happy to help you open an account so you can begin saving today. You can trust that your money will be safe in a savings account because the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) insure bank or credit union deposits up to \$250,000 per account. To make sure that an account is FDIC or NCUA insured, ask the bank or credit union.

When you decide to open your account, you'll need to bring your identification, some additional documents and information, and your first deposit. Not all banks or credit unions accept the same forms of identification or documentation, so it's a good idea to ask them beforehand what you'll need to open an account. If you are under the age of 18, you will probably need to have a parent or guardian sign on the account. The parent or guardian will need the same forms of identification.

You'll usually need:

- ✓ Valid photo ID (Driver's License, State Issued ID, Passport, Green Card, Matricula Consular Card)
- ✓ Taxpayer Information (Social Security Number, Taxpayer ID Number)
- ✓ Personal Information (Date of Birth, Address, Phone Number, Mother's Maiden Name)
- ✓ Money with which to open your account (Banks and credit unions usually have a minimum amount required for an initial deposit)

Common investment products

The problem with leaving money in a savings account is that the return (the amount of money that you make) is very low. The money is safe in the short-term because it is usually insured against loss. As a result, most people use savings accounts for money they need in the short-term—to pay monthly bills for example, for their emergency funds or to build up an amount of money to invest. After building up savings, they turn to investments with hopes of making their money grow faster.

The three most common investment products are:

Stock

A stock represents a share of ownership in a company. People who own stock are considered shareholders, or stockholders, in the company. Investors make money from a stock in two ways. The first is by receiving a dividend. A dividend is a payment from the earnings of the corporation. When a company is profitable, it can decide whether or not to pay their shareholders some of the earnings in the form of dividends. The other way to make money is by selling stock when the stock price goes up. This is how most people make money from owning stock—they are making money because they are paid more when they sell the stock than they paid when they bought it. The price of a stock will go up when there are more people who want to buy the stock (demand) than there are people who want to sell it (supply).

Mutual Funds

Mutual funds allow people to invest in stocks without doing all the homework necessary to pick individual companies. They're also a good option for people who don't have enough money to invest in the number of stocks necessary to achieve diversification. Diversification is a financial strategy to reduce risk by investing in several different companies or types of investments. Along with the chance to share in the gains from a fund, mutual fund investors also pay a share of the management fees and expenses, generally between 0.5% and 2% annually.

Bonds

Corporations and governments, like people, sometimes need to borrow money. If you buy a bond, you are lending money to these corporations or governments. As a bond investor, you pay a set amount of money, and the issuer, like the government or corporation, promises to pay it all back to you on a certain date with a set amount of interest. Bonds are known as fixed-income securities because the amount of income the bond will generate each year is "fixed" (or set) when the bond is sold. Investors know in advance how much they will be paid and how often, as well as when the original investment will be paid back. The longer it takes for a bond to pay off or mature, the greater the risk that inflation will reduce the value of their money before they get it back. That is why bonds often pay a higher rate of interest than CD's, savings accounts, or money-market accounts and longer-term bonds generally pay a higher rate than shorter-term bonds.



RULE OF THUMB

**One important rule of thumb when you are considering an investment:
If it sounds too good to be true, it is!**

As you've discovered, saving and investing are important pieces of your financial plan that require attention over your lifetime. Your short- and long-term financial stability depends on how clear and disciplined you are with your saving and investment plans. From emergencies to retirement, a strong savings and investment plan will make your life easier financially and otherwise.

Your knowledge and decision-making help determine your saving and investing ability. Understanding compound and simple interest, risk, and various investment vehicles is a guide for your future.



LESSONS LEARNED

1. **Your money history affects how you think and act about saving and investing.**
2. **If you are a young adult, time is on your side and you can benefit from starting to save NOW, especially with compound interest.**
3. **It pays to evaluate the risks of savings and investment options.**
4. **There are a variety of saving and investment tools that you can consider depending on your financial goals.**
5. **Saving and investing can be achieved by anyone, regardless of income—the key is to start saving as much as you can afford right now and make saving a habit.**

So What? Now What?

How can you use this information to start saving your money and eventually investing it? Take a moment to think seriously about what you can do today, next week, or next month to reach your financial goals and then write it down:

SAVING AND INVESTING RESOURCES

Financial Planners
www.cofpa.org

Securities Exchange Commission (SEC)
www.sec.gov/investor.shtml

CollegInvest 529 College Savings Plans
www.collegeinvest.org

*For more great resources,
visit www.educationcents.org/resources*

CREDIT

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Explain the advantages and disadvantages of using credit
2. Understand the three Cs of credit
3. Recognize the importance of a good credit history
4. Understand the difference between good and bad debt



Credit has many meanings in our lives...credit for classes we take in school, credit for doing a good job, credit on our accounts when we pay more than we owe. This section is about credit as the confidence others have in your ability and intention to pay which they demonstrate by

GOOD QUESTIONS:

Have you ever lent someone money? If so, what factors did you take into consideration?

letting you buy goods or services without paying for them right away.

TERMS TO KNOW



Amortization	Depreciating Asset
Annual Fee	Down Payment
Annual Percentage Rate (APR)	Fixed Interest
Application Fee	Forbearance
Balance Transfers	Garnish
Bankruptcy	Grace Period
Collateral	Interest
Convenience Check	Penalty APR
Credit History	Pre-Payment Penalty
Credit Score	Term
Deferment	Variable Interest

Wow! Think about it! Someone you've never met trusting that you will pay for something of value later just because you have credit! That can be very powerful—if you use it wisely. Understanding credit and managing credit correctly can make that confidence others have in you a permanent part of your life!

Pros and cons of using credit

If you have ever taken out a loan to buy something—a car, for example—you were given credit. Credit means you are using someone else's money to pay for things. It also means you are making a promise to repay the money (the loan) to the person or company that loaned you the money (the creditor or lender). Credit is not free money! When you borrow money, you are responsible for paying back the original amount you borrowed, plus interest. The lender determines the rate of interest to charge you. Believe it or not, everyone is not charged the same interest rate—we'll explain some of the factors involved in determining interest rates in just a few minutes. In addition to the interest rate, there may be additional fees that you will be expected to pay.



IMPORTANT EXERCISE: Pros and Cons of Credit

Directions: Take a moment to think about the advantages and disadvantages of using credit. Write your thoughts in the appropriate column:

Advantages	Disadvantages

Credit provides you with financial flexibility; you can make purchases by phone or online, and if you have an emergency, you can purchase the needed items now and pay later. Carrying a small plastic card is usually safer than carrying a big wad of cash when you are making a large purchase. Probably one of the most important reasons to use credit, particularly a credit card, is to build a good credit history. Having a good credit history will allow you in the future to buy a car, a house or even get the job you want.

On the other hand, when you use credit, you may pay more than the actual purchase price of the items. The cost of using credit may include interest, late fees, and annual fees. It's also possible that you will buy more when you use credit.

Credit terms

Using credit requires an understanding of a whole new set of terms. It's important to be an informed user of credit and learning the language will help you make good decisions about credit. Be sure to review any of the terms that are unfamiliar to you in the **glossary** at the end of this guide.

Credit worthiness

The Three Cs – Lenders look at three key factors when deciding whether to allow you to borrow money.

1	Character	Have you used credit before and paid previous bills on time?
2	Capital	What is your income and what do you own of value that could be used to repay a loan? Sometimes lenders will ask for collateral for a loan. Collateral is something of value that the borrower uses to secure a loan. This means the lender can take possession of the collateral if the borrower cannot pay back the loan.
3	Capacity	Do you have a job or other source of income with which to make payments? Do you have other debts that you will need to manage along with this new credit?



WORDS OF WISDOM

Used wisely, credit cards can offer convenience and flexibility, but if you're not careful credit card use can throw your financial goals off track quickly! Managing your credit card use can help prevent soaring account balances and extra interest payments.

GOOD QUESTION:

Should people be entitled to as much credit as they want?

The way you handle credit is recorded in your credit report. If you seldom pay on time, spend over your credit limit, or have little that can be used to ensure a creditor that you can pay them back, you will be considered a poor credit risk. If you have poor credit, that doesn't always mean you will not get any credit. It may mean, however, that you will have to pay a lot higher interest which makes the amount you pay back and your monthly payment higher than you may be able to afford.



IMPORTANT EXERCISE: What's Your Credit Attitude?

Directions: We all have an opinion about credit. Some people think cash is the only way to go, others think using credit is the best way. Still others think it makes sense to use cash and credit, depending on the situation. Take a moment to read through the statements below and think about how you feel about credit.

	Strongly Agree	Agree	Disagree	Strongly Disagree
People spend more money when they use credit.				
It's always better to pay cash.				
Having a credit card would be cool.				
Saving up for something makes more sense than borrowing to buy it.				
Having credit is a big responsibility.				

Credit scores

A credit score is used to predict how likely a person is to repay a new loan based on information in his/her credit report. Usually, when lenders talk about "your score," they mean the FICO® score developed by Fair Isaac Corporation. Other different computer models may be used, too. These models add up points for each piece of information of a credit report based on their experience with millions of consumers. For example, making payments on time every month is positive and will improve the score. Charging above the maximum amount on a credit card is negative and will lower the score. The two factors that carry the most weight in calculating your credit score are on-time payments and how much available credit you have actually used.

The most widely used credit scoring model ranges scores from 300 to 850; the higher the number, the better. In addition, each creditor decides what credit score range it considers a good risk or a poor risk. Most lenders consider a score below 640 to be a poor risk.

If the creditor has told you that you have a poor credit score and turned you down or offered you a higher interest rate than you were expecting, there are steps you can take. First, you have the right to request a written explanation from the lender and the lender is obligated to give you your credit score. Then, you can make a plan to begin to address these issues.

Remember the lender, not your credit score, makes the final decision to approve a loan application. A credit score is simply a tool used by the lender. The lender may take into consideration any special reasons for your past credit problems. In addition, the lender will look at more than just your credit score—such as the value of property you own, job history, income, savings, and the type of loan you want—before making a final decision. Credit scores may not consider your race, color, religion, national origin, sex and marital status, and whether you receive public assistance.

Building your credit

Here are a number of ways you can build your credit score:

✓ Open a bank account	✓ Maintain good standing on your student loan
✓ Open one credit card with a bank and pay the entire balance every month	✓ Pay bills on time (even library fines and unpaid parking tickets can affect your credit)
✓ Avoid specialty or store-specific cards like those offered by department stores	✓ Never miss a payment
✓ Keep one credit card open for a long time	✓ Stay well under your credit limit—use less than half of your available credit

✓ Perhaps the most important tip for building good credit is: only charge what you can afford to repay!

Good debt, bad debt

Debt is a complex concept. Not all of it is good—in fact a significant number of people fail to realize until they're in over their heads—and yet not all of it is bad. When used intelligently, debt can help build wealth. An important money management skill is to understand the difference between good debt and bad debt.

Good debt

It's true that you run a financial risk when you borrow money, but with good debt, your financial risk is low and your chances of making money are high. Good debt is loosely defined as debt that brings some form of long-term benefit to the consumer: Good debt is purchasing an asset that will appreciate or increase in value. For example, most Americans create much of their wealth by buying a home. Traditionally, homes increase in value so a home mortgage is good debt because it's debt that makes you money. When your home value appreciates, you're getting an increase in value based on the purchase price of your home.

Another type of good debt is when you invest in yourself. A student loan can be good debt because when you complete your education and training, you have the potential for a higher paying job. Because you earn more, you're better able to repay your loan and—in the long run—you have the potential to make more money.

According to the U.S. Census Bureau, in 2008, the typical full-time year-round worker in the United States with a four-year college degree earned \$68,172, that's 58 percent more than the \$39,780 earned by the typical full-time year-round worker with a high school diploma. You can see that a college degree can really pay off financially.



ARE STUDENT LOANS GOOD DEBT?

Borrowing federal student loans for higher education expenses is an investment in yourself. However, just as with any investment, it's important to think about the return on your investment—or what you'll get for the money you're borrowing and the interest you're paying. A good rule of thumb is to borrow no more than what you think your first year's salary will be after graduation. For more specific calculations, check out College In Colorado's SLOPE calculator.

When you're thinking about borrowing for higher education, keep in mind...

- ✓ Federal student loans can accelerate your credit score—either helping you build credit quickly or tear down your credit quickly if you don't manage them well.
- ✓ Student loans are considered financial aid, but they must be paid back. The consequences of not paying back your student loans are very serious, including the government garnishing tax refunds and wages. Student loans cannot be forgiven in bankruptcy.
- ✓ If you borrow a student loan and you have trouble paying it back, be sure to get in touch with your lender right away! There are lots of options to help you get back on track, including different repayment schedules, loan forgiveness programs and forbearance and deferment options, which means that you can put your payments on hold for a period of time. But the sooner you get in touch with the lender, the better!

Bad debt

Bad debt is when you borrow for things that immediately go down in value or will likely go down in value. You can probably find good examples of bad debt on your credit card statement—eating out, entertainment, travel, clothing, and most household items. If you'd like to see how quickly many of your purchases decline in value, visit local flea markets or garage sales. You'll find that many of your purchases are nearly valueless within moments of purchase.

If you charged these items, and you're maintaining a credit card balance that you don't pay off every month, you're actually paying considerably more for stuff that's losing value by the day. These things are often called depreciating assets because their value goes down, or depreciates. One very common depreciating asset is a brand new car, which usually loses value immediately after you purchase it because it becomes a "used" or "pre-owned" car. Few people can afford to buy a car without using credit, but it's important to think about how much debt you can afford to carry on a depreciating asset—a pre-owned or lower cost vehicle might be a better option than a high amount of debt.

GOOD QUESTION:
Are you credit ready?



If you find yourself showing indicators of debt distress, there are many things you can do. Even if you aren't in debt trouble, but you are having trouble saving for something you want, it might be helpful to [check out the debt reduction tools on the Education Cents website](#).

Debt distress

Bad debt can begin to take its toll if you are not paying attention. Here are some common signs of debt distress:

- *Being unaware of your total amount of debt.*
- *Being unable to make payments consistently.*
- *Using high interest credit cards to pay day-to-day expenses.*
- *Using credit cards for a source of cash—at extremely high interest rates.*
- *Being harassed by creditors for late or lack of payments.*
- *Relying more and more upon credit cards for expenses.*
- *Having wages garnished (or taken) by creditors you owe and have not paid back.*
- *Losing options—having to choose work over education—that is, sacrificing future opportunities for present demands.*

If you feel like you need someone to rescue you from debt, please be careful. Stay away from "credit repair" companies. Legitimate, nonprofit, community-based counseling organizations provide a much-needed service to people who are having credit problems. Don't confuse the organizations with so-called credit repair companies that offer to fix your credit history for a fee. It can't be done. Honest, no one can repair your credit. Only you can repair your bad credit by repaying your debts and paying your current bills on time.

GOOD QUESTION:
Are you committed to using credit wisely?

Negative aspects of bankruptcy

If you're not successful managing your debts, bankruptcy might sound like a great way to "just start all over again" with all your debts wiped away. **But we offer a word of caution:**

THE CONSEQUENCES OF BANKRUPTCY ARE SEVERE



A bankruptcy statement will generally show up on your credit report for 10 years. This indicates that you had problems paying your debts in the past and lenders are much less likely to give you a loan or a credit card.



Bankruptcy does not forgive all debts. For example, it does not forgive alimony, child support, property settlements between spouses, federal student loans, court restitution orders, criminal fines and certain taxes.



Bankruptcy is part of the public record and many employers check the credit report of potential employees. While it is against the law to discriminate against a person who has filed for bankruptcy, an employer can check to see how the person handles personal finances.



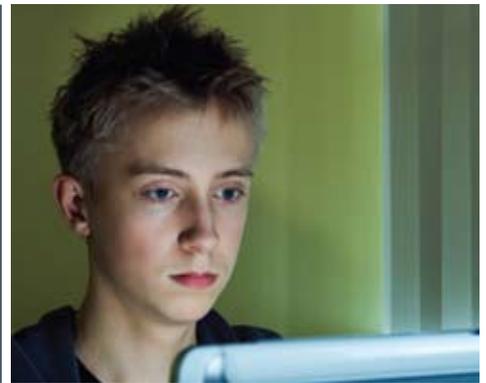
If you file bankruptcy, you will have a difficult time getting a new credit card or loan.

IDENTITY THEFT

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Define identity theft
2. Understand how identity theft occurs
3. Explain ways to prevent identity theft
4. Discuss what to do if you are a victim



TERMS TO KNOW



Phishing

Pre-texting

Identity theft is a popular topic these days and for good reason. It's a big problem for people of all ages, geographies and income levels.

Students are particularly vulnerable because they don't think they are likely targets since they generally do not have a lot of money. Identity thieves don't steal your money; they steal your name and reputation and use them for their own financial gain. They attempt to steal your future! An identity thief literally steals who you are, and it can seriously jeopardize your financial future.



What is identity theft

Identity theft is a federal crime. It occurs when one person's identification (which can include full name, birth date, Social Security Number, address, phone number, any account number or other personal information) is used or transferred by another person for unlawful activities. When someone steals your identity it can ruin your credit score, get you in trouble with the Internal Revenue Service (IRS), cost you time and money to fix, and even create a whole, separate "you."

GOOD QUESTION:

What would you do if you discovered someone was using your personal information for his/her personal gain?

GOOD QUESTION:

What if that person was someone you knew, like a friend or a family member?

How it happens

Four out of five victims have no idea how an identity thief got their personal information. It can happen quickly and because of something as simple as throwing away a document with personal information. Here are some of the more common ways that identity thieves work:

	Mail	Mail can be stolen from your home mailbox, from a postal service mail drop-box, at businesses, and even directly from postal workers.
	Stolen Wallet	Many identify theft victims believe that the identity theft occurred when their purses or wallets were stolen or lost.
	Dumpster Diving	Thieves also steal identities from the trash—this is called "dumpster diving." It can occur at home or at a business.
	Pre-texting	The thief contacts you through the mail, telephone, or e-mail, and attempts to get you to reveal your information, usually by asking you to "verify" some data.
	Phishing	A phisher sends an e-mail message to an unsuspecting victim instructing the recipient to click on the link to a bank's web site (provided in the e-mail) to confirm his account information. The link takes the victim to a convincing fake or copy of the real web site. The unsuspecting customer takes the bait and provides the information. The phisher steals the personal financial information.
	Social Networking Websites	Be careful not to disclose too much personal information on your social networking websites—sites like My Space, Facebook or Twitter. You may not know all of your "friends" as well as you think you do. An identity thief could access a friend's computer and steal your personal information.

How to prevent it

According to Javelin Strategy and Research, in 2009 stolen wallets and physical paperwork accounted for almost half (43%) of all identity theft. So, what's in your wallet?

What **SHOULD** be in your wallet or purse:

✓	Driver's license or other form of state issued identification
✓	One or two credit/debit cards for that day (don't write PINs on back)
✓	Any other personal identification document you need that day only

What **SHOULD NOT** be in your wallet or purse: (unless you need the item that day)

✗	Passport	✗	Passwords or personal identification numbers (PINs)
✗	Social Security card	✗	Account numbers
✗	Any form of identification containing your Social Security Number	✗	Health insurance cards
✗	Extra credit and debit cards	✗	Store loyalty cards
✗	Checks	✗	Any other personal identification document you don't need that day

What to do if you are a victim

It can take up to **5,840 hours** (the equivalent of working a full-time job for two years) to correct the damage from identity theft, depending on the severity of the case (ITRC Aftermath Study, 2004). So you need to act quickly when you discover you are a victim of identity theft!

Unfortunately, you'll have to do a lot of the legwork in your identity theft investigation. There will be many agencies to contact and they're all important.

Here is a list of the agencies you will need to contact.

- ✓ Police
- ✓ The three credit bureaus
- ✓ Your credit card company
- ✓ Your bank or credit union
- ✓ Government authorities

PAYING FOR COLLEGE

FINANCIAL CENTS:

Upon completing this section you will be able to:

1. Practice being a smart consumer of higher education
2. Start saving for higher education
3. Understand the financial aid process
4. Follow a college planning timeline



Getting an education past high school at a trade school, community college, or university will change your life positively in almost all areas: your health, your wealth, your lifetime earnings, your feelings of well being, and even your life span.

TERMS TO KNOW



529 College Savings Plan

College Opportunity Fund (COF)

Free Application for Federal Student Aid (FAFSA)

Grant

Scholarship

Work-Study

Smart consumer

Choosing a college is an important decision. You want to find the college that fits your unique needs, talents, and ambitions. However, the cost of your education is important too. Education is an investment in yourself and you want to be sure that you're investing wisely—and considering all of your expenses. For example, you will want to think about housing, transportation, and living expenses in addition to tuition, books and supplies.

Use student loans wisely

Part of being a smart consumer of higher education is determining whether you'll be able to comfortably repay any student loans that you'll need to borrow. Experts advise that debt repayment costs ideally make up 10 percent or less of your income. If you know what fields you might want to pursue after you graduate from college, even if you have a few that you're considering, you can use College In Colorado's SLOPE calculator at www.collegeincolorado.org to find out how much you can comfortably borrow in student loans based on your expected starting salary.

Don't forget that if you charge on a credit card or borrow from family to attend college, those loans will need to be repaid as well. Also, most federal student loans have lower interest rates than other loans or credit cards and offer repayment options that may be helpful when it's time to start paying back the loan. If you're planning to borrow, always consider federal loans first!

Tips for Stretching Your College Dollars

1. Go to your local community college for your first two years.
2. Consider an in-state publicly supported school because tuition is usually less than at private or out-of-state schools.
3. Get a part-time job or work-study on campus so that you don't have to borrow as much in student loans and you may be able to pay as you go.

Saving

Saving for college is important because it sets up an expectation of college. By saving for higher education, you are showing your family or yourself that you are really going to college. Making that plan ahead of time can be a very powerful motivator.

Compare savings options

When comparing college savings vehicles, there are many features and options to consider. Here are a few things to think about before you dive in to a college savings plan:

1. How convenient and accessible do you want your money for college to be?
2. What are the minimum and maximum deposit levels?
3. What are the balance requirements?
4. Are there penalties for early or non-qualified withdrawals?
5. Who will own the account – the person going to college or the person contributing the money?
6. Are there fees for transferring money to other accounts?
7. Are there service charges?

529 college savings plans

Experts agree 529 college savings plans are one of the best ways to save for college. Created by the federal government to encourage families to prepare for the expense of college, 529 plans reward investors with important benefits. 529 plans are more than just savings accounts. They offer tax benefits you can't get from other ways to save.

- Your savings grow tax-free
- You can use your savings at colleges nationwide

Colorado's 529 college saving program from Collegenest

Collegenest 529 College Savings Plans offer unique tax benefits, including a Colorado state income tax deduction for Colorado residents, tax-deferred growth, and tax-free withdrawals when funds are used for qualified higher education expenses.

Collegenest offers a variety of options, from growth-oriented equity options to more conservative fixed income options. We help deliver a plan that works for you. Collegenest is the only 529 program that qualifies for a Colorado State income tax deduction. As a Colorado resident, every dollar you contribute

to any of our 529 plans can be deducted from your Colorado State taxable income.

You can open an account with as little as \$25 and contribute \$15 or more as often as you choose.

To learn about Collegenest's 529 program, its objectives, risks, charges, limitations, restrictions and qualifications regarding the Plans' benefits and potential tax advantages, please read the Program Disclosure Statements (PDS) available at www.collegenest.org. Also, check with your home state to learn if it offers tax or other benefits for investing in its own plan. Administered and Issued by Collegenest.

Financial aid

Paying for college starts at home—with you and your family. There are options to help students and families afford an education. These options are called “financial aid” and help make college a reality for millions of students each year. Most undergraduate students receive some kind of financial aid. Financial aid is available for full-time and part-time students. If you are planning to go to college in the fall, you should apply for financial aid in January or early February of the same year. You don't need to wait until you've decided where you're going to school. Schools can run out of financial aid and much is given on a first-come, first-served basis. So the earlier you apply the better!

Financial aid is money that is given, borrowed, or earned to pay for college. This money comes in the form of grants, scholarships, work-study jobs and loans. Most of it is awarded based on financial need but some of it comes in the form of scholarships based on merit.

Who's eligible?

All students are eligible for some type of financial aid if they meet the following requirements:

- ✓ Are a U.S. citizen or eligible non-citizen
- ✓ Have a valid Social Security Number
- ✓ Comply with Selective Service registration if male, age 18-25
- ✓ Have a high school diploma or a General Education Development (GED) Certificate or pass an approved ability-to-benefit (ATB) test
- ✓ Be enrolled or accepted for enrollment as a regular student working toward a degree or certificate in an eligible program at a school that participates in federal student aid programs

Free Application for Federal Student Aid (FAFSA)

The FAFSA is the first step to getting financial assistance for college. The FAFSA is the link between you and your financial aid. It helps the financial aid office at your college understand your family's financial picture. Plan to fill it out every year you want to be considered for aid. Once you get the hang of it, it's not that bad! FAFSA is FREE and is the universal application for financial aid at all eligible colleges and universities. It is available to complete on-line in English or Spanish.

College Opportunity Fund (COF)

While COF is not considered financial aid, it's a way for in-state students to get a break on tuition at Colorado state schools. All Colorado residents who attend a public college or university are eligible for this stipend. But, you **must register** for it. You only need to register once and you can do it anytime after your 13th birthday. Because COF is not financial aid, students who meet residency eligibility requirements will receive it regardless of income or academics.

Award notifications

Schools will send you award notifications showing how much and what types of aid they are able to award you. After you receive these notifications from each of the schools, compare them to better understand your true out-of-pocket cost for attending each school.

GOOD QUESTION:

How important is college for your financial future?



Check out the "Compare Award Packages" tool at www.educationcents.org.

Financial aid time line

This is a general progression of events related to the financial aid process. It can begin as early as a student's sophomore or junior year. The earlier you start planning for paying for your college education, the better your chances are at acquiring the maximum aid you need.

- Apply for the College Opportunity Fund
- Attend a financial aid workshop – ask your high school counselor when your school will offer these
- Complete the FAFSA4caster to get a head start
- Begin scholarship search – NEVER pay for a scholarship search
- Check financial aid deadlines at schools where you plan to apply

- Apply for scholarships
- Double-check college admissions applications and deadlines
- Complete the FAFSA as close to January 1st as possible
- Meet financial aid priority deadlines
- Compare award letters from colleges
- Sign and return your award notification or financial aid package by the deadline set by the college

Sophomore Year



Junior Year

Senior Year



Higher education is the most direct, and in some cases, the only path to achieve higher financial goals. Any education after high school will increase your career opportunities and therefore your potential income levels. It is important to shop around and compare price tags or the cost of attendance for each institution to which you are interested in applying. Most importantly, remember that your investment in higher education will pay off the most when you complete a degree. Students, who leave their higher education program without completing it, are still responsible for any debt they incurred while in school. If you begin college or vocational school, be sure to finish your degree. Otherwise, you'll owe on any debts you incurred without getting the benefit of the degree or certificate. Completing your program is the best way to pay off your investment!

GLOSSARY

529 College Savings Plan	These state-sponsored college savings plans were established by the federal government in Section 529 of the Internal Revenue Code to encourage families to save more for college. They have important benefits you can't get from other savings plans, making them one of the best ways to save for college.
Ammortization	Process that calculates the monthly loan payment you'll have for a loan. This will include interest and the principal outstanding balance, along with a defined length of time (usually 24, 36 or 48 months).
Annual Fee	A fee charged on an annual basis by the credit card issuer to the cardholder to help cover the cost of maintaining the cardholder's account.
Annual Percentage Rate (APR)	The percentage cost of credit on an annual basis, which must be disclosed by law.
Application Fee	A fee charged by a credit card company, bank/credit union, or other lender for processing your application for credit.
Balance Transfers	The transferral of an outstanding balance from one credit card to another credit card account. Typically people do this to receive a lower interest rate on their outstanding balance - transferring from a higher interest rate credit card to a lower interest rate credit card.
Bankruptcy	A state of being legally released from the obligation to repay some or all debt in exchange for the forced loss of certain assets. A court's determination of personal bankruptcy remains in a consumer's credit record for 10 years.
Bonds	Certificates representing the purchaser's agreement to lend a business or government money on the promise that the debt will be paid—with interest—at a specific time.
Budget	1) A spending plan. 2) A record of projected and actual income and expenses over a period.
Cognitive Behavioral Therapy	A branch of psychology concerned with mental processes (perception, thinking, learning and memory) that are connected to sensory stimulation and the overt expression of behavior.
Collateral	Property that a borrower promises to give up to a lender in case of default.
College Opportunity Fund (COF)	All Colorado residents who attend a public college or university are eligible for this stipend. But, you must register for it. For more info and to sign up, visit www.collegeincolorado.org .
Compound Interest	Interest credited daily, monthly, quarterly, semi-annually, or annually on both principal and preciously credited interest.
Consumerism	The theory that an increasing consumption of goods is economically beneficial.
Convenience Check	A check that works like a personal check except the amount is charged as a cash advance to your credit card account.
Correlation	A reciprocal relation between two or more things.
Credit History	The past records of how a person pays his/her credit and who has extended him/her credit.
Credit Score	A statistical measure of a loan applicant's creditworthiness, which indicates the likelihood of repayment.
Deferment	A postponement of repayment under various, specific circumstances.
Depreciating Asset	An asset with a limited effective life that can reasonably be expected to decline in value over the time it is used.
Diversification	A strategy for reducing some types of risk by selecting a wide variety of investments.
Dividends	Earnings from corporate stock or credit union share accounts.
Down Payment	A payment representing a fraction of the price of something being purchased, made to secure the right to continue making payments towards that purchase.
Earned Income	Earnings from employment, including commissions and tips.
Expenses	The cost of goods and services, including those that are fixed (such as rent and auto loan payments) and those that are variable (such as food, clothing, and entertainment).

Financial Planning	The long-term process of wisely managing your finances so you can achieve your goals and dreams, while at the same time negotiating the financial barriers that inevitably arise in every stage of life.
Financial Professional	A person who provides financial information and advice. Examples include employee benefits staff, bank and credit union employees, credit counselors, brokers, financial planners, accountants, insurance agents, and attorneys.
Fixed Interest	A fixed interest rate loan will carry the same interest rate for the life of the loan. A fixed interest rate will not vary based on market conditions.
Forbearance	Similar to a deferment, a lender may grant a borrower a forbearance in certain circumstances, which would delay payment of their loan, lower the payment amount or allow interest-only payments. Such circumstances include, serving in a national service position or economic hardship. Parent PLUS loan borrowers may be granted forbearance while their children are enrolled in college at least half time.
Free Application for Federal Student Aid (FAFSA)	The first step in getting aid for college, this free application will ask for demographic and financial information to determine the family EFC. Colleges use the results of the FAFSA to award aid.
Garnish	A court-sanctioned procedure that sets aside a portion of an employee's wages to pay a financial obligation.
Grace Period	A time during which a borrower can pay the full balance of credit due and not incur finance charges or pay an insurance premium without penalty.
Grant	Awarded based on need or merit, grants do not need to be repaid. Grants come from federal and state governments, colleges and even private companies or organizations.
Gratification	The pleasurable emotional reaction of happiness in response to a fulfillment of a desire or the fulfillment of a goal.
Gross Pay	Wages or salary before deductions for taxes and other purposes.
Income	Money earned from investments and employment.
Inflation	An overall rise in the price of goods and services; the opposite of the less common deflation.
Insurance	A risk management tool that protects an individual from specific financial losses under specific terms and premium payments, as described in a written policy document. Major types include: Auto, Health, Homeowners, Life.
Interest	1) Cost of borrowing money. 2) Earnings from lending money.
Investing	The act of purchasing securities such as stocks, bonds, and mutual funds with the goal of increasing wealth over time, but with the risk of loss.
Irrational Belief	An assertion, claim or expectation about reality that is false.
Liquidity	The quality of an asset that permits it to be converted quickly into cash without loss of value. For example, a mutual fund is more liquid than real estate.
Money Market Funds	Mutual funds that sell shares of ownership and uses the proceeds to purchase short-term, high-quality securities such as Treasury bills, negotiable certificates of deposit, and commercial paper.
Mutual Funds	Investment companies that pool money from shareholders and invest in a variety of securities, including stocks, bonds, and short-term money market assets.
Needs	Things we must have to survive.
Net pay	The amount of income after all deductions and taxes are paid. Often known as "take-home pay."
Opportunity Cost	The value of possible alternatives that a person gives up when making one choice instead of another; also known as a trade-off.
Penalty APR	Many credit cards charge a penalty APR for ANY misstep in using the credit card. For example, if you miss a payment or go over your credit limit, your APR may go from 15% to over 30%. A typical penalty APR is 30-35%.
Phishing	A type of deception which sends an e-mail to a user and pretending to be legitimate to scam the user into giving private information that will be used for identity theft. The e-mail tells the user to visit a website where they are asked to update personal information, such as passwords and credit cards, Social Security Numbers and bank account numbers.
Pre-payment Penalty	Some loans penalize you if you pay it off early. Check to see if a loan has this clause. You want to be able to pay off the loan early if you can—it saves you interest.

Pre-texting	A type of deception in which the deceiver pretends to be someone else to obtain private information.
Principal	1) An amount of money originally invested, excluding any interest or dividends. 2) An amount borrowed, or an outstanding loan balance.
Rational Belief	An assertion, claim or expectation about reality that is accurate and true.
Resources	1) A source of supply, support, or aid, esp. one that can be readily drawn upon when needed. 2) Available source of money; a new or reserve supply that can be drawn upon when needed.
Return	The amount earned on an investment, expressed as a percentage of the total investment.
Risk	A measure of the likelihood of loss or the uncertainty of an investment's rate of return.
Risk Management	The process of calculating risk and devising methods to minimize or manage loss, for example, by buying insurance or diversifying investments.
Risk Tolerance	The degree of uncertainty an investor can handle in regard to a negative change in the value of his or her portfolio.
Saving	The process of setting income aside for future spending. Saving provides ready cash for emergencies and short-term goals, and funds for investing.
Savings Account	A financial institution deposit account that pays interest and allows withdrawals.
Scarce	Insufficient to meet a demand or requirement; in short supply.
Scholarship	Awarded for a variety of reasons, often academic or athletic talent or other personal attributes or affiliations; scholarships do not need to be repaid.
Series EE Savings Bond	A savings which is a certificate representing a debt. A U.S. Savings Bond is a loan to the government. The government agrees to repay the amount borrowed, with interest, to the bondholder.
Simple Interest	Interest calculated periodically on loan principal or investment principal only, not on previously earned interest.
SMART Goal	A written goal that includes statementst that are S=Specific, M=Measurable, A=Attainable, R=Realistic and T=Time-bound.
Social Comparison	When people compare their personal attributes and abilities with those of others who are deemed to be socially better off.
Spending Plan	Another name for budget. (see <i>Budget</i>)
Stocks	An investment that represents shares of ownership of the assets and earnings of a corporation.
Term	The period of time between the beginning of a loan and the expected pay-off date.
Unearned Income	Earnings from sources other than employment, including investment returns and royalties.
Unit Price	Translation of a consumer product price into the cost per standard size or weight. Unit pricing helps the consumer to make price/value comparisons between brands. Unit prices are usually displayed on supermarket shelf tags along with the package price.
Variable Interest	An interest rate that fluctuates with market conditions. Loans with variable interest rates can have different interest rates (either higher or lower) at different periods in time.
Wants	Things we desire for enjoyment or to make life easier in some way.
Workers Compensation Insurance	A form of insurance that provides compensation medical care for employees who are injured in the course of employment.
Work-Study	If your school participates in work-study, you may be awarded financial assistance in the form of part-time employment on campus or at designated off campus sites. Work-study funds are earned by you to use toward the cost of your education and do not need to be repaid.



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