

Getting A Head \$tart

You're Never Too Young To Learn Money Management

by
Gary A. Vosick

A Note To Parents

Dear Parent:

I am very pleased that you and your child have taken an interest in securing a successful financial future through effective money management.

There's no doubt that your child will be much more successful with your involvement in this process. That's why I recommend that you give the book a thorough review before sitting down with your child.

Of course, all parents have their own ideas and goals for their children's future. With your participation and input, the guidelines and recommendations in this book should be used to ultimately represent your beliefs on how your child should earn, spend and save money.

Remember, enjoy the experience. Not only will you be spending quality time with your child, you'll both be rewarded with fond memories and valuable lessons that will last a lifetime.

Sincerely,

Gary Vosick

Table of Contents

Introduction	Page 3
The History of Money	Page 4
Earning Money	Pages 4 - 5
Preparing A Spending Plan	Pages 6 - 11
How Credit Cards Work	Pages 12 - 13
A Head Start	Page 14
Sample Spending Plan	Page 15
Spending Plan Worksheet	Page 16

Introduction



The purpose of this book is to teach you not only what you need to know, but most importantly, why you need to know it. After all, there's a reason for everything, including money. Earning, spending wisely, saving and planning for the future are important skills that you will need as you grow older. So read on and give yourself a head start, because you're never too young to learn money management skills.

One out of every four adults has trouble managing their money. Maybe it's because they take something that's really simple and make it way too complicated. Or, maybe it's because they never learned the things you're about to read in this book. Who knows? The important thing for you is to start learning good money management skills now, while you're young. That way, the good habits of making, managing and saving your money will stay with you all the way into adulthood.

The word "money" is derived from the Latin word "moneta," a city in ancient Rome where money was first stored."

The History of Money

Money didn't always exist. Before we started using money, a practice called barter (trading one item of value for another) was how goods were exchanged. However, barter was not very efficient, because trading items such as animals for other goods was difficult to manage.



Money is a medium of exchange commonly accepted in return for goods or services and recognized as representing a standard of value. Throughout history, money has taken many different forms, including precious stones and scarce metals. While coins and cash are still in use, most money exchanged these days takes no physical form, and only exists as bytes and bits in a computer's memory.

Earning Money

It's hard to manage and save money if you don't have any. That's why this section is so important. While there are some limits on what young people can do to make money, there are plenty of smart ways to earn an income. Let's take a look at a few examples...

Many ancient cultures used shells as money. For example, Native Americans traded with strings of polished shells called "wampum."

Allowance

An allowance is money you earn from your family in exchange for doing jobs around the house. You might get an allowance once a week or once a month. How much you make and how often you're paid will depend upon what you and your parents agree is fair. The jobs you do could be anything from vacuuming the rug to cleaning up the dishes after meals to mowing the lawn. Remember, make sure you live up to your end of the bargain and follow through with whatever responsibilities you agreed upon. After all, your allowance is at stake. So talk to your parents, figure out the details, get to work and start earning your first income!

Extra Income

After you and your parents have worked out a deal for your new allowance, you can begin earning a steady income. On top of that, it can be both fun and profitable to think up ways to make even more on the side. You can offer a service to your neighbors like doing yard work, running errands, baby sitting, dog walking or other odd jobs. You could start a paper route. You could also make money by selling products. Imagine having a garage sale, selling handmade arts and crafts or even operating a bake sale. You may have specific skills or interests that can be turned into profit, so use your imagination.

"Income" is money earned from a salary, wages, interest or investments.

A "budget" is a plan of how much money a person or business has and how it will be spent.

Preparing A Spending Plan

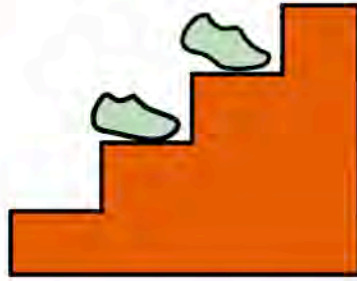
Preparing a Spending Plan involves understanding how much money you earn and spend over a period of time. When you work on a Spending Plan, you are giving yourself specific instructions for spending and saving your money. It's a smart way to avoid making unnecessary purchases that could prevent you from saving money for the future.

A story is often told about a famous American named, John D. Rockefeller. From the time he was a boy, he made a list of every penny he made. He also made a list of every penny he spent. Armed with this information, Rockefeller was able to stay in complete control of his money. Beginning with this simple, but effective money management tool called a Spending Plan, Rockefeller grew up to become one of the richest men alive.

As you will learn in this book, making money is only half of the battle. It's what you do with your money that ensures your financial security. As the saying goes, "failing to plan is like planning to fail." A Spending Plan is a kind of road map that helps you earn, spend, save and even invest your money in the best way possible.

A "balanced budget" is one in which the money going out is equal to or less than the money taken in.

Four Easy Steps



Below are the four easy steps you'll follow in preparing your Spending Plan...

Step One – Adding Up Your Earnings

Figure out how much you make in a week's time and write it down.

Step Two – Tracking Your Spending

Identify how you spend your money by writing down everything you buy.

Step Three – Saving For The Future

Decide how much you want to save or invest for the future.

Step Four – Controlling Your Spending

After you've set aside money for savings, then you may wish to spend the remaining amount. Remember, leave your savings alone.

Cool Web Sites:
kidsfinance.com
coolsavings.com
askjeeves.com

Teens are the fastest growing consumer segment, spending nearly \$170 billion per year.

Step One – Adding Up Your Earnings

A Spending Plan worksheet has been provided in the back of this book for your use. Feel free to make copies of the worksheet or just grab a note pad and pencil and make a list of all your income. Include your allowance, money from odd jobs, even gifts from relatives. Try to do this on a weekly or monthly basis, or at least as often as you can. Be sure to think it through and add up every cent.

Step Two – Tracking Your Spending

Using the same worksheet or note pad, make a list of everything you spend. Whether it's a magazine, candy bar or movie ticket, keep a record of the expense. It's best to do this every day; but if you have to wait, save the receipt and write it down at a later time.

Step Three – Saving For The Future

There's no understating the importance of saving your money. Remember, it's not how much you make, it's what you save that makes the difference. Begin by setting your own savings guideline based on a percentage. Ten percent of your earnings is good. Set it higher if you can. You make your own rules. Let's say you earned ten dollars last week. At a savings rate of ten percent, you'll put away one dollar. It may not sound like much; but if you start saving a set percentage of your income, it will really add up over time.

Step Four – Controlling Your Spending

After you've recorded a history of your Earnings and Savings, it's time to make some difficult decisions. Do you really need that can of soda pop? Maybe the water fountain makes more sense. Can you get by without a movie this weekend? Instead, try reading a good book from the Free Public Library. Remember, you can't always get what you want; but if you make the right choices, you can get what you need and still have money left over for the future. The more you control your spending, the more money you'll have left over for saving.

Why Saving Makes Cents

A penny may not seem like much money, but did you know that Benjamin Franklin, one of America's Founding Fathers, gave us some pretty smart advice about what to do with our smallest coin? "A penny saved is a penny earned," he once wrote. What Ben was trying to say to us is that it pays to save, even when the amount is only one, tiny red cent. Whether it's a penny, a dollar or more, saving money is a very good thing that will serve you well in the future.

There are many ways to save. A great way to start is by simply placing your dollars and cents in a special place of your own choosing. Before long, you'll have enough to start a savings account and earn interest on your money. Bottom line? Saving money is a smart play.

"Interest" is an amount the bank pays you for using your money or it's an amount you pay a lender for borrowing money.

The "principal" is a sum of money in a bank account not including interest.

The piggy bank got its name from a kind of clay called "pygg" from which early money jars were made. Eventually, the jars were formed in the shape of a pig.

Setting Short-Term And Long-Term Goals

As you go along, you may want to think about saving this way: you have both short- and long-term goals for your money. "**Short-term goals,**" are for things you want to spend your money on soon. For example, you might want to go to a movie this weekend and have enough money budgeted to pay for your ticket and some popcorn. You may have your eye on a new video game release, jewelry or a pair of cool athletic shoes. "**Long-term goals**" are for special things you will need to purchase in the future like your own car, a laptop computer, a cell phone or even college tuition. The reason you have to wait longer, is because these things are more expensive, and it will take a while for you to save enough money.

How Interest Helps Your Money Grow

Saving money at a bank or other institution that takes deposits allows you to store your money with someone else. The money that you earn for doing this is called interest. Interest is a percentage of the amount you have deposited that is given to you on an annual (every year), monthly (30 days) or quarterly (four months) basis, as a payment for allowing the institution to hold your money and use it to lend to others. The more money you deposit, and the longer you keep the money deposited, the more the interest will compound, and the larger your account balance or total savings will grow.

Reaching Your Goals Through Compound Interest

Compound Interest is calculated on the sum of both your principal plus your accrued interest. In other words, the more you save, the more you make. A good rule of thumb, however, is to save at least ten percent of your earnings; but it always pays to do more. Let's say you'd like to own your own car when you reach driving age. Here's how a savings account (with compound interest) can help you reach your goal:

Example: If you save \$5 per week (\$20 per month) for five years with interest compounding at 5%, you will earn \$1360.12. If you increase your savings to \$10 per week (\$40 per month), you will have \$2,720.24 in just five years. That's an additional \$320 in interest.



You can speak to your parents about providing you with "Matching Funds." By offering matching funds, your parents would contribute one dollar for every dollar you save. It's a great way to double your savings and maximize compound interest.

Calculating
ten percent of
your Earnings:

$$\begin{array}{r} \text{EARNINGS} \\ \times .10 \\ \hline = 10\% \end{array}$$

Ask your parents about providing "Matching Funds" for your savings account. They'll be supporting your savings effort, while doubling your deposits.

How Credit Cards Work



The word "credit" is derived from the Latin word "creditus," meaning "to trust."

Credit cards are issued by a bank or other business allowing, you, the holder of the card to purchase goods and services without using cash, also called buying on credit. They allow you to purchase things that you may not currently have the money to buy. When you use a credit card, the company that issued the card pays the store. Later, you will get a bill in the mail from your credit card company for the amount you purchased. At that time, you can either pay the bill in full, or only pay a minimum amount, and wait until later to finish paying. If you wait, you will owe the credit card company interest (based on a percentage) on the amount that you do not pay.

Good Credit. Bad Credit.

Credit cards, like loans, allow you to build up a credit history. This can help you down the road with credit related activity such as getting student loans, car loans, renting an apartment, or buying a house. Credit cards are also convenient since they reduce your need to carry cash or checks, and provide security in case of an emergency.

"Credit" is money loaned in exchange for interest or a financing fee.

How To Use Credit Wisely

Remember, credit cards aren't for everyone, and if you have one you must act responsibly. You need to be able to afford a credit card, and also be able to pay off the balance every month. The overuse of credit cards has been a major reason why so many adults have too much debt, and why bankruptcy rates are high. Here are some tips to help you use credit cards wisely:

Be suspicious of low introductory rates. Usually, the low rates last only a few months, and then become higher.

Choose a card that has no annual fee.

Avoid credit cards that offer high limits (Gold & Platinum).

Think twice before you fill out a credit card application for a free tee shirt or mug.

Use your card only when you can pay off the balance at the end of the month.

If you can't afford something, don't buy it.

For better or worse, nearly everyone uses credit cards. The key is to use them wisely. Never forget that the misuse of credit cards will guarantee a lifetime of financial problems.

"Credit terms" are conditions of credit such as interest rates, or fees.

A "debit card" is an encoded plastic bank card that allows you to withdraw money from a savings or checking account.

A Head Start



Congratulations! By reading just a few brief pages, you have learned enough to achieve personal financial success. The skills you now possess will stay with you throughout your life and should be treasured. After all, knowing and not doing is not knowing. So be sure to put this valuable knowledge to work right away and make good money management part of your daily routine.

Let's review the four easy steps in preparing your spending plan. One: Add up your earnings. Two: Track your spending. Three: Save for the future. Four: Control your spending.

The following pages of this book contain worksheets for your convenience. Feel free to make lots of copies and use them as your guide.

Now it's time to get busy. But not to worry. In this race, you will be victorious. For you have a head start.

Sample Spending Plan

Study the examples below to learn how to manage your money effectively. You'll note that your Savings should be at least 10 percent of your Total Earnings. You can try your own calculations on the next page.

Earnings

Earnings	Amount
Allowance <i>Allowance</i>	\$5.00
<i>Allowance Bonus</i>	\$4.75
<i>Good Report Card</i>	\$10.00
Odd Jobs (Baby Sitting, Paper Route)	
<i>Pet Sitting</i>	\$10.00
<i>Paper Route</i>	\$25.00
<i>Lawn Mowing</i>	\$15.00
Gifts <i>Grandparents</i>	\$20.00
Other	
Total Earnings	\$89.75

Spending

Spending	Amount
Food <i>Pizza</i> (Snacks & Soft Drinks)	\$12.50
<i>Snacks at Game</i>	\$2.50
<i>Pop</i>	.50
Recreation <i>Movie</i> (Movies, Concerts, Sporting Events)	\$10.00
<i>F-Ball Game</i>	\$5.00
Extras (Music, Video Games, Clothes)	
<i>Playstation Game</i>	\$19.95
Gifts <i>Contribution</i>	\$5.00
Savings <i>Deposit</i>	\$34.30
Total Spending/Savings	\$89.75

Spending Plan Worksheet

Use this worksheet to record your Earnings, Spending and Savings. Remember, it's a good idea to save at least 10% of what you earn. You can reach that goal by setting limits on yourself and spending wisely.

Earnings

Spending

Earnings	Amount
Allowance	
Odd Jobs (Baby Sitting, Paper Route)	
Gifts	
Other	
Total Earnings	

Spending	Amount
Food (Snacks & Soft Drinks)	
Recreation (Movies, Concerts, Sporting Events)	
Extras (Music, Video Games, Clothes)	
Gifts	
Savings	
Total Spending	

NOTE: You may wish to make photocopies of this worksheet for later use.



Gary A. Vosick, a Certified Public Accountant (CPA), has been helping people manage their money since 1972. As president of Trinity Debt Management, a nonprofit credit counseling organization, Gary's positive influence has touched the lives of thousands of individuals and families across the continental United States. His teachings on financial stewardship have been a blessing to countless civic and church groups as well. In his book, *Getting A Head Start*, Gary puts his proven theories into practice by offering brief, easy-to-follow methods for smart money management. Knowing that young people need our help and guidance, Gary provides a framework that allows room for adults to impart their own ideas. Any parent, who wants to get their young person started on the right financial footing, will find this book to be a faithful companion for years to come.

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