GREENPATH FINANCIAL WELLNESS SERIES

MONEY CONCEPTS FOR TEENS AND YOUNG ADULTS

"Empowering people to lead financially healthy lives."

East River FEDERAL CREDIT UNION

GreenPath™ financial wellness

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CHECK YOUR KNOWLEDGE

Look for this icon throughout the workbook for important information.

INTRODUCTION

Financial success is a lifelong endeavor with many goals to achieve along the way. Starting in elementary school, we learn the basics of money. By middle and high school, we may even start to earn some of our own money. How you handle money now will help pave the path for successful money management after you graduate.

Money Concepts for Teens and Young Adults starts by discussing fundamental financial planning concepts, like your first experience earning money, setting goals, and budgeting. The core of this booklet will then explore financial life after high school. They include options to pay for post high school education, how to reduce college costs, and budgeting once you enter the workforce. We will close with a review of beneficial credit and savings topics.

When you are in high school, it is so exciting to think about a future that includes having a full-time job, earning a real paycheck or having your own place. No matter how you get there-- through college or not-- having the fundamental financial planning concepts and tools in your back pocket will not only help you get started on the right foot, but can be used for a lifetime of financial success!

YOUR FIRST JOB!

You've hit the mall, scoured the want ads, turned in multiple job applications, gone on several interviews and finally landed your first job! It can be pretty exciting making money, making plans to spend that money, and having some financial independence from your parents. But you first need to understand some basic money management concepts. Let's start with your paycheck.

Your first two weeks of work are over and you're excited to see your paycheck. If this is your first job you might be in for a shock. In your mind, you might have calculated "if I earn $X amount an hour and I worked 20 hours, then my check should be $X multiplied by 20." But for some reason, your check is less than that amount. Before you go to your boss and complain, let's clear some things up.

The amount of money you can actually cash your check for is called net pay. This is your gross pay (hourly rate x hours worked) minus deductions. A deduction is any money taken out of your paycheck such as taxes and employment benefits.

Taxes that may be subtracted from your gross pay include the following:

- Federal income tax
- State income tax
- Social Security and Medicare tax, often listed as FICA
- Additional taxes such as city, special state taxes, etc.

Some common employment benefits are:

- Health/Dental/Vision insurance: Employees often have to cover part of these costs. Since you may be covered under your parents plan, you may not have to pay for these yet.
- Disability insurance: This covers you in the event that you become disabled while working.
- Retirement/Pension plan: You may be thinking "I am just in high school. I don't need to think about retirement." However, the earlier you start saving, the better off you will be. Some employers may put money aside for your retirement or may match what you contribute. We'll discuss retirement plans in more detail later.

Once you take all of these deductions into account, you will find that your net pay may be only 70 to 80 percent of your gross pay.

Now that you have earned this first paycheck, what are you going to do with it? It may be tempting to spend it right away. We challenge you to create a spending plan so you can think about what you really want to do with your money, which should include savings.

If you don't have a savings account yet, open one. Many banks and credit unions offer special accounts just for teens. You'll have a place to deposit some of your check, while still being able to get your hands on a little bit of the cash.

In order to know how much of your paycheck you should deposit versus spend, it helps to have some financial goals. Goals can be broken into short-term or long-term. Short-term goals typically are goals you want to achieve within 3-12 months, like having money for a concert at the end of the summer or for that new tablet. Long-term goals are something that may take you more than a year to accomplish, like saving for a new car, college or retirement. To be successful reaching your goals, you will want to make sure they are SMART!

- **S**pecific: this is the what, where, when, and how. The more specific you can be the better.
- **M**easurable: Determine how you can measure your progress.
- **A**ttainable: Good goals should be challenging, but not impossible.
- **R**ealistic or **R**elevant: Your goal should be something that matters to you.
- **T**imely: set a timeframe to accomplish your goal to help keep you focused.

Example: *"I will set aside $20 from each paycheck starting on June 15th, so that I have $100 by August 1st to buy concert tickets when they go on sale."*

Once you have your goals mapped out and how much money you need to set aside to achieve them, you can create a plan for the rest. This plan is called a budget. A budget is essentially money in versus money out. Expenses during your teen years may include:

- Money for goals
- Savings
- Gas money
- Food money
- Cell phone
- Entertainment
- Clothing
- Personal care items
- Charity/church/gifts

Keep in mind that the "money in" doesn't have to come strictly from your job. It would include any money that you get from an allowance, odd jobs, gifts, etc. When creating your budget, get your parents input as well. Now that you are working, they may have certain expectations about which expenses you will now need to cover. Once you have your new budget, it is important to track your expenses on a regular basis. This will help you to see where your money is going and any spending leaks that may exist. Remember-- if your income or expenses change, you will need to revise your budget.

BIG DECISIONS

While in high school, you'll most likely be thinking about what you will do after you graduate. Will you be furthering your education by going to college or a trade school, or have you decided that you will be entering the workforce? If you are planning to continue your education, you will have financial decisions to make. Even if you are not heading to school right now, it's still nice to know about your options, in case you decide to attend in the future.

Planning for college is not a one-time event. It can be a long process, but the sooner you start to evaluate, plan and budget, the better. There are many choices that impact college costs. You will want to research and communicate, as a family, to make wise and informed decisions.

Several factors will impact the cost of college. For example, some colleges charge different tuition for in-state versus out-of-state students. While the average public school costs less than the average private school, do your research. Ultimately, the catalog list price (tuition before financial aid) matters very little. The net price (tuition after financial aid is applied) is the key. So, as you explore the financial aid options that we'll discuss shortly, you will be able to see how expensive an individual school will be for YOU.

You will have a decision about where to live. Living off campus will likely have a different cost than living on campus. If you attend a community college for two years, tuition can be cut significantly. Freshman and sophomore year may be when you are deciding on your major and additional classes may need to be taken based on your major. If these prerequisite classes are taken at a community college, costs will likely be lower. While the "college experience" at a four-year college is something to consider, so are the additional years of paying back your student loans.

PAYING FOR COLLEGE

If you haven't already, you will want to talk with your parents about how you are going to pay for college. Do you have a college fund? If so, find out how much you have, and what the rules are for using this money. There are many types of funds (pre-paid tuition, 529 plans and Coverdell plans) so it is important to know if you have some funds already set aside. Some plans require you to go to school in-state, while others allow you to use the money to pay for off campus housing.

Can you apply for any scholarships? Scholarships are funds awarded by a school, organization, church or other group to a student to help pay for part or all school expenses. Scholarships are often awarded based on academic merit or something you have accomplished. This money does not have to be paid back. Depending on the scholarship, you may have to attend a certain school. Grants are similar to scholarships in that they don't have to be paid back but are given out based on financial need. Examples include Pell grants and Federal Supplemental Educational Opportunity Grants (FSEOG). They are usually awarded by the government (federal/state), private sources or the school itself.

Your high school guidance counselor is a great place to start when looking for scholarships and grants. He or she can help steer you in the right direction. You may also want to check with any local groups you belong to including civic groups, fraternal groups or faith-based groups as they may offer scholarships as well. When researching scholarships, make sure to check out *www.ftc.gov/scholoarshipscams* to make sure you are dealing with a reputable firm.

If you are not able to cover all of your college costs with the options we have considered previously, then you may have to take out student loans. Student loans are loans borrowed specifically for education expenses. The loans must be paid back with interest and vary in terms and conditions, based on the provider of the loan. Loans may be funded by the federal government or by private institutions such as banks, credit unions, state agencies, or schools. Student loans are designed to help pay for the remaining balance of college-related expenses, after all other forms of aid have been used.

To get a federal grant or student loan, you will need to fill out the Free Application for Federal Student Aid (FAFSA). Fill out the FAFSA as early as possible, after October 1 of your senior year of high school. Some financial aid runs out and later applicants, who would be eligible, may be denied funds, due to lack of availability. Eligibility is good for one academic year, which is July 1 through June 30.

A renewal FAFSA can be submitted in following years. To fill out your FAFSA, go to *www.fafsa.ed.gov*. You may also get a paper form, if you prefer, by calling 1-800-4-FED-AID, but beware it will take longer to process. When you fill out the FAFSA, you will need to create a new FSA ID. This ID will give you access to your personal information electronically on the website. You will need a social security number to obtain the FSA ID.

Once the FAFSA has been processed, you will receive a Student Aid Report (SAR). The SAR verifies the information that you provided on the FAFSA is complete. The SAR also lists an Expected Family Contribution (EFC) amount. When officials from the Department of Education evaluate your finances, they take into consideration a number of factors including parental and student income/assets, the number of family members in college and how far your parents are away from retirement age. This data is used to determine how much your parents are expected to contribute. The "need" then is calculated, as the difference between the expected contribution and the costs of the college you are considering. This number is critical because it is used to determine your eligibility for many grants, scholarships, loans and other financial aid.

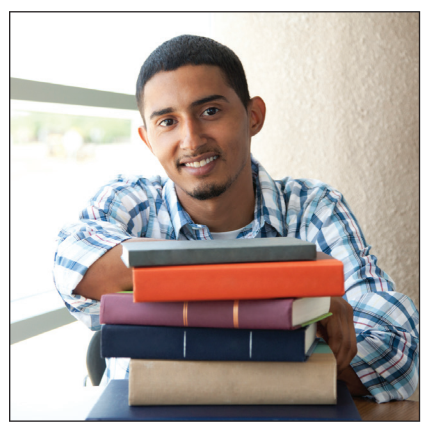
FAFSA
FederalStudentAid
An office of the U.S. Department of Education

Once the FAFSA has been sent to a school of your choosing, its financial aid office determines what type of aid package they can put together for you. The school can discuss the details associated with its aid evaluation. Each school that you apply to may offer a different package, based on costs and availability of funds.

Consider applying to different types of schools. You may qualify for substantial aid based on need at an expensive private college, but may not qualify for any aid at a less costly state university. To get more information on how aid packages are calculated, call the Federal Student Aid Information Center at 1-800-4-FED-AID or visit *www.ed.gov/finaid.html*.

You may be offered federal loans, as part of your financial aid package. The main federal student loan is the Stafford Loan. There are two types of Stafford Loans: Subsidized and Unsubsidized.

- Subsidized loans are for students who meet a financial needs test. The government pays all interest costs on the amount borrowed while you are in school and during grace and deferment periods. (We'll have more on grace periods and deferment later.) Repayment begins six months after graduation or a change to a less than half time status. The interest rate offered changes each academic year, but once you take out a loan, the rate is fixed.
- Unsubsidized loans are for students who do not meet a financial needs test or who need to supplement subsidized loans. You may defer payment during school, grace and other deferment periods, but you are responsible for all interest that accrues. Again, repayment would begin six months after graduation or your withdrawal to less than half time status. When you are in repayment, the interest rates on unsubsidized loans are the same as subsidized loans.
- Perkins Loans are low-interest federal student loans for students with "exceptional" financial need. The interest rate is set at 5 percent. Not all schools participate in the Federal Perkins Loan Program, so check with your school's financial aid office. The amount of loan funds you might receive depends on your financial need and the availability of funds at your college.
- Parent PLUS Loans are taken out by your parent(s) or guardian(s). A creditworthy parent may borrow up to the total cost of college attendance, minus any other aid you receive. The program is available to parents at all income levels regardless of need. Unlike the Stafford loan program, payments on PLUS loans begin 60 days after the loan is disbursed. The interest rate on PLUS loans is 2.6% higher than subsidized/unsubsidized loans and additional origination fees apply.



Let's talk for a minute about private student loans. These are originated by a private financial institution, such as a bank or credit union, and do not include the benefits and protections available with federal loans. Interest rates, fees, repayment terms, and benefits are determined by the lender and may vary greatly from loan to loan. Because of this, you should exhaust all federal student loan options, before applying for private loans.

YOUR COLLEGE YEARS

You've picked your school, found a way to pay for it and are now on campus. You will continue to have many financial choices ahead of you. It's wise to talk with your parents to determine how you will pay for your living expenses including food, books, school supplies, entertainment and incidentals. If your parents are helping you with these expenses, find out how much they are going to contribute. They may contribute by giving you cash, a debit card through a joint bank account, access to their credit card, or by helping you with your own credit card. You will want to create a budget, just like you did while in high school, to determine how much you can spend and where your money is going.

If your parents are not going to assist with your day-to-day living expenses, you have some options. Did you work during the summer and put money aside to help? Can you get a par- time job? Will grant or scholarship awards help to pay for some expenses? If you do opt for a part-time job, make sure not to overdo it, especially if you are taking a full load of classes.

If you haven't opened a checking account yet, it may be time to consider it. A checking account is more flexible than a savings account. Many banks and credit unions have free or low fee accounts, specifically designed for students. It may be a good idea to have one or both of your parents on your account, so that they can deposit money for you, in the event of an emergency. Most banks and credit unions also have free online banking, smartphone apps and mobile alerts. Having a checking account is a big responsibility, but it's a great way to help establish a relationship with a financial institution.

ENTERING THE WORKFORCE

Congratulations! You have graduated and are ready to enter the workforce. Finding a full-time job and moving out on your own are things we dream about during our high school years. However, this can be a financially tricky time. You are earning a full-time wage, but you may have student loans to pay back as well as other new expenses.

It can be tempting to move out on your own, once you have started that full time job. But, be aware that financial obligations made in a minute can often last for a year or more. Be sure to map out all of your expenses before signing a rental agreement.

Here are some expenses to consider when thinking about moving out on your own:

- Rent
- Utilities
- Furniture
- Transportation expenses: car payment, public transit, gas, insurance, tolls
- Groceries
- Clothing
- Entertainment
- Student loan payments
- Savings for emergencies, goals and retirement

It's important to consider all of your expenses now, as you will most likely not be able to rely on mom and dad anymore. Consider how getting a roommate or two could help offset some expenses. You may also want to see if your parents might let you live at home for a little while, so you can save some money.

Earlier we talked about student loans, so let's consider some repayment options:

- **Standard Repayment Plan** – the monthly payments are a fixed amount of at least $50 each month. The repayment period is typically 5-10 years. You'll pay less interest for your loan over time, under this plan, than you would under other plans.
- **Graduated Repayment Plan** – this plan is structured with a term of monthly payments that start out low and then increase every two years. Again, the typical repayment period is up to 10 years. This would be good if you know your income will be increasing significantly over time.
- **Extended Repayment Plan** – the loan payments are made for a period of up to 25 years. Your monthly payments would be lower than the 10-year standard plan, but you may end up paying significantly more interest.
- **Income Based Repayment Plan** – the loan payments are based on your income and family size. The maximum monthly payments will be 15 percent of your income above the federal poverty level. Each year you are on the plan, the payment is adjusted. It is structured for a term of 25 years. If a balance remains after 25 years, that balance will be forgiven.
- **Pay as you Earn (PAYE)** – the loan payments are based on your income and family size. The monthly payment will be 10 percent of your income above the federal poverty level. This plan is structured for a term of 20 years. If a balance remains after 20 years, that balance will be forgiven.

- **Revised Pay As You Earn (REPAYE)** – very similar to Pay As You Earn, but more borrowers are eligible; Balance may be forgiven after 20 or 25 years. (25 years if graduate loans are included.)
- **Income Contingent Repayment Plan (ICR)** – This is the only income driven option for Parent PLUS loans. Please note that the loans must be consolidated first to be eligible for ICR.
- **Public Service Loan Forgiveness Program** – Under this program, you may qualify for forgiveness of the remaining balance on your Direct Loan after you have make 120 qualifying payments, while employed full-time, by certain public service employers.

For more information on the different repayment programs and to see what you may qualify for, please check out *www.studentloanborrowerassistance.org*.

Savings

Savings should be a part of your budget moving forward. Experts agree that people should be setting aside at least 10% of their earnings into savings. It's not that simple, however, as there are several types of savings accounts.

- Emergency Savings – you should strive to save 3-6 months of your living expenses in a separate account, in the event that you lose your job. If you are in a specialized field or have less job stability, you may want to aim for 9 months.
- Goals – depending on your long and short term goals, you may want to set up separate savings accounts, to help you track your progress, as you work toward achieving these goals.
- Retirement – even though you are young, it is never too early to start saving for retirement. Employers often have 401k or 403b plans and many will help fund your account, either through a pension program, or by matching your contributions. You can set up independent accounts, like IRAs and Roth IRAs. It's a good idea to meet with a financial planner to talk about the differences between these plans and choose the right account for you.

ESTABLISHING CREDIT

Whether you are in college or have entered the workforce, it is important to start thinking about establishing credit. Credit is a way of having something now and paying for it later. The Credit Card Act of 2010 made it more difficult for those without a credit history to obtain credit for the first time.

For example, if you are a student applying for a credit card, you will be required to obtain a co-signer who is at least 21 (most likely a parent), and has good credit, or you will be required to prove you have an independent source of income. While this may sound harsh, it is designed to protect you from getting into a lot of credit card debt, before you even graduate from college.

If you took out student loans, and are managing them responsibly, you are already establishing credit. There are other ways you can help yourself establish a good credit history. Consider the following:

1. If you haven't already, open a checking and savings account at a local financial institution to establish a relationship with them. Make sure you show a savings habit and do not write checks that can't be covered by your checking account balance (overdraft).

2. Apply for a loan that has collateral. For example, a car loan is much easier to get, because it is a secured loan. In the event you can't pay, the creditor can take the security-- in this case, the car. Unsecured debt is more risky to a lender, because there is no collateral to take back, in the event you can no longer make the minimum payments.

3. Many financial institutions offer those who are establishing credit an option to apply for a secured credit card. A secured credit card generally requires that you have money deposited in a savings account that is viewed as collateral. Make sure you have investigated the financial institution, before you open an account and send any money. Be cautious of anyone who guarantees a credit card will be issued, but requires up-front money to process the application. Also, check to see if they report payment history to the credit bureaus.

4. If you are offered a pre-approved credit card through the mail, consider applying for it, as long as you have read the fine print and the offer makes sense for you.

5. Open a charge account at a local department store with a small credit limit.

When reviewing your application for credit, lenders will use a credit scoring model– the factors used in the model are commonly referred to as the 3 C's: capacity, capital, and character.

Capacity

Capacity looks at whether you have the financial means to take on the credit you are seeking. Creditors look at your income, and your other financial obligations, to determine if you can handle the additional debt.

Capital

Creditors will look at what assets and resources you have. What is the value of your car? Do you have money in a savings account? Do you have anything else of value? When evaluating capital, creditors want assurance that a debt could be paid from your assets.

Character

Character is often the most important aspect to creditors. They will want to know how you handle your other debt obligations. Are you paying these other obligations, according to the terms of the contract? Are you paying on time and in full? Creditors often rely on credit reports to determine your character. They may also verify information provided by you on your application to determine its accuracy.

The Cost of Credit

Credit can be expensive, if not used wisely. As the table below shows, if you make a large purchase on credit, and only make the minimum payment each month, the actual cost of the item will be significantly higher than the original purchase price. You can minimize the cost, by making a larger down payment and/or making more than the minimum payment each month.

MINIMUM PAYMENT EXAMPLES

Purchase	APR	Minimum payment (3%)	Time to pay off	Total interest	Total price
$1000	14.99%	$30	6 years, 10 months	$507	$1507
$5000	14.99%	$150	14 years, 5 months	$3361	$8361

Just think, after that $5000 purchase is paid off in 14.5 years, will you even remember what it was for? You might not even have that item any longer!

Your Credit Report and Score

We mentioned that when you apply for credit, the lender will often review your credit report and credit score to decide whether or not to approve your application. Let's review what is contained in this report and how your score is calculated.

Your credit report is a record of your credit history. Credit reporting agencies keep and organize this information. The information is provided to them when you apply for credit, by creditors with whom you do business and through public records, such as judgments and bankruptcy. There are three major credit bureaus in the United States: Experian, Equifax and Transunion. It is important to know that not everyone provides your credit history to all three bureaus. Some lenders may only report to one or two of the bureaus. For this reason, it is important to review your credit reports from all three credit bureaus once a year. Through the Fair Credit Reporting Act, you are able to obtain one copy of a credit report from each bureau for free once per year. This can be done at *www.annualcreditreport.com*.

CREDIT BUREAUS			
To order your credit report:	Phone:	Website:	Address:
Experian	888-397-3742	www.experian.com	PO Box 2002 Allen, TX 75013
TransUnion	800-916-8800	www.transunion.com	PO Box 1000 Chester, PA 19022
Equifax	800-685-1111	www.equifax.com	PO Box 740241 Atlanta, GA 30374

Your credit score is a number that lenders use to help them decide if they want to extend credit to you. The score is based solely on the information contained in the credit report and is based on the following information:

- 35% – Payment history – current accounts paid on time as well as historical delinquencies
- 30% – Amounts owed – the percentage of available credit you are using, both on individual accounts and as a whole
- 15% Length of credit history – the length of time you have had individual accounts, as well as overall credit
- 10% – New credit – have you applied for credit recently? These inquiries can hurt your credit, if there are too many of them in the last 6 months
- 10% – Types of credit – do you have a mix of credit types, such as credit cards, a car loan and student loans, or do you only have one type of credit? Having a greater variety of credit improves your score, but be careful not to incur more debt than you can handle

Income, employment, where you live, race, age, gender, religion, national origin, and marital status are factors that are not included in determining your credit score.

Fair Isaac Company (FICO) developed the most commonly used model for credit scoring. FICO scores are generated from the information found in the credit file and usually range from 300-850. The higher the credit score, the lower the risk of default and, therefore, the lower your interest rate.

People often wonder what is a good credit score. It is essentially a number that matches the level of risk a lender is willing to accept for a particular loan or credit card. It also corresponds to the interest rate you will be offered. Because scoring models vary, it is important to understand which credit score is being used. For example, if you have a 760 in the FICO model, it would be considered excellent credit and you would probably qualify for a great interest rate. Keep in mind that your credit score reflects your credit pattern over time, so, if you are not happy with your current score, there are things you can do to improve it.

CONCLUSION

This is such an exciting time in your life with a lot of decisions to make. While you are still young, it is important to look at each step as an opportunity to learn about personal finance and grow. The lessons learned now will help set you up for a lifetime of success!

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