



DOLLARWISE
MAYORS FOR FINANCIAL LITERACY

2018 DollarWise Summer Youth Contest **Study Guide**

The DollarWise Summer Youth Contest Final Exam questions are designed to test your full knowledge of the information provided in the contest. During the exam, you will be tested on your understanding of each of the 6 modules including the infographics presented at the end of modules 3 and 4.

By achieving an 80% or greater on this test, you will be awarded an official DollarWise Summer Youth Contest certificate that will demonstrate your completion of the DollarWise Summer Youth Contest, and the extent of your knowledge of key financial education concepts.

The study guide below should provide you with all of the information that you need to complete the 6 Summer Youth Contest modules and the final exam – so read carefully!

Module 1 - How to Set a Budget and Stick to It

Setting a budget is a tool to help you stretch your paycheck as far as it will go. Everyone should use a budget to manage their finances regardless of how much they make or how much money they have in the bank. When creating a budget, there are six steps that should be followed.

These steps include:

1. Knowing your income
2. Determining basic expenses
3. Determining expenses that vary each month
4. Determining what's really important
5. Following your spending and reviewing monthly
6. Keeping track of expenses

*Important! You must base your budget on your **NET** income – the money that you make after taxes, not before.

When establishing a budget, it is particularly important to understand the difference between **fixed and variable expenses**. Fixed expenses are expenses that do not fluctuate such as rent or mortgage payments. Variable expenses are expenses that fluctuate such as groceries, clothes, or entertainment.

Module 2 - The Anatomy of a Paycheck

As you begin branching out into the professional world and hold a job, odds are that you will receive a paycheck for your work. Therefore, it's important to know what one looks like and also to know exactly how much you should expect to receive after taxes and deductions.

Statutory vs Voluntary Deductions

Once you begin making a certain amount of money, you will start to pay taxes on the money that you earn, and you may be subject to additional deductions. These are called **Statutory Deductions**, and they are taken out of your paycheck automatically – meaning that you have to pay them no matter what. These deductions will generally be for: Federal Income Tax, State Income Tax, Social Security, and Medicare/Medicaid.

Statutory Deductions are separate from **Voluntary Deductions** in that **Voluntary Deductions** are optional, and are not taken out of your paycheck unless you ask for them to be. You might ask your employer to have a portion of your paycheck go toward: an insurance policy or account, a retirement savings plan, a specific charity, or a health/childcare plan (for example). But again, this is all up to you. It is very important to understand the difference between both of these types of deductions.

Gross Earnings vs Net Earnings

Gross Earnings: the money that you make before taxes and deductions.

Net Earnings: the money that you make after all of the taxes and deductions are taken out of your paycheck.

Module 3 - Credit and Debit Cards

There are a few important differences between debit and credit cards to consider before owning either:

Debit cards

A debit card links directly to your personal bank account and allows you to access funds either at your bank or via an Automatic Teller Machine (ATM). Debit cards are generally a secure method of making payments primarily due to the Personal Identification Number (PIN) feature, which allows only you to use it. Debit cards are convenient because you can use them almost anywhere. You also don't have to pay interest on the card when you use it, as you would with a credit card.

Infographic 1 – Your Bank Account: 10 Questions to Ask

There are a lot of factors to consider when opening a bank account and obtaining a debit card. A few questions to consider asking a bank manager when deciding to open an account might be:

1. Does the bank account allow for overdraft protection and does the overdraft protection come with a fee?
2. Do I need to keep a certain amount of money in my account?
3. Is there a fee to maintain the bank account?
4. Does the bank where I am opening this account have a branch near where I live or work?

These questions will help get you started in opening an account and allow you to pick the one that makes the most sense for you.

ATM Fees

It's important to note that ATM fees are generally only applied to you when you try to use an ATM that is not connected to your bank. Otherwise, using the ATM should in most cases be free to use.

Online or Mobile Banking

Most banks will allow you to connect to your bank account online or on your mobile device. By creating a secure username and password, you can access your account information, make transfers, and in some cases make mobile check deposits without having to set foot inside of your bank.

Credit cards

It is very important that you read the fine print of any credit card agreement, and seek advice from a trusted friend or family member when obtaining a credit card. Credit cards allow you access to a personal line of credit – essentially providing you with a loan that you have to pay back. Credit cards almost always carry interest on the amount of credit that you take out – money that you have to pay the credit card company for using the credit card. It is, therefore, very important to understand

your interest rate, and recognize that **credit cards are not free money.** Credit cards also generally require a monthly payment that you should be sure to consider.

Infographic 2: Your Credit Score: How it's Calculated

The primary reason to own a credit card is to help you build your credit. When you first take out a credit card, make payments on a car, or take out a mortgage on a house, you receive a credit score, which can fluctuate depending on how well you manage each of these lines of credit.

A credit score is a three-digit number based on information in your credit report that measures your risk level to lenders.

Credit scores generally fall between 300 and 850. Good credit generally falls between a score of 700 and 749. A fair credit rating generally falls between 650 and 699. The average American credit score is 695.

Increasing your credit score allows you to have more options in your ability to take out larger credit lines to eventually make larger purchases in the future, like a car or a home. When managing your credit, it's important to recognize that the two largest contributors to your credit score are payment history and amounts owed.

Taking out a credit card is usually the first exposure that people have to credit. You can build your credit with a credit card by: paying your monthly credit card fee on time, staying within the limit of your credit card, and paying more than the monthly minimum on your credit card. In fact, it is best to completely pay off the balance of your credit card before it is due to maximize your credit score.

Module 4 - Applying for Federal Student Aid & Infographic 3: Getting Started with FAFSA

Being able to fund your college tuition is critical in making sure that you are able to attend the school of your choice and move forward in your college career. Many students look to federal aid – either through grants or loans – to help pay for college.

To begin the process of seeking federal assistance, prospective college students must fill out the Free Application for Federal Student Aid (FAFSA) with help from a parent or guardian. It's important to note that completing a FAFSA is absolutely necessary in order to apply for any federal aid. And both public and private universities use FAFSAs in their financial aid process.

The purpose of a FAFSA is to determine a student's eligibility for college grants or loans from the federal government. A FAFSA is designed to get a snapshot of your ability and your family's ability to help you pay for college. However, it's the

financial information of your parents that plays the biggest role in determining what type of aid you are eligible for.

Filling out a FAFSA is completely free when you go online to fafsa.ed.gov, or you fill it out and send by mail yourself.

To complete your FAFSA, you will need:

1. Your parents' social security numbers
2. Your parents' federal income tax records
3. Your parents' W-2s and income records
4. Your parents' bank statements and investment records

Financial Aid and Admittance

Most of the time, the fact that you may need financial aid to attend a specific school will not affect your likelihood of admittance. These schools are called **Need Blind** in that they will in no way base their decision to accept you on your financial need, and will fund you at 100% of your demonstrated need so that you can attend.

Other schools are **Need Sensitive** when it comes to admitting students, and they may take your financial need into account when deciding whether to admit you. It is important to know the difference between both types of schools.

After the FAFSA

After you fill out your FAFSA, the school where you are planning to attend will send you an award letter, identifying the awards that you are eligible to receive. These awards will most likely include grants, work-study program opportunities, and various federal loans.

Again, it is imperative that you fill out your FAFSA if you wish to apply for federal financial aid while you're in college. Luckily, the process is quick and easy to do!

Module 5 - The True Cost of Buying a Car

For many, purchasing a car is important for being able to go to work, go to school, or to simply get from point A to point B. Others who live in a place with quality public transportation, the ability to bike safely, or carpool with friends may not need to have a vehicle. If these options are available to you, it may be wise to hold off on buying a car and to save your money.

However, if these options are not available to you, and you must own a car, it's important to understand all that goes into purchasing one.

Most Americans spend roughly 14-16% of their annual income before taxes on transportation costs. This may be either too high, or it may be perfect for you depending on your income and cost of living. With this in mind, it's very important to know your income and what you can afford before you make any major purchases. **Creating a budget is imperative during this process.**

Important costs to consider when buying a car might include: any monthly payments, the cost of gas, car insurance, maintenance and repair, and registration. If you don't yet have your license, you will also need to plan out the cost of taking your driver's test as well.

Some extra costs that may arise when buying a car might also include: a documentation fee, a destination fee, a registration fee, or a sales tax. You should be prepared for these possible expenses as well when purchasing a vehicle.

Module 6 - The True Cost of Renting a Place to Live

Renting a place to live is a big responsibility. When you decide to rent your own place, there are few things that you need to consider. The first, of course, is the monthly cost of being a renter. It is important to make sure that you can afford to rent your place given the income that you make monthly. To do this, you should create a budget and allocate **30% of your gross income** (income before taxes) to your general housing expenses. These housing expenses should include rent, utilities, insurance, amenities, and other costs associated with renting your place.

Aside from the cost of rent itself, your most costly monthly expenses will most likely be your utilities. You also might want to consider purchasing renters insurance to protect your belongings in case of a burglary or a fire. In fact, many lease agreements require that you purchase renters insurance.

To save money, you may also consider having roommates so that you don't have to carry the entire cost of your rent alone.

Moving forward

It is our hope that the information in this study guide provides you with a thorough understanding of the topics that are covered in the DollarWise Summer Youth Contest. We wish you the very best of luck moving forward, and encourage you to use the information that you've learned to hone your personal money management skills and to become the master of your financial future!