# MONEY 101

Financial Literacy for College Students

Dear Student,

College is a time of newfound freedom and independence. With the high cost of a college education, it also provides the first glimpse into one of the greatest challenges of adulthood— managing your money.

Financial decisions don't begin after you graduate and embark upon your career. They begin now. Your spending, budgeting, and borrowing during your college years could impact your future for years to come. Now is the time to accept the challenge of learning and practicing responsible money management.

This book provides many of the tools you'll need to start on the path to financial literacy, and to personal and financial success.

# Money 101

## Financial Literacy for College Students

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# Introduction

The term "financial literacy" covers a myriad of topics. While topics such as mutual funds, 401(k) plans, and mortgages will be important when you are financially independent, your primary focus at this point in your life should be on making financial decisions that will enable you to finish your education with a good credit record and as little debt as possible. *If you read this book and use the information that's presented, you will be able to do just that.*


# Money in the Bank



*We keep our money in banks because the alternative...well, there really isn't a good alternative. Banks, however, are not all the same, which is why it's important to understand how banks operate and why they want you as a customer.*

### Choose a bank and a checking account.

*A typical college student's primary relationship with a bank involves managing a checking account.*

Checking accounts all provide easy access to your money. However, account names, features, and options vary from bank to bank. For example, some accounts are free, whereas others charge a monthly maintenance fee. *Select a bank that's convenient for use on or near campus (and back home), and one that also offers free "in-network" ATMs.*

Every bank's website lists and describes their checking account options. Investigate these options online and if you have questions, speak to a bank representative. In general, the more money in an account, the lower the fees and the better the features.

## Be smart. Take advantage of your bank's services.

The banking industry is very competitive and banks offer all kinds of services to keep their customers happy. Here are just a few examples of the services that come with a checking account.

### ▸ Debit card

If you have a checking account, you can get a debit card. A debit card makes it easy to get cash from ATMs and access the money in your checking account to pay for purchases.

### ▸ ATM card

Banks also issue ATM cards. You cannot make purchases with an ATM card—it can only be used to get cash out of an ATM.

### ▸ Online banking

When you log into your checking account, you can view all of your transactions. This includes the checks you've written, your debit card charges, ATM withdrawals, deposits, bank fees, and current account balance. This makes it easy to keep on top of your finances.

*If you ever see an incorrect charge or deposit, or have a question concerning your account, contact your bank immediately.*

### ▸ Checks

While you probably won't write many checks, you still need to order them—but you don't need to purchase checks from your bank. Many online sites offer inexpensive alternatives.

### ▸ Monthly statements

You'll be given the option to receive a monthly bank statement in the mail or go paperless and view your bank statements online. Paperless is preferable since your address will change frequently during your college years.

### ▸ Pay bills online, receive alerts, get rewards, and more

Explore all the services your bank offers. You're likely to find some features you weren't aware of that will be helpful. If you have questions about any of your bank's services, talk to a bank representative.

## Banking is big business.

Banks are in business to make money. They do this, in part, by charging their customers fees on their accounts and interest on their loans.

- ### Bank fees

  These are just a few examples of the many fees banks charge:
  - account maintenance fees
  - ATM fees
  - overdraft fees
  - lost debit card fees

  *Financially literate customers do everything they can to avoid or minimize bank fees.*

- ### Loans and investments

  Banks make money by using their customers' money to make investments and issue loans—loans to individuals (college loans, car loans, mortgages) and loans to companies (business loans). Banks profit from their investments and from the interest on the loans they provide.

### *Here's something you should understand about interest...*

You pay interest when you take out a loan, and you receive interest when you have an "interest-bearing account," such as a savings account or Certificate of Deposit (CD). But here's the thing—the interest you're charged on the loans you take out is always higher than the interest you receive on your interest-bearing accounts. This is how banks make a profit.



# Things to Do

- Compare bank products, services, interest rates, and fees, and select a bank that's convenient for use on or near campus.
- Choose a bank that offers free, convenient "in-network" ATMs.
- Investigate your checking account options.
- Take advantage of your bank's services—particularly the ability to view all of your transactions online.
- Learn about your bank's fees and take steps to avoid them.

# Ways to Pay

***How*** *you spend your money can be just as important as* ***how much*** *you spend and* ***what*** *you spend it on.*

### How do college students pay for things?

College students use a variety of methods to pay for things; however, the most common methods are cash for small items and debit cards for other purchases. Here are some statistics on how college students pay for the items they purchase.

- 86% of college students carry cash.
- 85% have debit cards.
- 77% use mobile pay.
- 56% have credit cards.

*Source: Sallie Mae*

*Let's consider the pros and cons of several of these methods, starting with the most popular—debit cards.*

## Debit Cards

*When you use a debit card to make a purchase or get cash from an ATM, the money is automatically deducted from your checking account.*

There are some definite advantages to using a debit card. There are no interest charges, no end-of-the-month bill to pay, and debit cards are relatively easy to obtain. One thing to remember though—if you don't have enough money in your checking account to cover the cost of a purchase, your card may be declined, or you may find an overdraft fee on your next statement. (That $3 cup of coffee you charged may end up costing you an extra $35.) Also important to note – a debit card does not help build your credit history.

Many colleges require the use of a student ID card (often called a One Card, Campus Card, or Campus Cash). This card may also serve as a debit card through a bank with whom the school is affiliated.

# Credit Cards

*A credit card allows you to borrow money from a bank or business to make purchases. They then give you a period of time (usually a month) to repay the loan. If you don't pay the balance within the designated time period, you're charged interest on the unpaid amount.*

*While using a credit card responsibly can help you build good credit, using credit cards irresponsibly can lead to financial disaster.*

You've seen the commercials. "*Use our card and get a low introductory rate, double bonus points, or a low annual fee.*" Credit card companies make a lot of money off their customers, and they are all trying to convince you that their card is the one you need. So how do credit card companies make their money?

- They charge businesses for every customer credit card purchase.
- Most credit cards charge annual fees. You may pay $35, $99, $299, or even $550 per year for the privilege of using a particular card.
- You're charged interest when you fail to make monthly payments in full, and late fees for payments made after the due date.
- Some companies also sell their customers' data to other businesses.

*Generally, people under 21 can't have a credit card unless they earn an income, are an authorized user on a parent's card, or have a co-signer (usually a parent). However, some credit card companies now have credit cards specifically designed for college students to help them build a credit history.*

## Be smart when using credit cards.

### Pay your balance in full.

Many credit card users pay off their balance in full each month, *and they pay no interest*. They pay just the amount they charged. This is smart!

The majority of credit card holders, however, make minimum or partial payments each month. Because they carry balances on their cards, they're charged interest, and those interest charges compound month after month until the balance is paid in full. *Credit card companies love these people—they are the industry's bread and butter!*

## Pay credit card balances on time.

Don't just pay your balance in full—also pay it on time. If you pay your credit card bill even a single day after the due date, you could be charged a late fee of $25 to $35. This fee will be reflected in your next billing statement. *Making late payments also hurts your credit rating.*

## Know your credit limit.

Your credit card statement, which can be viewed online or in an app, contains a credit limit (the maximum amount you can charge). Your card will be rejected when you reach your limit, which is usually $2,000 - $5,000 for the average first-time credit card user. This is called "maxing out" your card—a nice safeguard against overspending.

Some people, however, do not let a maxed out credit card stop them from making additional purchases. They use a second card—or a third, fourth, or fifth card. They buy more and more stuff, max out multiple cards, and accrue more and more debt. *It's a formula for financial disaster.*

## Don't get stuck paying interest on the interest.

When you don't pay the entire balance on your credit card, you are charged interest (generally 20%-25%) on the unpaid balance. The following month you will be charged interest on the prior month's interest. So now you are paying interest on the interest. *This is called compounding interest.* And this is why if you only pay the minimum amount each month (which the credit card companies love you to do), it will take you a long, long time to pay off the balance. This is how a $300 TV turns into a $500 TV.

### Fun in the sun!

*Suppose you go on spring break, and you charge $1,500 on a credit card with a 19% interest rate. If you pay only the minimum amount each month (say 4% of the outstanding balance), it will take you more than seven years to pay off the debt! And you will end up paying a total of almost $2,400—approximately $900 extra in interest. Compounding interest just made your spring break trip a lot more costly.*

# Prepaid Cards

*Prepaid cards are not credit or debit cards, but they look and work just like them.*

Prepaid cards can be purchased at banks, online, and at numerous retailers. You load a dollar amount and use them as you would a debit card. You can also check your balances and transaction history online.

You don't pay interest on a prepaid card, and these cards are available to anyone, regardless of credit history. But there may be fees (which are often hidden) for set-up and reloading, transferring money from a checking account, and for ATM usage. Do some comparison shopping to ensure that you're getting a card with the lowest fees. Like a debit card, using a prepaid card has no effect on your credit history.

# Mobile Payments

*"Mobile payments" refers to the transfer of money using a mobile app, email, or online account. Mobile payments are also called mobile money, peer to peer (P2P) payments, and digital wallets.*

Mobile and online payment systems are becoming more popular—and new ones are popping up all the time. PayPal, Google Wallet, Apple Pay, Venmo, and Zelle are just a few of the services making it possible to transfer money and make payments online. A number of retailers have embraced this new trend and encourage customers to use their app to find a store, order ahead, pay for purchases, and earn rewards.

But beware of fees. For example, Venmo allows you to send money from a debit card, bank account, or Venmo balance at no cost, but there is a charge if you use your credit card to send money.

Mobile payment systems aren't accepted by all merchants, and some people have concerns about security. But because of their convenience, they are becoming more widely used.

## Cash

*Currency and coins are the "old school" way to pay—but still a good payment option, especially for making small in-person purchases.*

The advantage to using cash is a psychological one—people tend to spend less with currency than with plastic (which for many, doesn't seem like "real money"). The disadvantage of cash is that there's no recourse when it's lost or stolen, and there's no online record of your purchases or payments—which is why you should save receipts for all cash payments.

Because of the potential for theft or loss, it's wise to keep only a small amount of cash on you, and in your apartment or dorm room.

## Personal Checks

*Although less popular these days, checks are still widely used—and are sometimes the required form of payment.*

Landlords often require a check for the security deposit and each month's rent, and some smaller retailers prefer cash or checks over credit cards. Many people also simply like paying their bills by check.

## Things to Do

- If you have a debit card, make sure you don't charge more than you have in your account.
- If you have a credit card, pay the balance in full and on time. *This is worth repeating. Pay the balance in full, and on time.*
- Only have one credit card, and understand the fees, interest rates, and rewards programs associated with your card.
- If you make payments using a mobile device, be aware of fees.
- Keep small amounts of cash on hand for in-person purchases.


# Build Good Credit

*Before a bank or a business will loan you money or give you credit, they want to feel reasonably certain that you will make the agreed upon payments.*

## Your credit history is important.

Would you be eager to loan money to a friend who hasn't paid you back for the money you loaned them in the past? Probably not. They have shown that they aren't reliable when it comes to paying their debts. They're a bad credit risk and they'll have a hard time getting anyone to loan them money.

Just like you, banks and businesses don't want to loan money or give credit to people who don't repay their debts. They would rather give that loan or extend credit to someone whose past behavior has shown them to be financially responsible. *Banks and businesses want to work with people who have a good credit record.*

## How do I build good credit?

The number one way to build good credit is to *always* pay your bills on time. Being late with just one or two payments can adversely affect your credit rating. And the longer you continue to pay your bills on time, the stronger your credit rating becomes. Other factors are taken into consideration when determining your credit rating, but paying your bills on time is the most important.

## Businesses are reporting on your performance.

When you have a credit card, take out a loan, or open a bank account, lenders and creditors provide information on your accounts (and your performance) to one or more of the three major credit bureaus. The credit bureaus then use this information to create, maintain, and update your credit report.

Your credit report contains information on the dates your accounts were opened, your credit limits, payment history, and account balances. Banks and lenders check your credit report to help them make decisions about you. *Having a good credit history is, therefore, very important.*

### What is a FICO score?

The "big three" credit bureaus (Experian, TransUnion, and Equifax) use the information from your credit report to create your FICO credit score. A score of 700 or above is generally considered good.

Most college students and new college graduates have low credit scores simply because they haven't yet established a strong credit history. But a low credit score can have negative consequences. Your score can mean the difference between being denied or approved for credit—or a loan. It can also mean the difference between getting a low or high interest rate.

A good score can help you qualify for an apartment rental, lower your car insurance premiums, help you get utilities connected, and more.

### How can I improve my credit score?

- Make all payments (credit card, rent, utilities, cell phone, car loan, etc.) in full and on time each month.
- If you have a credit card, use it regularly, but use less than half of your available limit.
- Don't apply for numerous credit cards or loans.

### How can I see my credit report and/or score?

Anyone can request a free credit report from annualcreditreport.com. Certain banks and credit card companies also offer free credit reports, and sometimes free credit scores. Avoid companies that provide credit reports and credit scores but also require you to sign up for a credit monitoring service.



## Things to Do

- PAY ALL YOUR BILLS ON TIME AND IN FULL.
- If you use a credit card, use it wisely. Too much credit card debt or having too many accounts hurts your credit rating.

# Protect Your Assets

*Protecting your money is easy—you put it in a bank. Protecting your assets and your identity, however, are more complicated. To protect these, you need to take certain steps and precautions.*

## Protect your belongings.

Theft is common on college campuses. Replacing lost and stolen items is a hassle, and it can be costly. Never leave personal items (phone, laptop, textbooks) unattended in a library, classroom, or dining hall. Always lock your door and first floor windows when you are out of your room.

## Insure your valuables.

Make sure you have the appropriate insurance coverage.

- **Property insurance** – Have your parents ask their insurance agent if your property at college is covered by their homeowner's policy. If it's not, a "rider" may provide appropriate coverage. Keep receipts and take photos of all your valuable items (bicycle, laptop, TV, jewelry) in case you ever need to file a claim.
- **Health insurance** – If you aren't on your parents' policy, check with your college. Many colleges offer affordable health insurance for their students. *There is nothing more important or valuable than your health.*
- **Renters insurance** – If you live in an apartment, purchase renters insurance. If you or your roommate leave your door unlocked and all your stuff is stolen, you'll be glad you're insured.
- **Auto insurance** – If you have a car, you are required by law to have auto insurance. If you left your car at home and it's seldom driven, check with your insurance agent about a possible rate reduction.

## Be a friend, not a banker.

Make it a practice to never loan money to friends. Instead, lend a hand, offer advice, and provide emotional support. There's no better way to lose money *and* friendships than by playing banker.

### Protect your identity (and your assets) online.

As we increase the number of transactions we make online, security becomes more and more of an issue. Be aware of the dangers of doing business online, and protect yourself from disreputable people and companies trying to steal your identity, money, and/or personal information.

- Because you're required to provide your debit or credit card number for online purchases, only use reputable sites.
- Use uncommon usernames and passwords, and choose an obscure 4-digit personal identification number (PIN). Don't use the day and month of your birthday, or 1234, 1111, 2222, etc.
- Change usernames, passwords, and PINs regularly, and do not share them with anyone other than a parent.
- Phishing is the fraudulent practice of trying to get people to reveal personal information such as credit card numbers and passwords. To avoid being a victim of phishing, never link to a retail website from another website. Instead, visit retailer websites directly.
- Decline when asked if you want your account or payment information saved to your computer.
- If someone wants your social security number, that should be a red flag. Only provide your social security number when you are certain who is using it and why they need it.

## Things to Do

- Guard against theft. Never leave your books, phone, laptop, or other items of value unattended in a public area.
- Make sure you have health insurance, as well as insurance for your car, apartment, and valuable personal items.
- Protect your identity online. Visit reputable websites, have uncommon usernames, passwords, and PINs, and do not share these with others. Also be *very* reluctant to give out your social security number.

# Manage Your Expenses

*How you manage your expenses during your college years will play a large part in determining how much debt you have when you graduate. Managing your money and being financially responsible doesn't mean that you can't have fun—but you do need to be smart about your spending.*

## Take advantage of everything your college offers.

Colleges offer a variety of free and inexpensive entertainment––concerts, athletic events, art shows, speakers, movies, and plays. Colleges also offer dozens of valuable services—rec center, health services, learning centers, career services, and counseling.

*You're likely to never again have this many activities and services so readily available—and often at no cost.*

## A dollar here and there adds up to real money.

It's easy to lose sight of the cumulative cost of low-priced items. Case in point: A single $1 bottle of water per day for four years of college will cost you about $1,400. Add a $1.25 candy bar or bag of chips, and you're up to well over $3,000. Instead, fill a water bottle with tap water and grab snacks that are available in your campus dining hall.

## If you live on campus, leave your car at home.

The annual cost to own and operate a car is about $8,000. This includes the cost of fuel, maintenance, tires, insurance, taxes, and finance charges. That comes out to about 55 cents for each mile driven.

And there's more. Drivers must often pay campus parking fees, along with fines for parking and/or speeding tickets. There may also be expenses associated with being in an accident or getting a DUI—which, in addition to endangering lives, could cost thousands of dollars.

The alternative to having a car is to do what most college students do—walk, bike, or use public transportation and ridesharing services.

## Be smart about your living expenses.

### ▶ Meal plans

It will take a semester at school to realize exactly which meal plan is ideally suited to your eating habits. Once you learn the ropes, review your options and select a plan that keeps you sufficiently nourished, without wasting money on unused meals.

Of course there will be times when you and your friends will want to eat out or order pizza, but be careful about dropping a lot of money on extra meals and snacks. *Use your meal plan.*

### ▶ Apartment living

Many college students make the transition from dorm to apartment living after their freshman or sophomore year. In addition to the monthly rent, apartment living incurs costs students didn't have while living in a dorm. These costs include utilities (electricity, water, gas, cable, internet access), insurance, kitchen items, and furniture.

It's particularly important to understand all of the apartment contract provisions, including the security deposit (which is often kept by the landlord to cover clean-up costs once a tenant leaves).

You should also factor in the cost of food if you're no longer on a college meal plan, as well as transportation costs to and from campus.

*Warning* -- If you live with a roommate and the apartment or utilities are held jointly, your roommate's failure to make timely payments can adversely affect your credit rating.

## Recognize the difference between wants and needs.

Think about the things you spend your money on (such as clothing, phone, entertainment, and transportation) and differentiate between *wants* and *needs*. When it comes to the things you don't need, but just want, be selective. Make sure you're spending your money on the things that are really important to you.

### How can I reduce expenses?

- Rent rather than buy textbooks—or buy and resell them online.
- Don't pay extra for cell phone data plans or streaming services you don't need or use.
- Take advantage of student discounts at movie theatres, retailers, and online shopping sites.
- Consider the cost of alcohol and tobacco. They not only interfere with your academic performance and harm your health and appearance, they can also make a serious dent in your wallet.
- Use coupons and rewards cards at grocery stores and online discount sites such as Amazon Prime Student, Groupon, and LivingSocial.
- Compare the price of items at retail ("brick and mortar") vs. online stores. Take advantage of store "price match guarantees."
- Look for free or inexpensive furniture and household items through online sites such as Craigslist or offerup.com and resell them when they're no longer needed.
- When on vacation, consider lower-cost vacation rental sites such as Airbnb and Vrbo.

## Things to Do

- Take advantage of all the free and inexpensive activities, services, and programs offered at your college.
- Remember that small expenses add up (water, coffee, snacks).
- If you have a car, leave it at home.
- If you have a meal plan, use it.
- Differentiate between wants and needs, and think about your spending choices.


# Create and Maintain a Budget

*Many college students are uncertain as to how much they spend, what they can afford, and how much they owe. As a result, they spend more than they can afford, and then wonder how they're going to pay off all of their debt. The first step in avoiding this situation is to create and maintain a budget.*

## A Budget Is a Plan

A budget is simply a plan used to decide the amount of money that can be spent—and how it will be spent. Creating and maintaining a budget involves managing your money by tracking your income and your spending—and living within your means.

## How to create a budget

### Select a tool.

You'll need to use a tool to track your income (money coming in) and expenses (money you spend). You can create a simple pen and paper entry system, or use an online spreadsheet such as Microsoft Excel. Your bank may also provide an online budgeting tool.

Budgeting apps are popular among college students, and there are dozens of them (including YNAB and Goodbudget). These tools offer convenience—every time you make a purchase, withdraw cash, or deposit a check, you simply enter it on your app.

Budgeting apps offer a variety of features. Some apps link to your bank account, while others provide warnings when you're approaching your spending limit. You can research each app online or view YouTube tutorials to help you decide which features are most appealing to you.

### Choose a time period.

Some students organize their budget by the month or the semester; others prefer to create a weekly budget. Select the time period that works best for you.

## Customize your budget.

1. **Enter your estimated income.**
   Consider your sources of income (parent contributions, financial aid, wages) and enter the amount you expect to have available to spend during your selected time period (week, month, semester).

2. **Categorize your expenses.**
   Think about what you spend your money on and create a list of expense categories that makes sense to you (Eating Out, Entertainment, School Supplies, Phone, Clothes, Car Loan).

3. **Determine if each category is a fixed or flexible expense.**
   Fixed expenses are the same every time period. $125 each month for car insurance is a fixed expense. No surprises here—you know exactly how much you'll spend each month. Flexible expenses are those that vary. For example, you may spend $30 for clothes one month and $75 the next.

4. **Budget an amount for each expense category.**
   Take each category and budget a dollar amount for the time period you've selected (such as $75 for entertainment, $50 for eating out). Put your fixed expenses into your budget first—this will help determine how much you have available for your flexible expenses.

## Keep track of your income and your expenses.

Enter all of your income and expenses into your spreadsheet or app. When you sit down to review and balance your budget, you'll then know how much money has come in, and how much you've spent in each category.

## Review and balance your budget.

At the end of your budget period, compare your income with your expenses. If your income exceeds your expenses, you've achieved a *positive balance*. Good for you! Your savings can be set aside for the future.

A *negative balance* reveals that your expenses have exceeded your income. You are spending more money than you're taking in. How is this possible? You're either eating away at your savings or you're running up credit card debt. If you have a negative balance, think about how you can reduce your expenses and/or increase your income.

## Sample Monthly Budget Worksheet

| | Estimated Monthly Income $______ | | |
|---|---|---|---|
| | **Expenses** | **Budgeted** | **Spent** |
| Fixed Expenses | Rent | | |
| | Utilities | | |
| | Insurance | | |
| | Phone | | |
| | Internet / Cable | | |
| Flexible Expenses | School supplies | | |
| | Clothes | | |
| | Food | | |
| | Entertainment | | |
| | Misc. | | |
| | | | |
| | **Total Expenses** | | |
| | **Balance______** | | |

*The goal of creating and maintaining a budget is to take charge of your finances. Students who record and track every transaction are much more likely to reign in their spending and live within their means.*

# Things to Do

- Choose a tool to help you track your income and expenses.
- Estimate your income, and budget an amount for each category of expenses.
- Keep track of your income and your expenses—even that $1 bottle of water. *Try to stick to your budget.*
- At the end of the time period, review and balance your budget. Determine if you need to make any changes.

*To review, watch this quick video.*

VIDEO

# Earn While You Learn

Many college students have a paid job at some point in their college career. Whether you work in order to finance your education and living expenses, lighten your debt burden, help out your family, or to simply have extra spending money, working provides many benefits beyond money.

## Consider the benefits of working.

- Working provides real-world experience, which can enhance your future career prospects.
- You learn valuable time-management skills.
- Working expands your professional network (people who can offer advice, introductions, and letters of reference).
- Most importantly, working helps you gain a keen appreciation for the value of money. *Those who work hard for their money are more likely to save and spend wisely than those to whom money is given.*

## Be smart about when and where you work.

How many hours you work depends on how much money you need (or want), and how much time you can reasonably devote to work—*without it interfering with your academic performance.* It's generally a good idea to hold off working for a semester or two, until you've fully adjusted to college life and the rigors of college coursework.

It is ideal (but not always possible) for your work to relate to your major and eventual career path. For example, sales and customer service jobs are ideal for business majors, child care or tutoring positions are perfect for education majors, and jobs at hospitals or clinics can provide pre-health majors with valuable experience.

*"Students who have had real world experience gain the edge above other candidates when seeking jobs with Disney."*

*Katie Mock, Recruiter, Disney College Program*

## Seek on- and off-campus employment.

### ▸ On-campus employment

The advantage of on-campus employment is convenience. Hours are flexible and jobs are available all over campus. Students generally work 10–20 hours per week.

Depending on your parents' income level, you may qualify for a federal work-study position. Check with your college's financial ad office regarding your eligibility.

*Tip: Apply early and everywhere—campus jobs are often highly competitive. Some schools have a one-stop application process through the financial aid or human resources departments. Others require that you apply in-person department by department.*

### ▸ Off-campus employment

Off-campus jobs are often plentiful in college towns—students work in restaurants, cafes, retail stores, hotels, call centers, park districts, etc. Getting to and from work may be a hassle, and the hours may not be as flexible as on-campus jobs, but the pay may be higher.

You can often apply online, or simply walk in and ask to complete an application. Check the availability of public transportation to and from campus.

*Tip: Visit career services for job-search and resume-writing assistance.*

## Work during summer and winter breaks.

Many students work in the summer and/or during academic breaks. Fortunately, a number of businesses and organizations seek students to fill positions during these periods, such as summer camp and park district jobs during the summer months, and retail jobs over the holidays. On-campus jobs may also be available for students who stay on or near campus during breaks and vacations.

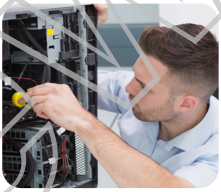
*The key to getting a job for the summer or during an academic break is to apply early—as much as 4–6 months in advance.*

### Take advantage of paid internships.

An internship is a formal program that allows students to gain practical work experience with a company or organization. Some are paid; others are not. Internships may be available in the summer or during the school year.

Organizations use internships to help them complete time-limited projects, and to scope out potential hires for the future. Students use internships to gain valuable real-world work experience. Students typically do not pursue internships until their sophomore year. Check to see if your college holds an internship fair, and visit career services for assistance finding, applying, and interviewing for internships.

### Consider freelance work.



College students with a particular skill or passion can use their talents and interests to make some extra money. Common freelance jobs include babysitting, tutoring, computer troubleshooting, car detailing, creating websites, coaching/refereeing, and buying and reselling products online. Of course, it takes self-promotion and an "entrepreneurial spirit" to find customers and market your services.

*Tip: If you excel in a particular subject area, such as chemistry, calculus, or writing, visit the appropriate academic department or your college's learning center to inquire about tutoring opportunities.*

## Things to Do

- Don't work your first year unless you must.
- Apply for on-campus jobs early and everywhere.
- Visit career services for job search and resume writing assistance.
- Apply for an internship in your field of study.
- If you have an interest, talent, or skill, use it to make some extra money.

# Paying Taxes

*Anyone who receives a paycheck needs to have a basic understanding of how they are paid, and of the taxes they are required to pay.*

When you are hired for a job, the law requires that:

- you complete IRS Form I-9 before you start working (to establish your identity and eligibility to work in the U.S.).
- you complete IRS Form W-4 (Employee's Withholding Allowance Certificate).
- your employer gives you information on your pay for each pay period.
- you receive an IRS W-2 form at year's end to submit with your tax return.

## Understand your pay stubs.

You will either receive a paper check (paycheck) for your work, or your pay will be electronically deposited into your bank account (direct deposit). Regardless of how you're paid, most states require that employers provide their employees with information on their pay for each pay period. To accomplish this, a pay stub is typically attached to each employee's paycheck, or it's sent electronically.

Most people pay little attention to their pay stubs. But as a young earner striving to be "financially literate," it's important to understand all of the entries. Here is some of what may appear on your pay stub:

- your name and social security number
- your employer's ID number (EIN) and contact info
- the pay date and pay period
- your gross wages, deductions, and net pay for that pay period

*Gross wages reflect how much you've earned. Net pay reveals how much you actually get to keep after deductions. The disparity between gross and net pay is a cause of dismay and bewilderment for many wage earners!*

## Where did my money go?

Payroll deductions are the amounts withheld from your paycheck by your employer. While taxes will account for most, if not all, of your deductions, additional deductions may be taken for health insurance and retirement accounts. Here are four major deductions you are likely to see on your pay stub.

### FICA Social Security Tax and FICA Medicare Tax

The Federal Insurance Contributions Act (FICA) tax is a U.S. federal payroll tax imposed on both employees and employers to fund Social Security and Medicare (two federal programs that provide benefits for retirees, the disabled, and others). You chip in 6.2% of your gross income for Social Security and 1.45% for Medicare. Your employer chips in the same.

*These programs will benefit you personally by providing you with income (Social Security) and health care (Medicare) when you retire.*

### Federal tax

This portion of your salary goes to the federal government to fund a budget that exceeds $4 trillion per year. Federal tax dollars are used to pay for education, defense, roads and highways, veteran's benefits, and much more.

### State and local taxes

The amount of these tax deductions depends on the city and state in which you work.

## What is a W-4?

When you get a new job, you must complete a W-4 to let your employer know how much money to withhold from your paycheck for federal taxes. Completing your W-4 accurately will help ensure that you don't have a big balance due at tax time—or overpay your taxes.


## What is a W-2?

The IRS requires employers to report your wage and salary information to them on Form W-2. Your employer must also provide you with a W-2 by January 31. (This will be a summary of your pay stubs from the previous year.) You need the information on your W-2 to complete your tax return, which is due in mid-April.

## Sample pay stub

Sophia worked 40 hours a week at Johnson's Diner during her summer break. She made $10 an hour and worked for eight weeks. Sophia's weekly gross pay was $400 ($10 x 40 hours). After deductions, her net or "take home" pay was $296.05.

Here is Sophia's pay stub for one week in July.

Johnson's Diner

| | | | |
|---|---|---|---|
| EMPLOYEE | Sophia Adams | PAY PERIOD | 7/8/24 - 7/14/24 |
| SOC SEC # | XXX-XX--6789 | PAY DATE | 7/19/24 |
| CHECK NO. | 06501 | NET PAY | $296.05 |

| EARNINGS | | | TAXES & DEDUCTIONS | | |
|---|---|---|---|---|---|
| Desc | Hrs | Amount | Desc | Current | YTD |
| Regular | 40 | $400.00 | Federal Tax | $48.25 | $386.00 |
| | | | State Tax | $16.15 | $129.20 |
| | | | Local Tax | $8.75 | $70.00 |
| | | | Social Sec | $24.80 | $198.40 |
| GROSS YTD | | $3,200.00 | Medicare | $6.00 | $48.00 |
| NET YTD | | $2,368.40 | Total | $103.95 | $831.60 |

### Tax returns must be filed on or before the April deadline.

Taxes can be very confusing, and many people need some assistance the first time they file an income tax return. Just be sure to start early.

If your employer withheld more money than you owe, the government will send you a refund. If it turns out that you owe the government additional money, you will need to include the money you owe with your tax return.

# Things to Do

- Understand the entries on your pay stub.
- Learn about the taxes you are required to pay.
- Look for a W-2 from your employer in January.
- Use the information on your W-2 to complete and submit your tax return before the April deadline.


# Paying for College

*For 2023-2024, the average cost of attendance (tuition, fees, books, room and board) for one year at a four-year in-state college was approximately $28,800. It was over $60,000 at a private four-year college, and approximately $4,000 at a public community college.*

*College is expensive, and students today are borrowing more and more money to pay for their education. The average 2023 college loan debt was almost $40,000.*

*Students who default on their loans soon find that being delinquent or defaulting on a loan has serious consequences. Their wages may be garnished, they may face legal action, and their credit rating is damaged—which can make it difficult to rent an apartment, buy a car, or even get a cell phone plan.*

*Smart students explore their financial aid options, look for ways to cut college costs, and work to minimize their student loan debt.*

## Financial Aid Overview

Financial aid is money that is given, earned, or lent to help students pay for their education. Except for merit-based scholarships, financial aid is generally awarded on the basis of financial need.

The four types of financial aid are grants, scholarships, loans, and work-study. Grants and scholarships are considered "free money." Loans and work-study are considered "self-help" programs.

- **Grant** – money given, usually because of financial need
- **Scholarship** – money awarded for exceptional academic achievement, outstanding talent, and/or financial need
- **Loan** – borrowed money that must be repaid
- **Work-study** – money earned by working at a part-time job

*Financial aid is often awarded on a "first come, first served" basis, so applications should be completed early.*

# Completing the Necessary Forms

To receive financial aid, you must complete and submit the necessary forms. The FAFSA is the most important of these forms.

## The FAFSA (Free Application for Federal Student Aid)

Because most financial aid awards are based on need, it's necessary to have a way to determine how much a family can afford to pay for college. The FAFSA is the federal form that's used to determine this amount. *In order to receive any government aid, you must complete a FAFSA.*

A FAFSA is only good for one year. *You must complete a new FAFSA each year.* Visit fafsa.gov.

*For more information on the FAFSA, watch this quick video.*

VIDEO

**Grants** – When you complete a FAFSA, you automatically apply for a Pell Grant, and in many states, various state grants.

**Pell Grant** – The Pell Grant provides billions of dollars each year to lower-income families. This grant is available to students in all states, and it can be used to pay for expenses at any accredited college.

**State grants** – All states have financial aid programs that award grants to students who attend college in their home state. In most states you apply just by filling out a FAFSA.

**Scholarships** – Scholarship applications shouldn't end after high school. Visit your college's financial aid website or go to sites such as fastweb.com and scholarships.com for listings of scholarships for which you're eligible. Let everyone know that you're looking for scholarships. Apply early and often.

## There are people who can help.

*Figuring out how to obtain financial aid can be very confusing. There are, however, people who can help. All colleges have financial aid counselors available to assist students, and most have financial aid information on their website. There is also a wealth of information online at sites such as studentaid.gov.*

# College Loans

There is a great deal of talk these days about the amount of debt college students are incurring. Smart students understand how hard it can be to repay a large student loan, and they do whatever they can to minimize the amount they need to borrow.

*Considering that over half the financial aid awarded is in the form of a loan, it is important that students understand their loan options—and their repayment obligations.*

## Federal Direct Loans

Federal Direct Loans are made to students, and repayment doesn't begin until six months after the student leaves college. First year students can borrow up to $5,500 a year. Second year students can borrow up to $6,500 a year, and so on.

There are Direct Subsidized Loans and Direct Unsubsidized Loans. Direct Subsidized Loans are for students who have financial need. Direct Unsubsidized Loans are available for students without financial need. *A Direct Subsidized Loan is preferable*. The interest rate is lower and the government pays the interest on the loan while the student is in college. *While the U.S. government is the lender for all Direct and PLUS Loans, the funds are distributed by the college.*

## PLUS Loan (Parent Loan for Undergraduate Students)

PLUS Loans are available to parents with good credit. Parents can apply for a PLUS Loan for the total cost of attendance, minus any financial aid the student has received. Your college's financial aid office can provide information on applying for a PLUS Loan.

## Private Loans

Many banks and lending institutions offer supplemental educational loans to credit-worthy families. Because these loans are privately funded, the fees and interest rates are likely to be much higher. Many of these loans promise low introductory rates, but the rates may change.

*Federal loan programs have a variety of options to help students pay off their loans—private loans do not. Families should exhaust their federal loan options before ever considering a private loan.*

*For more information on student loans, watch this quick video.*

VIDEO

# Ways to Cut College Costs

- **Spend less time in college.**
  Students can shorten the time they spend in college by taking heavier loads during the school year and/or by attending summer school.

- **Live at home and commute.**
  Living in a dorm on campus can add a significant amount of money to the cost of a college education. Students attending a local college can save a great deal by living at home and commuting.

- **Take classes at a two-year college.**
  Students at a four-year college can save money by taking summer classes at a public two-year college—where classes often cost less than half as much. However, students need to check with their academic advisor to make sure the credits will transfer and that the courses they take will fulfill general education or major requirements.

- **Earn money through a co-op program or paid internship.**
  Co-op students and students with paid internships often earn enough to cover a large portion of their college expenses. When they graduate, they not only have a degree, they also have valuable work experience.

- **Take advantage of tax credit programs.**
  The American Opportunity Credit allows families to claim a tax credit of up to $2,500 per year for education expenses, and the Lifetime Learning Credit allows eligible families to claim a credit of up to $2,000 per tax return for however long a student is in school.

## Things to Do

- Visit the financial aid office and talk to a financial aid counselor about any programs for which you may be eligible.
- Complete a FAFSA each year. *This is very important.*
- Research financial aid online.
- Apply for scholarships.
- Look for ways to cut college costs.

# MONEY 101

Financial Literacy
for College Students

Information to help
college students make wise
financial decisions



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