



*Teen Guide to*  
**FINANCIAL LITERACY**

Joe Ferry



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# Earn It, Save It, Spend It

Between time spent on academics, extracurricular activities, and your social life, it might seem like your opportunities to accumulate cash are somewhat limited. But as you get older there will be things you need to buy and things you want to buy. You might even have to help out with your family's living expenses. One thing you will need in order to do any of those things is money. How do you earn it?

The way most teens earn cash is with a part-time job. Maybe you stock shelves at the local supermarket or work the counter at a fast-food joint. Jobs like this not only give you a few bucks, they are also a good way to gain valuable life experience, like learning how to follow instructions, solve problems, develop people skills, and be part of a team. Tracy Morgan, writing in the *TeenLife Blog*, says working as a teen can pay off later in life. “[Working] offers a much wider perspective on life, and mixing with people they might not normally have the opportunity to meet is a great eye-opener to the world around them,”<sup>4</sup> says Morgan.

If you have an entrepreneurial spirit, to earn money you might start a side business that matches your skills and the things you enjoy doing. If you like taking care of kids, for example, you can work as a babysitter. If you love animals, you can walk dogs for your neighbors. If you enjoy being outdoors, you can pull weeds, plant vegetables, grow flowers, and mow lawns. If you can bake great cookies and muffins, you can sell them to raise money.

There are other ways to accumulate cash. Your parents might give you a weekly or monthly allowance for doing chores around the house. You might get gifts of cash from family members for the holidays. Or you might make money by selling stuff you don't want or need anymore.

The bottom line is this: once you have started to generate a steady income, it's time to set some financial goals. This is the first step in creating a personal budget, which is essential to effectively managing your finances. Otherwise, that money you earn will likely burn a hole in your pocket and you'll wonder what happened.

## Determining Your Financial Goals

Setting goals is an important part of life. Many experts say your goals should follow the popular SMART acronym in setting goals: **S**pecific, **M**easurable, **A**ttainable, **R**elevant, and **T**ime-bound. *Specific* refers to what exactly you are trying to accomplish. *Measurable* refers to how you'll know whether you're accomplishing that goal. *Attainable* refers to whether your goal is achievable. *Relevant* refers to whether the goal is worthwhile given your circumstances at the time. *Time-bound* refers to setting a deadline for achieving your goal.

By using those five characteristics, you will be able to set goals that are neither too easy nor too difficult, make sure you are staying on track, and know when you have been successful. Here's an example of a SMART goal related to money management: Within the next six months (time-bound), I want to buy a new smartphone (specific) that costs \$900 (measurable) by saving \$150 a month (achievable) so I can stay in touch with my friends and family (relevant).

Rana Al-fayez, a writer for the website FuturFund, which helps teens understand and manage their money, says setting financial

### entrepreneurial

Willing to take a financial risk in anticipation of a significant payoff

goals will depend on your unique situation and what you are trying to accomplish. But no matter your personal circumstances, goal setting is worthwhile. Says Al-fayez, “Setting realistic financial goals gives you a head start to create your budget. It’s important to have something to work toward financially, whether it’s paying all of your bills on time every month or saving up for a big purchase.”<sup>5</sup>

## Separating Needs from Wants

Anyone can spend money. That’s easy. It’s spending money wisely that is hard. One way to help you spend money wisely is to understand the difference between what you want and what you need. If you’re spending more money on your wants than on your needs, that’s a problem.

*Creating a job for yourself that matches your skills and interests is a good way to earn some money. For example, if you like animals, walking dogs for your neighbors is one way to make money doing something that you enjoy.*



How do you know the difference? Try to think of your needs as what you must have now and in the next few months. You probably couldn't live without them. Write down what you need with those costs in one column, and write down what you want and those costs in another column. Ask yourself, "Can I do without these wants?" and "Are there alternatives to my wants?"

Another way of understanding the difference between needs and wants is choosing priorities. In his book *I Want More Pizza*, author Steve Burkholder offers this example of choosing priorities: "You have \$20 in your pocket and find a t-shirt you love at your favorite store and it costs \$20. But you also wanted to give that \$20 to your family to help buy groceries. You choose the groceries and it feels great to help out. As a result, however, you gave up the t-shirt. You prioritized groceries over the t-shirt."<sup>6</sup> In other words, a need was prioritized over a want.

## Creating a Personal Budget

Once you've started making money and have identified some goals for your cash, it's time to think about putting together a budget, which is basically a plan for how you will manage your finances. Most financial experts agree that creating and sticking to a personal budget is the most useful tool for achieving your financial goals. "Budgeting is probably the most important financial skill every student needs to learn because it's the cornerstone of financial security and, eventually, success. If you learn how to manage a tight budget while in school, you should be able to master budgeting for the rest of your life,"<sup>7</sup> says Al-fayez.

A realistic budget helps you manage your money so you are able to pay for the things you need (and want). Managing your cash flow can be a balancing act. You either need to have enough money coming in to pay for everything or you need to cut back on spending when your cash is limited.

### cash flow

The amount of money coming in and going out

# The 50/30/20 Plan

One popular budget plan suggests dividing up monthly after-tax income (also known as net income) and allocating it this way: spend 50 percent on needs, spend 30 percent on wants, and sock away 20 percent in savings. That sounds easy, but it helps to understand what each of those categories represents.

Needs are those bills that you absolutely must pay and are the things necessary for survival. These include rent or mortgage payments, car payments, groceries, insurance, health care, debt payment, and utilities. As a teenager you might not have many of those right now, but they will happen someday.

Wants are all the things you spend money on that are not absolutely essential. This includes dinners and movies out, trendy clothing, tickets to sporting events or concerts, and the latest video game. Anything in the wants bucket is optional. Basically, wants are all those little extras you spend money on that make life more enjoyable and entertaining.

Finally, experts say you should try to allocate 20 percent of your net income—the money left after all deductions—to savings and investments. As a teen, this means putting your money in some sort of bank account. As you get older, you might use a portion of your savings as an investment.

As a teenager, you might think a budget is silly and a waste of time. But even if you don't make a lot of money now, developing and sticking to a budget will help you later in life when you do have more money and more expenses. Budgeting is not just a tool for teenagers or young adults. According to the book *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*, almost 60 percent of millionaires use a budget to manage their money. Most of them probably started long before they had a lot of money. They didn't get rich by spending all their money without a plan.

## Failing to Budget

There are several potential downsides for people who don't develop and follow a budget. For one thing, they might have difficulty tracking their goals and understanding whether they are on a successful path. Also, they might make random purchases that they don't really need or want, putting their goals further out

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Cary Siegel, *Why Didn't They Teach Me This in School, Too?* Simple Strategic Solutions, 2018. Kindle.

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Michael Zisa, *The Early Investor: How Teens and Young Adults Can Become Wealthy*. North Charleston, SC: CreateSpace Independent Publishing Platform, 2020. Kindle.

## Websites

**Investopedia** ([www.investopedia.com](http://www.investopedia.com)). This is a comprehensive website that covers all aspects of investing. It includes “Investing 101: A Tutorial for Beginner Investors” that will help new investors, including teenagers, navigate the complicated stock market.

**MyMoney** ([www.mymoney.gov](http://www.mymoney.gov)). This website provides a variety of resources for teens, with links to games, financial resources, tax information, and money-saving tips.

**Teens Guide to Money** ([www.teensguidetomoney.com](http://www.teensguidetomoney.com)). This website is a great source for financial tips and information aimed specifically at teenagers, from building a résumé to getting tips on smart shopping and advice for wise investing.

**TheMint** ([www.themint.org](http://www.themint.org)). One of the best sites for all ages, TheMint provides financial management information for kids, teens, parents, and teachers. Sections for teens include tips for earning, saving, spending, investing, and safeguarding their money.

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