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Navigating the Road to Work

NATIONAL COLLABORATIVE ON WORKFORCE AND DISABILITY FOR YOUTH

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Taking Charge of Your Money

An Introduction to Financial Capability

Do you know how to be smart with your money? In other words, are you financially capable? This brief is a starting point for learning about and developing your financial capability so that you can make smart decisions about managing your money now and in the future.

Financial capability is "the capacity, based on knowledge, skills, and access, to manage financial resources effectively" (Department of the Treasury, 2010). Learning to be financially capable is an important part of becoming an adult.

So what does being financial capable really mean? In the most basic terms, it means being able to make wise decisions about how you use and manage your money. You can think about managing your money through five actions: **Earning, Saving and Investing, Protecting, Spending, and Borrowing**. Mymoney.gov, a website created by the Financial Literacy and Education Commission, refers to these five actions as the My Money Five. It outlines the following principles for managing your money well:

1. **Earn:** Make the most of what you earn by understanding your pay and benefits.
2. **Save and Invest:** It's never too early to start saving for future goals, such as a house or retirement, even by saving small amounts.

3. **Protect:** Take precautions about your financial situation, accumulate emergency savings, and have the right insurance.
4. **Spend:** Be sure you are getting a good value, especially with big purchases, by shopping around and comparing prices and products.
5. **Borrow:** Borrowing money can enable some essential purchases and builds credit, but interest costs (explained later on) can be expensive. Also, if you borrow too much, you will have a large debt to repay (Financial Literacy and Education Commission and the Treasury Department, n.d.).

This brief explores each of the five principles in more detail and discusses what these concepts mean for you as a young person. For youth with disabilities, this brief also discusses benefits planning. If you are a youth with a disability and receive disability benefits, these benefits may become a major factor in your financial decisions.

Earning

Before you can start managing your money, you need to earn some money. Aside from a possible allowance you might receive from family or money you get in a birthday card, you will acquire money throughout your life by earning it. The money you earn is called your income. An annual salary and an hourly wage are types of income that most people earn by getting a job.

There are many great resources available on how to find a job, including the NCWD/Youth brief, By Youth, For Youth: Employment*. This brief describes how to manage your earnings after you start getting paid.*

When you get a job, it's important to understand how your income is broken down in each paycheck. One thing you will notice when you receive your first paycheck is that the amount you are paid (your take-home pay) is not simply the number of hours you worked multiplied by your hourly rate or wage. If you make $10 per hour and work 10 hours, you have gross earnings of $100 but will not earn $100 in take-home pay. Your gross earnings are the amount you earn before any deductions or adjustments are made. The amount you earn (or net income) will be less than your gross earnings because your paycheck is subject to withholdings and deductions.

Withholdings include the money all workers owe the federal government to fund Social Security and Medicare and to pay a federal income tax, which varies depending on your income level. Workers pay into Social Security and Medicare to help cover the cost of retirement and to make sure some people who are unemployed or have disabilities can access some income and health benefits through these programs. Withholdings also include the amount your state keeps for state taxes, which varies by state.

Deductions include the cost of employment benefits you might have to pay for with your earnings. Deductions can include your portion of the cost of health insurance that you may receive through your employer or a contribution you choose to make into a retirement savings account. These are just a few examples of the deductions that may come out of your paycheck. It's important that you understand what these items are so that you know what you can expect to be paid. You want to avoid being surprised by a paycheck that is smaller than you thought it would be so that you know exactly how much money you will have to pay any bills or simply to meet the needs of your budget.

The following resources can help you better understand your paycheck:

- *Decoding Your Paycheck*, The Mint
- *Understanding Taxes*, Internal Revenue Service

Saving and Investing

Once you have started to earn money, you will need a plan for what to do with that money. One important next step involves saving and investing. While many people get their first paycheck and immediately think about spending it, it is important to develop saving habits early on in your life to be prepared for emergencies, to meet savings goals, and to prepare for retirement. Saving typically involves depositing your money into a savings or checking account at a bank or credit union. In order to do that, you will need to go to a bank or credit union and open an account.

A checking account allows you to keep your money safe while still being able to withdraw cash if you choose to. It also allows you to pay bills or fees online or by writing checks. Most checking accounts come with a debit card that will take money directly from your account when you use it at an Automated Teller Machine (ATM) or to make a purchase, which is discussed below in the section on spending. In contrast, when you place money in a savings account, the expectation is that you will leave it there to save money over time.

Choosing where to deposit your money is not a decision to take lightly. You will want to consider whether the location of the bank or credit union and its ATMs are convenient places for you to access your money when you need it, even if you may handle most of your banking transactions online through computers or smart phones. You will also want to consider the costs associated with opening an account, usually in the form of transaction or ATM fees or the requirement to keep a minimum balance in the account, among other factors. To learn more about banks, credit unions, and checking and savings accounts, visit www.consumer.gov/articles/1003-opening-bank-account.

Banks and credit unions not only serve as safe places to store your money, but they also pay interest to you on that money, most commonly in savings accounts and in some checking accounts. Interest is a percentage of the amount you have in your account that the bank pays you for holding your money. This percentage is usually very small, but it is something you will want to understand. For free tutorials on how interest works, consider viewing the lessons on interest provided for free by the Khan Academy.

While finding somewhere to safely store your money is an important step, another step will be determining how much of your earnings you can afford to save. You will need to determine how much of your money you can spend on things like housing, groceries, cell phone bills, car insurance, medical expenses, eating out, or concerts before you receive your next paycheck. Think about what your savings goals are. Start the process of budgeting by figuring out how much of your money you will need to spend on necessary items before you are paid again, how much you want to save, and how much you can spend on other things, like going to events with friends. When you create a budget, you plan how much you can spend over a period of time based on the income you have available. The items or services that you purchase are referred to as your expenses. Once you have figured out your budget and how much you want to save, you can deposit those savings into your savings account. While you may want to take all of those earnings, pay for the things you need, and use the rest for recreation, saving some of your money is an important habit to develop.

The following resources are helpful for learning more about banking and budgeting:

- *Finding the Right Financial Institution*, PracticalMoneySkills.com
- *Making a Budget*, Consumer.gov
- *Savvy Stuff: Top 10 Budgeting Basics for Teens*, MoneyAndStuff.info

Some things young people typically save for include an education, a car, or a computer. One useful strategy for saving involves developing short-term and long-term saving goals. For example, if you need to save $2,000 to purchase your first car, saving that money might be a long-term goal because it may take you some time to get there. Saving for long-term goals can be difficult and requires patience. To make reaching that long-term goal a bit easier, you can set realistic short-term goals. Let's say you will be getting your driver's license in ten months and want to purchase your own car when that time comes. Your short-term goal may be to save $200 each month so that in 10 months when you get your driver's license, you can purchase your first car. In this example, the short-term goals help you reach the long-term goals.

Another strategy to help you reach a long-term goal might be to open a second savings account. With this strategy, you can have one account for general savings and another that is specifically for that long-term goal. You may also want to have your bank or credit union automatically deposit a certain amount of money from each paycheck into your savings account (if your paycheck is deposited directly into a checking or savings account by your employer) or from your checking account each month. Even if you have not yet identified a long-term goal, setting up an automatic deposit into savings for even a small amount is a great way to start building your savings.

Once you have made it a habit to save some money, you might consider investing some of your savings in order to "grow" your money. Investing allows you to earn more interest over time, but depending on the type of investment you make, there is also some risk of losing money. For this reason, you need to fully understand the potential benefits and risks before you decide whether and how to invest your money.

Learn more about saving and investing by checking out the following resources:

- *Saving*, The Mint
- *Start Your Savings*, MyCreditUnion.gov
- *Investing*, The Mint
- *Beginners' Guide to Investing: Online Publications at the SEC*, U.S. Securities and Exchange Commission

Protecting

Protecting your money means being cautious about how you save and spend it. This includes purchasing insurance, accumulating savings in case of an emergency, avoiding scams and identity theft, and being aware of your credit record and credit score.

Purchasing insurance is a crucial way to avoid being blindsided by an unforeseen expense. Insurance is something you purchase from an insurance company in the form of an insurance plan. It allows you to make monthly payments to an insurance company that then agrees to cover all or a portion of the costs of whatever item the plan is intended to insure after you have met your deductible. The deductible is a set amount that you must pay before your insurance will cover costs. For example, if your car insurance deductible is $500 and you get into an accident, you must pay $500 before you can use your insurance to help cover all or a portion of the cost of repairs. The entire deductible does not have to be paid at once. If your deductible is $500 and you have to make an eligible car repair for $250, you will have paid $250 of your $500 deductible, and will only need to spend an additional $250 on repairs before you meet your deductible. Car insurance, health insurance, and renter's insurance are some of the most common forms of insurance. Renter's insurance is available for individuals who are renting an apartment or other housing. This insurance plan typically covers the cost of replacing your personal property in case of theft or a damaging event such as a fire.

While at first you may be hesitant to pay for something to help you cover the cost of an expense that may not arise, insurance is important because it will very likely save you money in the long run. Let's say you pay $100 per month for health insurance. This amount seems like a lot, but the cost of out-of-pocket health care itself is much more expensive. Many people cannot afford those costs without insurance. If you end up in the hospital for any reason, you can quickly find yourself with a bill for thousands of dollars. If you have insurance, the company will usually cover enough of this bill to save you a lot of money, even after you factor in what you pay for health insurance each month.

Many young people have parents or guardians with a health insurance plan that covers them as well. Young adults are allowed to remain on their parents' plan until they are 26 years old under the Affordable Care Act. However, if your parents or legal guardians do not have health insurance then you may need to obtain insurance for yourself. In the United States, it is now required that you have health insurance; otherwise, you may have to pay a fee. You can apply for an exemption from this requirement. If you either do not apply for an exemption or you apply and do not qualify, you will be required to purchase a plan. To learn more about obtaining health insurance and what the requirements are, visit www.healthcare.gov.

Automobile insurance is also mandatory in almost every state in the United States as well, so if you own a vehicle, you will likely be required to have automobile insurance. In the event of an accident, this insurance prevents you from having to pay the entire cost of certain repairs or medical bills if anyone is injured with money from your own savings. This is why insurance is important for protecting your money.

The following resources are helpful for learning more about protecting your money with insurance:

- *Safeguarding*, The Mint
- *Protect Your Finances*, MyCreditUnion.gov

While insurance can be helpful for some situations, it is still a good idea to save some money for emergencies. Even with insurance, you may still find yourself with a large medical or automotive expense and will need money to cover the deductible. Other emergencies may arise that you do not have insurance to cover. For example, in the case of a disaster brought on by weather or a fire, you may find yourself needing a new place to live or to replace many of your possessions. A theft may also result in a need to replace important items. While these occurrences are not common, it is always good to have a plan in case something unexpected arises.

Another important way to protect your money involves avoiding scams and identity theft. With the advent of electronic payments, criminals have found new ways to scam unsuspecting consumers. You need to be careful about any websites or companies with which you share your financial information. If you are not careful, someone could take your bank information and start spending your hard-earned dollars. It is also possible for someone to steal your personal information and apply for credit cards, loans, or utilities in your name. This is an example of identity theft. If this situation happens to you, these debts can become your debts and your responsibility unless you can resolve the issue with the lender or with the help of law enforcement. Online banking and electronic payment services offer great convenience to consumers, but these advances have opened up new avenues for criminals as well. This is why it is important to be careful and only provide your financial information to companies or organizations that you trust. Learn more about how to avoid scams and identity theft using the following websites:

- *Scams and Identity Theft*, Consumer.gov
- *Frauds and Scams*, MyCreditUnion.gov

Finally, understanding and managing your credit is necessary to protect your money. When you hear someone talking about "good credit" or "bad credit," they are talking about the quality of someone's credit history. Your credit history is a record of how many credit cards or loans you have, whether or not you make your payments on time, and how much you currently owe on loans and credit cards (your debt) compared to how much money you can still borrow with your credit cards (your line of credit).

Credit cards can be complicated tools for managing your money, but it's important to use them responsibly to build a good credit history. If your credit limit or line of credit is $2,000, it is best to spend only some of that money each month (say $500) and be sure to pay it off completely each month. When you use a credit card, you are essentially going into debt, so make sure to track deadlines to make payments from your checking account before the bill rolls over to a new month. If you do not pay your credit card bill on time, it starts to become more expensive as it accumulates interest over time. This form of interest is what the bank charges you for delaying a payment, and it is different from the good kind of interest you get from the bank on money in a savings account.

Credit agencies monitor your credit history and create a credit report on this history that includes a credit score, which is essentially a grade of your credit history. This score is important because when you need to borrow money from a bank or apply for a credit card, the lender will review this score to determine if you are a responsible person who is likely to pay them back. Some employers also look at credit scores in making hiring decisions. On a scale of 300 to 850, a credit score of 700 or higher is generally considered good. If you have never borrowed money or used a credit card in this way, then you likely do not have any credit history yet. At some point, you will want to start developing your credit history. If you would like to see a copy of your credit report, visit www.annualcreditreport.com.

The following resource provide more information about credit and credit scores:

- *Your Credit History*, Consumer.gov
- Credit Reports and Credit Scores, MyCreditUnion.gov

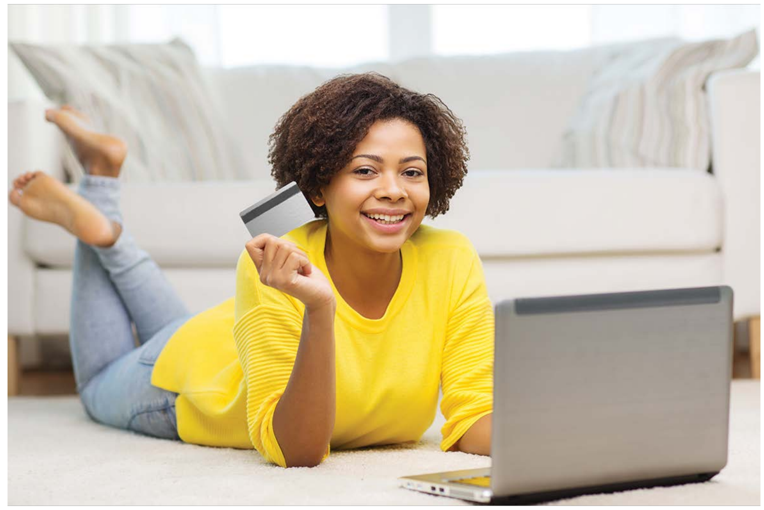
Spending

Spending your money is probably the most significant part of managing your finances. This is why being smart about how you spend your money is at the center of financial capability. People most commonly spend money by using cash, a debit card, a credit card, or a check. Remember that swiping a debit card or writing a check takes the money directly from your checking account, so it's important to make sure there is enough money in the account to pay for the expense. Some banks have overdraft fees if you try to spend more money than you have in your checking account, which you will want to avoid doing.

One strategy to ensure that you spend wisely is to make sure that what you are purchasing is an expense you have budgeted for. If it is not in your budget, it might be best not to make the purchase. If you feel you need the item, you may want to consider adjusting your budget the next time you are paid. One way to get a better idea of how you spend your money is to track your spending patterns over a couple of weeks or a month to see how you use your money and to look for ways to save. Once you have determined how much of your money you need to spend and can afford to spend, you can set a maximum for that period. It can be helpful to determine how much you need, budget that amount, and save any that might be left over. It is likely that you will not have enough money to do all of the things you want to do, which is why it's important to create a budget that allows you to live within your means. The Mint provides some helpful tips on tracking your spending at: www.themint.org/teens/tracking.html.

Another important strategy is to compare the prices of things you want to purchase. The same item may be offered by different brands for different prices, or the price of the exact same item may differ from store to store. This is especially important when making those big purchases you have been saving for. With these items, you are much more likely to see significant differences in prices depending on where and when you are shopping. You may want to look for discounts or ask a sales associate at a business to help you compare items or if an item might go on sale soon. You can save on some items by using coupons or by waiting to buy things at a discount during sales. Even with smaller purchases at the grocery store, going to customer service to get a free store card can help you save hundreds of dollars every year as you use it to buy groceries on sale. Consumer.gov provides a helpful webpage on ways to save when you are shopping at: www.consumer.gov/articles/1006-saving-money-when-you-shop.

In addition to creating a budget and tracking spending on your own, a number of smartphone and internet-based applications are available on the Google Play Store, Apple's App Store, and on the internet to help you compare costs and/or track your spending. Apps like Mint and Sweep can be connected to your



bank accounts, credit card accounts, and loan accounts to track your spending and your debt. You can even use the apps to create a budget and monitor how your actual spending compares to your budget if you are using a credit or debit card. You can learn more about finance apps from the following TechInsider article: www.techinsider.io/best-finance-apps-2016-4.

Borrowing

Sometimes in life it is necessary to borrow money so that you can purchase something now and pay for it later. You have probably done this with friends, perhaps borrowing a few dollars to purchase lunch or a beverage. The borrowing you may be doing as an adult usually involves much larger sums of money and taking out a loan or using a credit card. Loans are sums of money you typically borrow from a bank or a credit union and pay back in monthly payments. Some common types of loans include student loans for furthering your education, a loan from a bank you might take out to purchase a car, and, later in life, loans for purchasing a home. Depending on your credit score, you may be able to take out a loan for most anything. As discussed in the section on protecting your money, credit cards are cards you obtain from a bank or credit card company that allow you to borrow up to a specific amount of money (your card's credit limit) and require

you to pay on that debt monthly. Credit cards are useful in cases of emergency (if your emergency savings mentioned earlier is not enough) and for increasing your credit score by making payments on time.

Typically when you borrow money, you have to pay that money back with interest. The section on saving talked about how your bank or credit union pays interest on the money you have deposited with them. When it comes to borrowing money from a bank, credit union, or credit card company, you pay them interest. This is calculated as a percentage of what you borrowed and is added to the amount you must repay. This is how lenders make a profit. The cost of borrowing is usually presented by the lender as the Annual Percentage Rate (APR). The APR is the percentage you will pay on a loan in addition to what you borrowed over the course of a year. Credit card interest rates typically range between 13 and 23 percent (Value Penguin, 2016). If the APR is on the lower end of this range, you pay less interest, so a lower APR or interest rate means the cost of borrowing money is cheaper. If you find credit card interest confusing, check out the Khan Academy's tutorial on Annual Percentage Rates (APRs) at: www.khanacademy.org/economics-finance-domain/core-finance/interest-tutorial/credit-card-interest/v/annual-percentage-rate-apr-and-effective-apr.

Learn more about borrowing and interest from the following resources:

- *Paying Off Credit Cards*, MyCreditUnion.Gov
- *Owing*, The Mint
- *Credits, Loans, and Debt*, Consumer.Gov

Benefits Planning and Your Finances

If you have a disability, you may qualify for some forms of government assistance. These are often referred to as disability benefits. If you receive disability benefits, they can become a major factor in how you manage your finances. The Disability Benefits 101 website is a helpful starting point for learning the facts about employment and disability benefits and the article, *Debunking the Three Biggest Myths about Disability Benefits and Work*, addresses some common questions that you might have.

Supplemental Security Income (SSI) is one type of disability benefit that some youth with disabilities receive. SSI is a federal program that provides a monthly cash benefit for people with disabilities who have little to no income and few financial resources. Additionally, in most instances, if you have been determined eligible for SSI and receive SSI cash benefits, you likely qualify for Medicaid too. *What You Need to Know About Your Supplemental Security Income When You Turn 18*, a publication from the Social Security Administration (SSA), provides a good overview of SSI for youth.

If you are over 18, SSI eligibility is based on your individual income, not your family's income as a whole, and there is an asset limit (usually $2,000 but may be more or less depending on where you live) that you cannot go over. For a young person, the term "asset" will usually refer to the total amount of money you have, whether it is in a bank account or in your wallet.

If you go over this asset limit, you will see a reduction or discontinuation of your SSI benefits, directly impacting your financial situation. However, in order to encourage and support a person who wants to work, the SSA offers a series of work incentives. Work incentives are special rules that allow someone who receives SSI to work and still receive part of (or all of) their monthly payments and maintain their Medicaid.

Almost any earned income can reduce the amount of money received through SSI. One exception to this rule is any earnings from a work-based learning program such as a college work-study job. However, with the use of the Student Earned Income Exclusion, one of the work incentives offered by SSA, a person who is under age 22 and regularly attending school may exclude some earnings from income. The amount that can be excluded is adjusted annually. Additionally, you can use another work incentive called a Plan to Achieve Self Support (PASS). A PASS allows you to put aside income towards a specific work-related goal, such as college tuition, textbooks, or a computer. Money in a PASS does not impact the rest of your savings. To learn more about work incentives and how they can help you get to work while maintaining your health benefits and possibly maintaining part or all of your cash benefit while adjusting to work, you should contact your local Work Incentives Planning and Assistance Project (WIPA) or your local Vocational Rehabilitation Office, which you can find at www.choosework ttw.net/findhelp.

Through the Achieving a Better Life Experience (ABLE) Act of 2014, you also have the option of setting up an ABLE account, a tax exempt savings account to save for disability-related expenses, which does not affect eligibility for SSI, Medicaid and other public benefits. To be eligible for an account, the age of onset of your disability must be before you turn 26 years old. Learn more at www.ablenrc.org.

An Individual Development Account (IDA) is a savings account that uses matching deposits from community-based and nonprofit organizations. The match can vary. For example, if you had a 2:1 match, then each time you deposited $25 in the account, you would receive an additional $50 in a match. Most IDAs are funded by the Assets for Independence Act funding or TANF block funding. IDAs that are opened to achieve one of three savings goals—saving for a house, saving for continuing education, or saving for business start-up costs—will not impact your SSI or your Medicaid. To learn more about IDAs, visit www.cfed.org/programs/idas. Benefits like these can affect the way you earn and save your money as a young person with a disability and need to be taken into account when planning your finances.

Learn As You Play

Test your financial knowledge and learn along the way by playing these online games:

- Financial Soccer, Visa,
- Celebrity Calamity, Financial Entertainment

Taking Charge of Your Finances

Taking charge of your finances and being smart about how you spend your money does not have to be a scary task. If you put in the effort and manage your money well, you can find many ways to enjoy the money you have earned. Learning to manage your money is something that everyone needs to do, and getting started on developing your financial capability skills at a young age is a great way to achieve financial success throughout your life. It will also spare you many possible headaches that can come from managing your money poorly. The principles related to earning, saving and investing, protecting, spending, and borrowing discussed in this brief can serve as your guide. Keep the following tips from the brief in mind as you begin your journey of financial independence:

- Make sure that you understand your paycheck
- Create a budget that allows you to live within your means
- Open a savings account and start saving
- Understand how to use a checking account and debit card
- Obtain required and useful forms of insurance to protect yourself, your money, and your property
- Avoid scams and identity theft
- Be a smart shopper by comparing prices and looking for deals
- Learn all you can about what it means to take out loans and use credit cards responsibly before you borrow money
- Be aware of the ways in which income can affect your finances if you receive disability benefits
- Be smart with your money and enjoy a life of financial success!

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The National Collaborative on Workforce and Disability for Youth (NCWD/Youth) is composed of partners with expertise in disability, education, employment, and workforce development issues. NCWD/Youth is housed at the Institute for Educational Leadership in Washington, DC. NCWD/Youth is charged with assisting state and local workforce development systems to integrate youth with disabilities into their service strategies.

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