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Teens and Money Podcast

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Jenny:

You're listening to Teens and Money – Preparing for Financial Independence, a podcast brought to you by Balance, in partnership with Your Credit Union. Hi, I'm Jenny, your host for today's podcast.

When it comes to money, young people have time on their side. After all, the younger you are, the more time you have to figure it all out, right? Well, not so fast. The sooner you learn how to handle your money the right way, the better your chances are that you'll avoid making costly mistakes in the future. To help you learn more about money, we're going to cover five important topics every teen should know: money management, buying a car, checking and savings accounts, credit cards, and investing.

First is money management. To manage your money, you should figure out what you wanna do in life, and how much it's going to cost. You can do this by setting goals. There are three types of goals. The first are called short-term goals, which refer to things you want to accomplish within a year. Next are mid-term goals, the things you want to accomplish in one to five years. Finally, there are long-term goals. These are the things that are achievable in five years or longer.

Write down your goals, and estimate how much money you'll need for each one. You can also write down a date for each goal. For example, if you wanna buy a new computer, find out how much the one you want costs, and the date you wanna buy it. To figure out how much you need to save each month, you'll need to do a little bit of math. Simply take the price of your goal, and divide it by the amount of months you have to save. For instance, if you need $1,000 to buy the computer, and want to do it in one year, divide 1000 by 12 months, which is about $83 a month.

Next is creating a budget. First, you start with your income. This is the money you might learn through a part time job, allowance, for birthday money. Add it up, and you'll have your total income. Next are expenses. Make a list of things you spend money on for each month. Include things like movie tickets, food, and clothes. You can also add occasional expenses, like a birthday gift for a friend, or concert tickets. If you wanna be really smart, plan to deposit money into your savings account each month, and consider that an expense, too. Add these all up, and divide the total by 12. This is your monthly total expenses.

Now, compare your income to your expenses. The basic rule of budgeting is your expenses should never exceed your income. If they do, it's time to make changes. You can increase your income, decrease your expenses, or do both. Keep working at it, until you get a balance that lets you achieve your goals, while still paying for everyday expenses. That's basically how to create a budget.

Okay, let's talk about buying a car. Not only is buying a car one of the biggest purchases you'll ever make, but it can also be confusing. No worries, we've got it covered. Before you begin, figure out how much you can really afford. Don't just look at the monthly payments, but consider things like the cost of insurance, maintenance, gas, and even parking fees. It can all add up pretty quickly.

Your best bet is to shop for the best deal possible. Here are a few tips. First, don't be fooled by an advertised low monthly payment. If you're not careful, you might have to pay more money in the long run, and for a longer time. Next, remember that incentives, and discounts are great, as long as there's no strings attached. For instance, some dealers may offer a rebate, but only on an expensive car. Stay focused, and remember your budget. Don't be afraid to negotiate price. Just remember, car dealers are professionals, and they are very, very good at what they do. Research, and get advice from someone with car-buying experience.

Next, compare the dealer's financing with your financial institution. Better yet, get a loan before you start shopping. This way, you'll know exactly what you can afford. Finally, before you sign anything, read the fine print. Make sure you understand, and agree to the price that you're paying, as well as the amount of your loan. Know your annual percentage rate, or APR, which is the interest that you're charged for the loan, and check for additional fees. Once you feel confident that you received the best deal, and you've read the fine print, sign the contract. Congratulations, you now have your first car.

Next, let's talk about the center of your financial universe, checking and savings accounts. It's pretty much impossible to manage your money without a checking and savings account. For starters, a savings account can help you save your money. It's the perfect way to put money away for your goals, as well as plan for unexpected expenses, such as car repairs.

It's easy to get in the habit of saving, especially if you pay yourself first. Before you spend your money, deposit a portion into your savings account. A good idea is to set up a regular automatic transfer from your checking to your savings account. This way, you won't be tempted to spend your money.

When you do wanna use your money, like to pay bills, and stuff, a checking account is the way to go. Unlike a savings account, a checking account really requires a lot more attention. For instance, be careful with your checks, and your ATM, and debit cards. Protect them like they're cash, and always be sure to have enough money in your account, when you write a check, or use your ATM, or debit card. The best way to do this is to balance your account. You can do this online, or by recording your transactions in your check register.

Credit cards are another valuable financial tool; that is, if they're used responsibly. Credit cards can allow you to build a positive credit history, and that can help you rent an apartment, buy a car, or even get a job in the future. Abuse a credit card, and you may feel the effects for many years. Many people get in trouble when they use their credit cards too often, and wind up owing thousands of dollars in interest.

It's important to know that not all credit cards are created equal. As a matter of fact, some credit cards are way better than others. It's just a matter of knowing what to look for. For instance, a low interest rate is crucial. In addition, a card that has no annual fee is important. Look for a long grace period – maybe 20 days, or so. This basically says how much time you have to pay your balance, before interest will be charged. Also, you wanna look for a car that has low penalty fees, just in case you're late with a payment – ya know, just in case.

Who's legally responsible to make payments? This really depends on the type of user you are. If you're an authorized user on someone else's account, you can use the card, but you're not legally responsible for the payments. If you have a joint account with a parent, you are both responsible for paying the bill, and your payments will show up on each of your credit reports. Finally, if you're the sole individual on the credit card, you're responsible for making payments all by yourself, which you should do on time to keep your credit history clean. To keep yourself out of debt, don't use your credit card to buy things you can't pay off at the end of the month. Remember, a credit card should be used to build a credit history, not to supplement your income.

At some point, you may want to start maximizing your money; you know, start making some serious cash, and have your money work hard for you. This is where investing comes in. At the center of it all is your portfolio. A portfolio is basically a collection of investments. These can include stocks, bonds, cash equivalents, and mutual funds. So, what's the difference between these investments?

A share of stock represents a percentage of ownership in a corporation. In other words, if a company is divided into a million shares, and you buy one share, you'd own one-millionth of that company. In the long-term, stocks have the greatest potential for the highest return. However, the day-to-day risk is great, because one day, your stock may rise, and then decrease the next day.

The last kind of investment is called a cash equivalent. These are things that can be easily converted to cash, if you need money quickly. These are low-risk, so there's little, or no danger of losing your money. They are also generally low-return, so you won't make much money on them, either. Cash equivalents include savings and checking accounts, CDs, money-market deposit accounts, U.S. Treasury bills, and money-market mutual funds. Is important to know that the money-market mutual fund isn't insured. They are generally safe, but there's no guarantee you won't lose your money. There's also something called a mutual fund. A mutual fund is made up of many investments, so it's an easy way to spread the risk across a number of investment types.

Overall, investing is a great way to grow your money. Just be sure to research your options, and talk to people with experience in investing. This is one area where younger people definitely have time on their side. That's all for today's podcast. I wanna thank you for listening. For balance, and Your Credit Union, this is Jenny, saying goodbye.

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Revised 0118