

Young Money

Earn It. Invest It. Spend It.

MAKING IT AND KEEPING IT

Hip-Hop Financial Literacy

DO IT YOURSELF

Living the Freelance Life

MAKE YOUR MONEY WORK FOR YOU

Budgets and Banks

DIGGING OUT OF DEBT

Credit Cards and Student Loans

GET INSURED

Protect Yourself

Special Edition Guide:

“Your Life, Your Money” on PBS

» Donald Faison, Host

START SAVING

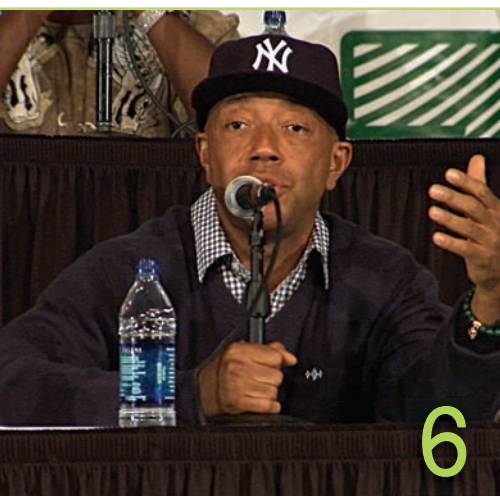
The Key to a Comfortable Future

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Living the freelance life

PUBLISHER
Benjamin P. Levy

EDITOR
Cara Newman

VICE PRESIDENT OF
BUSINESS DEVELOPMENT
Todd Romer

DIRECTOR OF DESIGN
Media Graphics Inc.

COPY WRITER
Rebeca Fernandez

PUBLISHED BY
Young Money, LLC
Office (888) 788-4335
Fax (443) 264-0277

Advertising Inquiries
youngmoney.com/mediakit

College Journalists

Want to write for
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submissions@youngmoney.com.

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Hunt Valley, MD 21031
888-788-4335, ext. 7
subscriptions@youngmoney.com

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“YOUR LIFE, YOUR MONEY” ON PBS

“YOUR LIFE, YOUR MONEY”

OUTREACH AND PROMOTION TEAM

National Outreach & Web:
Pamela Johnson, Ph.D.

National Promotion:
Gwen Mysiak

Director of
Communications:
Darwin McPherson

TELEVISION PRODUCTION TEAM

Producer / Director:
Tom Simon

Writers:
**Jaime Bernanke
and Tom Simon**

Editor:
Dave Velazquez

Segment Producers:
**Dawn V. Brown
and David Pontillo**

Production Executive:
David Rotterman

Executive Producer:
John Grant

September 2009

Dear *Young Money* Readers,

Financial education for young adults has never been more important. If the current recession has shown us anything, it's that the lack of financial literacy has devastating implications. It is vital that we make a change, and that we make it now. This is why the “Your Life, Your Money” and Young Money teams have collaborated to produce this very special edition of *Young Money* magazine. We hope that you find it valuable and that, at the very least, it sparks dialogue about the basics of financial education.

“Your Life, Your Money” is a PBS television outreach venture aimed at young adults. Actor Donald Faison hosts the program which features a dynamic group of young adults from all over the country. These young adults allowed us a look into their lives so that we may learn from their real life personal finance stories.

We invite you to watch the PBS special, “Your Life, Your Money,” airing on your local public TV station this fall*. We hope that you read this special edition of *Young Money* magazine and save it as a helpful planning tool as you confront different financial topics and issues throughout your life. In addition, we encourage you to visit the “Your Life, Your Money” website at www.pbs.org/yourlifeyourmoney for great media clips, tools and games. We also ask that you help spread the word: tell your friends and family about these entertaining and timely resources.

Thank you for your interest and most importantly, thank you for taking an important step toward empowering yourself.

Sincerely,

Your Friends at “Your Life, Your Money” & *Young Money* magazine

HSBC 
HSBC in the Community
(USA) Inc. Foundation



*Check your local listings for air times.

By Cara Newman

IT'S YOUR LIFE and YOUR MONEY

Donald Faison

Learn HOW TO manage BOTH

Every day the news covers stories about the recession—defaulted mortgages, rising unemployment, failing banks—we are constantly bombarded with information about the current economic problems. Because of this, the timing of “Your Life, Your Money,” an informative and entertaining approach to financial literacy produced by public TV station WNED in Buffalo, NY and Working Dog Productions, couldn’t be better. A broad range of fundamental financial information is shared through the telling of real-life stories—real people with real issues. Financial experts, celebrities, and everyday people contribute their personal experiences and expertise. From topics such as basic banking, savings, and money management to credit, debt, loans, and insurance, “Your Life, Your Money” encourages young people to be smart and proactive when it comes to managing their money.

Donald Faison

Donald Faison, the host of “Your Life, Your Money,” is known for his roles in *Clueless*, *Waiting to Exhale*, and *Remember the Titans*, but he is perhaps best known for playing the beloved character Dr. Chris Turk on the popular television series *Scrubs*.

Even though he is doing well now, he wasn't always famous and he didn't always have money. In the beginning of “Your Life, Your Money” Faison says, “When I got my first big movie role I took that paycheck and bought myself a shiny new jeep. Man, I loved that car, but by the time the third payment came due I was out of money and had to hustle and try to hold on to it.”

No matter who you are, or where you come from, you need to learn the basics. “If you're like me, dealing with money was not something you learned in school. I picked it up by trial and error, and I'm still learning,” says Faison.

Why financial literacy is important

Financial literacy is the understanding of basic money management. It is important to know where your money is going, how to make a spending plan, and how to manage your debt. It's also vital that you recognize that everything in our current economic system is intertwined; therefore, some world events are likely to affect you personally.

When a recession hits, everyone is affected. When the stock market dropped, many people lost large portions of their retirement savings. This means less people will be able

to retire when they had previously expected. Less people retiring, coupled with companies cutting back and high unemployment rates, means it will be harder for new graduates to find a job. As if this wasn't enough, income for 25 to 34 year olds has declined from 2001-2007, and it doesn't look like that downward trend is going to change anytime soon. In fact, 48% of young adults are worried about making ends meet.

For too long our society has shied away from talking about money. Now, we are unfortunately seeing

the results of our financial ignorance. It's up to you to take care of your life and your money. It's also up to you to learn how to keep your finances in check. These lessons aren't difficult. Financial literacy is not rocket science or brain surgery, but it is just as important, if not more. If you learn how to manage your money now you'll be better

equipped to deal with the things life will throw at you. The producers of “Your Life, Your Money” and Young Money are here to help. In both the

program and this issue we cover the basics; you will meet students in debt, young people learning how to save,

“If you're like me, dealing with money was not something you learned in school. I picked it up by trial and error, and I'm still learning.”

and even someone who started his own business. In fact, this “Your Life, Your Money” Special Edition Guide is structured to complement the show.

As Donald Faison tells us in “Your Life, Your Money”: “It's a jungle out there; a financial jungle. And it's easy to get lost, unless you have the skills to find your way.”

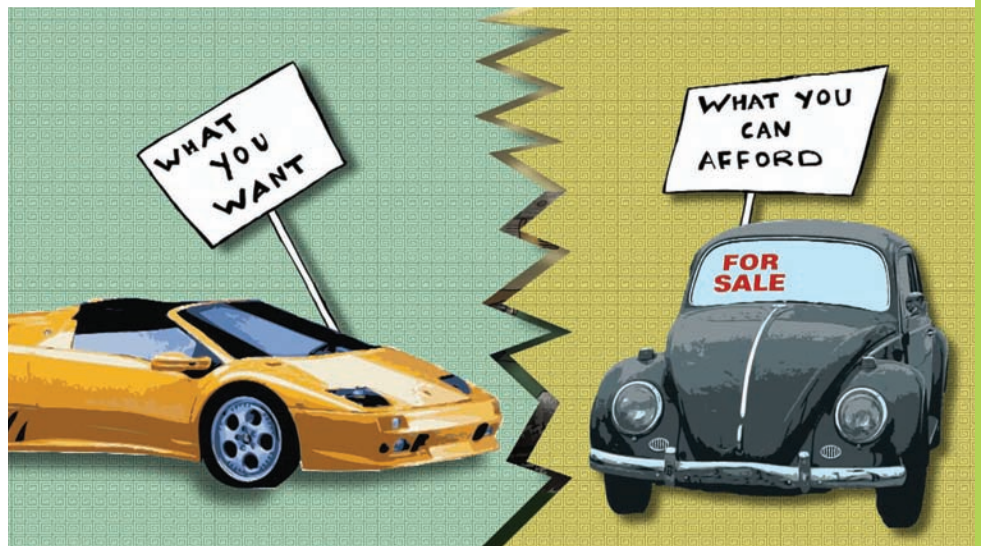
Cara Newman is the editor of *Young Money* magazine and YoungMoney.com.

All statistics, young adult voices, and expert quotes throughout this special edition are courtesy of “Your Life, Your Money.”

WHAT IS THE AVERAGE DEBT OF 22-29 YEAR OLDS?

- a) \$10,250
- b) \$16,120
- c) \$25,175
- d) \$36,250

Answer: b





Russell Simmons

HIP-HOP
SUMMIT
GIVING BACK RESPONSIBILITY
HIP-HOP SUMMIT ACTION NETWORK

Enterprise

L
on

By Cara Newman

MAKING IT and KEEPING IT HIP-HOP FINANCIAL LITERACY

We are currently in a recession. This recession started in December 2007, and as this is being written, is ongoing. So, how did this recession begin? It started with the collapse of the housing market. Next, banks began to tighten the amount of credit they were loaning. Without credit, consumer confidence plummeted, and as people purchased fewer products, more jobs were lost; as the unemployment rate climbed people had less money to spend. As you can see, a recession can be a vicious circle.

“A recession is when your neighbor loses his job. A depression is when you lose your job.”
– Anonymous

Recessions are now considered part of the natural cycle of the modern economic system. America isn't the only country to be plagued by recessions; Germany, the U.K., China and Japan have all been hit by recessions. If one country is in a recession (especially a key country, such as America) it will affect the rest of the world in one way or another before the recession is over.

The economy today: What is a recession?

The National Bureau of Economic Research defines economic recession as a significant decline in the

economic activity spread across the economy, lasting more than a few months. During a recession the Gross Domestic Product (GDP) growth slows, businesses stop expanding,

employment falls, unemployment rises, and housing prices decline.

Recessions have occurred throughout the history of the world.

TIMELINE OF 1900'S RECESSIONS/DEPRESSIONS IN HISTORY



Panic of 1907
Cause: run on Knickerbocker Trust Company deposits caused a monetary contraction

Post World War I Recession 1918-1921
Cause: hyperinflations in Europe, lost production at end of WWI



The Great Depression 1929-1938
Cause: the 1929 Stock Market Crash, banking collapse, unemployment

Recession of 1945
Cause: demobilization from WWII



Recession of 1953
Cause: post Korean War, change in Federal Reserve policy

Recession of 1960
Cause: high unemployment, high inflation, low GNP



What is financial literacy?

Financial literacy is the ability to understand finance. It is an understanding of spending plans, credit management and savings.

In the past decade, financial literacy has become more important. The U.S. Treasury established its Office of Financial Education in 2002; and the U.S. Congress established the Financial Literacy and Education Commission in 2003. In 2006, the Commission published its National Strategy on Financial Literacy. And on January 22, 2008, President George W. Bush signed an executive order creating, for the first time, a President's Advisory

Council on Financial Literacy to improve financial literacy among all Americans.

However, most experts still believe that Americans are not nearly financially literate enough. A 2008 survey by the Jump\$tart Coalition for Personal Financial Literacy showed that a majority of high school seniors in America failed a test on basic personal finance. The consequences of this lack of financial knowledge are significant. In fact, our current economic problems may be directly attributed to our lack of financial knowledge. If people truly understood mortgages, loans, interest and financing, would they have bought houses with mortgages they couldn't possibly afford?

Hip-Hop Summit Action Network

Russell Simmons has been called the Godfather of hip-hop; he is the co-founder of Def Jam records, creator of the clothing line, Phat Farm, and founder of Rush Communications, one of the most successful African American-owned media business in the country. He is the third richest hip-hop entertainer, with an estimated net-worth of \$325 million.

But Russell Simmons isn't your typical multi-millionaire. He is determined to give back to society. Like the man who teaches a village to fish, Simmons' fight against poverty and social injustice involves providing young people with the skills they need to manage their own money and make their own educated decisions.

In 2001, Russell Simmons co-founded the Hip-Hop Summit Action Network (HSAN) which puts on the "Get Your Money Right" seminars on personal finance.

According to Simmons, "Financial literacy is not taught in schools, and it's

not necessarily handed down from generation to generation."

With the backing of Visa, Simmons released the RushCard and BabyPhat RushCard; re-loadable Visa debit cards for people who have problems getting a credit card account. These cards enable their users to build up their credit without going into debt. Simmons says, "I made some bad choices early on, but, I was a little conservative, I was lucky enough that my parents taught me some things. You learn about managing your life, you know, kind of a trial and error."

The HSAN brings together stars of the hip-hop world, music industry executives and financial experts to

continued on page 13

FINANCIAL LITERACY RESOURCES

PBS "Your Life, Your Money":
www.pbs.org/yourlifeyourmoney
 Young Money:
www.youngmoney.com
 Hip-Hop Summit Action Network:
www.hsan.org
 RushCard: www.rushcard.com
 Bankrate: www.bankrate.com
 Jump\$tart Coalition for Personal Financial Literacy:
www.jumpstart.org
 HSBC Bank:
www.yourmoneycounts.com
 Corporation for Public Broadcasting:
www.cpb.org
 Institute for Financial Literacy:
www.financiallit.org
 The Economy Project:
www.cpb.org/economicresponse

ACTIVITY: HOW MUCH DO YOU KNOW ABOUT...

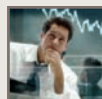
Go through this list and make a check in the appropriate box

	nothing	a little bit	enough to get by	i'm a financial genius
SETTING A BUDGET				
CHOOSING A BANK				
PAYING BILLS ONLINE				
CHOOSING A CREDIT CARD				
HOW COMPOUND INTEREST WORKS				
SAVING FOR RETIREMENT				
HEALTH INSURANCE				
ANY OTHER KIND OF INSURANCE				
DIFFERENT KINDS OF EXPENSES				
STUDENT LOANS				



1970's Oil Crisis
 Cause: oil crisis, stagflation, Vietnam

1980's Recession
 Cause: Iranian revolution, sharp increase in oil prices, high interest rates



1990's Recession
 Cause: Long-term effects of Black Monday (October 1987), savings & loans crisis, beginning of Gulf War, spike in oil prices

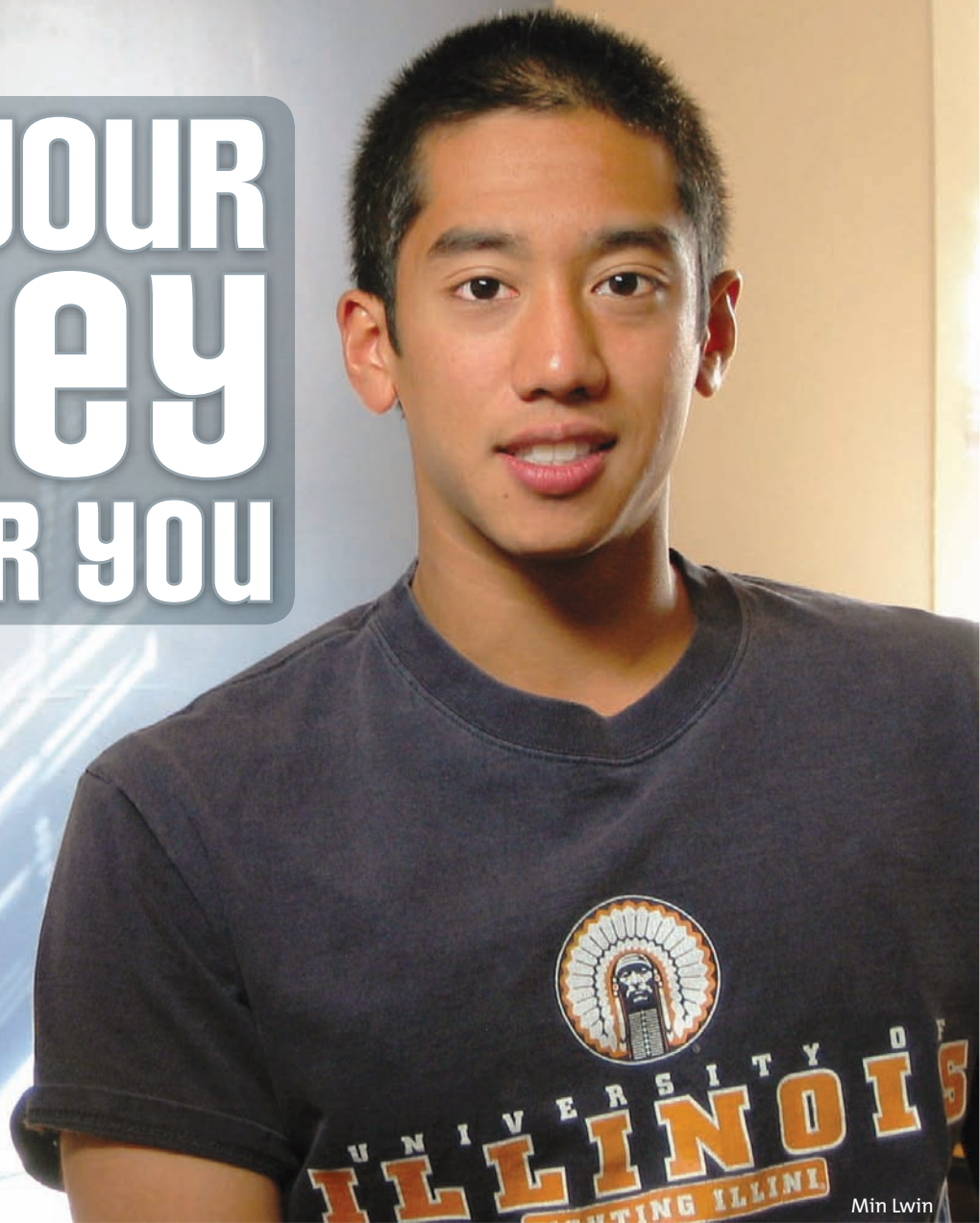
Early 2000's Recession
 Cause: dot com crash, September 11 attacks



Late 2000's Recession
 Cause: collapse of housing market, tightened credit, banks & financial institutions collapse



make your money WORK FOR YOU



Min Lwin

BUDGETS and Banks

By Emily Torres

min Lwin is an engineer living in Chicago. He's living on his own for the first time and trying to manage his money. Min says, "The first thing I did when I got my offer letter from work, I made an Excel spreadsheet and I said, 'Okay, this is the amount of money I'm getting. And these are the expenses that I'm going to anticipate.' I decided I wanted to save like ten thousand dollars. And to reach that goal, then I'd have to try to keep my weekly expenditures to a certain amount. But the problem is, it's really hard to anticipate expenses. It's not like you're spending the same amount every week."



With any financial plan the bottom line is relatively simple: don't spend more than what you make.



What is a budget?

A budget is an itemized inventory of income and expenses in a given period. A budget includes:

- all sources of monthly income
- all required, fixed expenses (rent/mortgage, utilities, phone, etc.)
- any other possible and/or variable expenses

You can prepare a budget using a spreadsheet, financial software, or with pencil and paper.

Setting a Budget

The first step to creating a budget is listing your fixed expenses and your variable expenses. Fixed expenses are expenses that don't change, such as rent, car payments, or insurance premiums. Variable expenses are expenses that change according to how much you use them. Examples of variable expenses are food, clothes, credit card payments, and entertainment. It is also a good idea to divide your list into wants and needs. Wants could consist of entertainment, trendy clothing, and cable TV. Needs are rent, food, gas, electricity and possibly your phone bill.

Before you make your budget, you need to know how much you are spending in each category—you should not guess or estimate your expenses. To get an accurate picture of

“Every penny ought to have a purpose.”

your spending you should keep a money diary. Write down every thing you spend. You may be surprised to discover how much you are paying on little things like coffee and bottled water. Once you know how much you are truly spending, you can easily see where you can cut back, and from there you can go on to create an accurate spending plan.

It's important to realize the difference between wants and needs. Michelle Singletary, the author of *The Power*

SETTING A BUDGET

- Separate needs from wants
- Create a spending plan



WHAT TO LOOK FOR IN A BANK

- No or low minimum balance
- ATMs near work or home
- Pay attention to fees
- Compare interest rates on savings accounts
- Online account access

to Prosper says, “Anytime you go shopping you should ask yourself, is this a need or a want?”

A budget makes it easier to keep track of your bills and pay them on time. It will also help you to set financial goals and actually reach them.

When you are first starting out in life, it's hard to always be practical. It is way too easy to buy things on impulse. You



Michelle Singletary

don't have to nickel and dime every part of your life, but taking a minute to check yourself when buying anything is good practice. Take the advice of Michelle Singletary, “Every penny ought to have a purpose.”

It is important to build a contingency plan, or emergency fund, into your budget. If you lose your job, you're going to have a hard time making ends meet without a paycheck. A typical emergency fund should cover your expenses for three months.

With any financial plan the bottom line is relatively simple: don't spend more than you make. How can you be sure that you're not making this mistake if you don't keep track of what's coming in and what's going out?

It takes dedication and it does take time, but keeping track of your money can bring you rewards that will last long into your life.



ACTIVITY: MAKE A BUDGET

1. For one month write down everything you spend money on, don't leave anything out.
2. Separate your expenditures into categories (rent, bills, clothes, food, entertainment, etc).
3. Separate your categories into needs and wants. Needs are things like rent and bills. Food may fall under the need category while dining out with friends may fall under the want category.
4. Add up everything you are spending for the month (both needs and wants).
5. Subtract that number from the amount of money you bring home each month (your net income).
6. If you have a negative number, you are spending more than you are making. If your number is positive, you are living within your means.
7. Go through your want categories and see where you can cut back.
8. Make a new spending plan. Decide how much you will spend in each category. Hopefully you will have some money left over so you can start saving!

Choosing a bank

With your first job comes your first paycheck. You will need a bank account to cash your check or deposit it. When searching for a bank, think about what you want and need from a bank. Are you going to bank online? Do you need a bank with ATMs and/or a main office close to your house? Do you want free checking? Make a list of everything you want and need in a

Min Lwin shopping

bank. Next, add these items: no or low minimum balance, interest rates, and a list of fees.

When Min was looking for a bank he "was looking at interest rates and maybe any kind of benefits or bonuses."

Some online banks may have better interest rates, but you won't be able to go into an office. You need to



I decided I wanted to save like ten thousand dollars. And to reach that goal, then I'd have to try to keep my weekly expenditures to a certain amount. But the problem is, it's really hard to anticipate expenses. It's not like you're spending the same amount every week.



decide what matters to you. Most traditional banks also have online banking. You can do most of your banking online: pay bills, transfer money, and check your statements. No matter what type of bank you decide to use, it's a good idea to pay your bills online. Paper statements can be easily stolen, and with them your identity.

You may want a checking account that comes with a debit card. A debit card is like a credit card, except that the money automatically comes out of your checking account. When faced with the "debit or credit" question you

should answer "credit." The money comes from the same place, but your PIN number cannot be accessed by identity thieves. Also, your friendly shop clerk is charging you an extra 50 cents each time you say "debit." Those small charges really add up.

When you are just starting out it is important that you choose a bank account with no, or a low, minimum balance. You don't want to get hit

with high fees if you go under the minimum.

You may also want to consider a credit union. A credit union differs from a bank because credit unions are owned by the members who have accounts with the credit union. In other words, a credit union is owned by you. Credit unions may have lower fees and better loan rates. Many credit unions are smaller than banks, but they often offer the same financial services; including savings accounts, checking accounts, credit cards, debit cards, online banking, and certificates of deposit. Credit Unions are insured by The National Credit Union Administration (NCUA), the federal agency that administers the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF, like the FDIC's Deposit Insurance Fund, is a federal insurance fund backed by the U.S. government. As long as you choose a bank or credit union that is either FDIC or NCUSIF insured, your money should be safe if anything happens.

Emily Torres is a San Francisco-based writer; she has written for Salon.com, YoungMoney.com and many other publications.



BUDGET GUIDELINES

- 30% on housing costs
- 20% of your monthly take-home pay on debt payments
- 10% on savings

DIGGING OUT OF DEBT

CREDIT CARDS & STUDENT LOANS



Amanda McCormick

Debt is a four-letter word we all have to face. Any time we spend more than we make, we're probably making up the difference by gaining some debt. It's a common problem, yet it's something many of us know very little about. For example, did you know that having some debt can actually be a good thing? Did you know that the way you manage debt affects your credit score? Do you know what your credit score is? These are just a few of the questions you should know the answers to, but more importantly, they're questions you should be asking yourself.

Credit cards

Our first experience with debt is usually through credit cards. They're easy, convenient and spend just like cash. But as Florida State University student Amanda McCormick found out, credit cards can also be dangerous. Amanda used her new credit card to pay for college necessities like food and books, but she quickly found herself in serious debt. She remembers the day she received her card, "They sent it to me in the mail. I

Deferment: time period in which payments are not required

Forbearance: temporarily stops loan payments because of financial hardships



activated it in 45-seconds, spent money on it twenty minutes later." Over the next six months, between five cards, she spent less than \$4,000, but after compiling interest, late fees and penalties, she found herself over \$30,000 in debt. Amanda's story is not uncommon. In fact, 66% of college students have a credit card and the average graduating student has credit card debt of \$2,623.

Amanda could have avoided a considerable amount of debt if she had selected a credit card that was a little more "user friendly." As

Beth Kobliner, author of *Get a Financial Life*, points out, “When you’re comparing credit card offers, you want to get the lowest interest rate possible, and you don’t want to pay annual fees.” Also, make sure you read the fine print to understand how your interest rate can change and what your APR is. APR stands for annual percentage rate, and it shows your monthly fees and rates in annual terms. Make sure when you’re comparing credit cards you’re always comparing the APRs.

The two most important rules to using credit cards responsibly are to always pay your balance on time and to watch how much you spend. These may seem like easy concepts, but an MIT study showed that when credit cards are used, consumers tend to spend anywhere from 30% to 100% more than if they used cash! The key to smart spending is to resist temptation and make sure you only buy what you have enough cash to pay for when your bill comes.

If you find yourself in credit card debt, take a deep breath. Fortunately, there’s plenty of help available. If you’re in debt, try contacting a consumer credit counselor who will help you explore your options and form a payment plan. That’s what Amanda McCormick did when she

ACTIVITY: MANAGE YOUR DEBT (EXAMPLE)



NAME OF DEBT	UNPAID BALANCE	INTEREST RATE	ORDER TO PAY OFF
VISA	\$18,000	11.99%	2
AMERICAN EXPRESS	\$8,000	14.99%	1
BEST BUY	\$3,000	1.99%	5
CAR LOAN	\$6,000	7.99%	3
STUDENT LOAN	\$25,000	6.80%	4
TOTAL	\$60,000		

ACTIVITY: MANAGE YOUR DEBT



NAME OF DEBT	UNPAID BALANCE	INTEREST RATE	ORDER TO PAY OFF

In order to manage your debt effectively, you first need to get organized. Try this activity, which will help you calculate your total debt and form a plan to pay it off efficiently. Fill out the table above and rank your interest rates from highest to lowest. This becomes the order that you should pay off your debt.

found herself \$30,000 in debt and without any foreseeable way of paying it off. She met with consumer credit counselor Duana Palmer who was able to help Amanda work with her creditors to reduce her interest rates and consolidate her bills into one monthly payment. By following Duana’s plan, Amanda was able to start chipping away at her debt so it won’t follow her through her life. Even paying as little as \$10 more than the minimum monthly payment could significantly reduce the length of time

it will take for someone to become debt free.

Student loans

Remember, not all debt is bad. Take student loans for example, they allow you to get an education and increase your earnings potential. With so many different types of student loans available, this type of debt can be confusing. To simplify student loans you should first learn the two basic types of loans: subsidized and unsubsidized. As Financial Advisor Peter Bielas explains, “Subsidized student loans are those loans where the government is paying the interest while you are in school.” These types of loans are more attractive than unsubsidized loans, where the interest continues to accrue even while you’re still in school. Peter explains that having an unsubsidized loan could mean that a \$10,000 loan taken out during your

freshman year could grow to \$14,000 by graduation day. Because so much money is at stake, it’s important to know what your monthly payment will be on your student loans when you graduate. According to Peter, this is crucial because when you’re applying for your first job, you need to know if the salary you’re being offered is enough to cover the loans you’ve taken out.

Credit score

Between student loans and credit cards, many young people find themselves in significant debt as they enter the “real world.” This debt will impact the rest of their lives because it’s reflected on something very important—your credit score. Your credit score contains the history of every credit relationship you have, including credit cards, student loans, car loans, home loans, etc. The goal is for your credit score to be as high as possible, and as you pay your bills on time, your score improves. If you miss a payment or max out your credit

Amanda McCormick at work

WHAT TO LOOK FOR IN A CREDIT CARD

- Low interest rates
- No annual fees
- No hidden penalties or charges



Peter Bielagus

cards, your score suffers. Banks and lenders use your score to determine your level of credit risk. A high credit score means you are a low risk and you will subsequently be charged lower interest rates on your loans. As Peter Bielagus explains, “Maybe tomorrow, you and I both go to buy the exact same car on the exact same day. Because of my terrible credit score, I will pay \$7,000 more dollars in interest to buy that car than you will, simply because of this one number.” Because your credit score is so important, you need to check it regularly. In fact, you’re entitled to receive a free copy of your credit report each year; you can get this at www.annualcreditreport.com. You can also visit the three reporting bureaus: TransUnion, Equifax and Experian.

“Maybe tomorrow, you and I both go to buy the exact same car on the exact same day. Because of my terrible credit score, I will pay \$7,000 more dollars in interest to buy that car than you will, simply because of this one number.”

Remember, you want a high credit score and low to no debt. The next time you think about using your credit card, think about Amanda McCormick. She is still trying to dig herself out of debt. However, her experience has taught her a lot. According to Amanda, “The simplest structure is always the best; spending money you don’t have just complicates things.”

Matthew Brandeburg, CFP® has six years of fee-only financial planning experience and runs his own financial advisory practice based in Columbus, OH.

MAKING IT AND KEEPING IT CONTINUED

help young people learn that managing their money is an essential life skill. According to the HSN website, “The HSN uses the cultural relevance of hip-hop music to serve as a catalyst for education advocacy and other societal concerns fundamental to the empowerment of youth.” In addition, they foster the “belief that hip-hop is an enormously influential agent for social change, which must be responsibly and proactively utilized to fight the war on poverty and injustice.”



When we first started the Hip-Hop Summit, we found out we had underestimated the readiness, the thirst and hunger of young people for this material.



Dr. Benjamin Chavis, the President and CEO of the Hip-Hop Summit Action Network, and a 40-year veteran of the Civil Rights Movement, says, “When we first started the Hip-Hop Summit, we found out we had underestimated the readiness, the thirst and hunger of young people for this material.”

“You know, no matter how rich you are, you need to be able to afford your lifestyle,” says Simmons. “The summit has given many people their first steps. They come out empowered, connected, feeling like they can get their financial situation in order, get their house right, or their money right.”

Cara Newman is the editor of *Young Money* magazine and YoungMoney.com.

Statistics and quotes courtesy of “Your Life, Your Money.”

Dr. Benjamin Chavis



Balancing school, busy social lives and budding careers may make saving money the last thing on the 'to-do' list of most 20-somethings, but according to experts, young adulthood is the primetime for planning a secure financial future.

D. Woods, a member of the platinum-selling pop group Danity Kane, moved back home to live with her mother so she could start saving money. Even though the success of Danity Kane brought Woods some fame, she was still working on making her fortune. "My mother definitely sat me down when I got my first big check, and she said, 'Take this and put it over here, forget that you even have it.' And it definitely came in handy because there was a big dry spell, and it was scary," says Woods. To make saving easier, she organized her money into three different bank accounts—a checking account, a savings account, and an account at a credit union. She also put some money into CDs which she can't touch, but earn her more interest.

Any financial planner will tell you that those who start saving early benefit the most; they are putting time on their side. Just ask your parents if they are saving for retirement

\$TART Saving

By Shawna Kenney

THE KEY TO A COMFORTABLE FUTURE



- Start saving early
- Create an emergency fund
- Invest in a retirement savings account

D. Woods

and when they began—then ask them if they wish they had started saving earlier. Many of us can learn from our parents' choices, both good and bad. Maria Cortez, for example, is part owner of her family's restaurant in New York City, which has caused her to think about her own future.

"My mom just showed me what she's going to be getting for Social Security, and honestly, it's very little," she says. "I want to be in a better situation." Cortez sought the help of a financial advisor to help plan for her parents' retirement as well as her own.

According to Greg Plechner, a Retirement Advisor and Director of Financial Planning for Greenbaum and Orecchio, Inc., there are two approaches to saving for retirement: "One approach is to open up a retirement plan through your business. Alternatively, you can establish an IRA account."

Stuart Ritter, who works as a Certified Financial Planner at T. Rowe Price and as an Instructor of Personal Finance at Johns Hopkins University, tells his college students, "It's easier to save

now, as a young person, because the amount you have to put away if you start early is smaller. As you get older, you'll have actual financial responsibilities, when currently they may only be pizza and beer." He suggests saving 10-15% of your income for retirement using an Individual Retirement Account (IRA) or Roth

IRA (which are not tax-deductible, but usually have fewer withdrawal restrictions). IRAs allow you to set aside money each year that will

accumulate interest tax-free or tax-deferred.

Another option is to participate in your company's 401(k) plan, if one is offered. A 401(k) is an employer-sponsored retirement plan. These often offer a company match, which means the company matches part, or all, of what you put in. This is free money, so if your company offers a match you should definitely take advantage of it.

In addition to saving for retirement, most experts suggest that everyone should have an emergency fund consisting of at least three months' worth of living expenses. You should be able to get your money if you

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STARTING EARLY CAN MAKE A BIG DIFFERENCE

Compound interest is the concept of adding accumulated interest back to the principal so that interest is earned on interest from that moment on. Compound interest can be earned daily, weekly, monthly or yearly. Generally, the more times an amount is compounded, the more money you can make. For example, let's say at age 20 you start saving \$5,000 a year in an account with an 8% rate of return. By the time you are 65, compound interest will have turned your annual \$5,000 investment into \$1,932,528.

COMPOUND INTEREST CHART

SINGLE CONTRIBUTION OF \$5,000	Current age	Years until age 65	Balance at age 65	Cost of waiting in dollars	Cost of waiting in %*
	20	45	\$159,602		
	30	35	\$73,927	\$85,676	54%
	40	25	\$34,242	\$125,360	79%
	50	15	\$15,861	\$143,741	90%
Rate of return: 8% *How much less money you have than if you'd started at age 20					
ANNUAL CONTRIBUTIONS OF \$5,000	Current age	Years until age 65	Balance at age 65	Cost of waiting in dollars	Cost of waiting in %*
	20	45	\$1,932,528		
	30	35	\$861,584	\$1,070,944	55%
	40	25	\$365,530	\$1,566,998	81%
	50	15	\$135,761	\$1,796,768	93%
Rate of return: 8% * How much less money you have than if you'd started at age 20					

You can open an IRA account with as little as \$100.



GET INSURED PROTECT YOURSELF

By Lisa Montanarelli

“YOUR LIFE, YOUR MONEY” ON PBS



Rochelle James

If you live in the U.S. and want to protect your financial future, get good health insurance. Barely anyone in this country (besides the extremely wealthy, like Bill Gates) can afford a major medical crisis without health coverage. “The biggest reason people go bankrupt,” says financial counselor Ann Diamond, “is because they had a health emergency and the bills were so overwhelming that there’s no way they could possibly pay them.” A Harvard study published in 2005 found that medical expenses contributed to 50 percent of all bankruptcy filings. Every 30 seconds someone in the U.S. files for bankruptcy following a costly health crisis.

Rochelle James is now an electrician with a union job, but things weren’t always so good for her. “I didn’t come from a poor background,” she says. “But because of unfortunate circumstance, I did end up at the very bottom.”

“ Every 30 seconds someone in the U.S. files for bankruptcy following a costly health crisis. ”

Insurance

"It's amazing to me," says Beth Kobliner, author of *Get a Financial Life*, "that with all the talk in our country about health insurance, 20 million people age 18 to 34 still don't have it. It's a huge problem." You may think you don't need health insurance because you're young, but you probably know or have heard of someone who received an unexpected diagnosis or had an accident that led to massive medical expenditures. It's unsafe to assume this can never happen to you. We're all at risk, and insurance allows us to manage our risk: we agree to a small guaranteed loss (the monthly premium we pay the insurance company) and in return, that company protects us against a huge unforeseen loss that might ruin us financially.

Then why stop at health insurance? Why not auto insurance, life insurance, pet insurance, kidnap and ransom insurance, and any number of other bulwarks to save us from the poorhouse?

It's amazing to me, that with all the talk in our country about health insurance, 20 million people age 18 to 34 still don't have it. It's a huge problem.

You don't need insurance for things you don't have or near-impossible disasters. Volcano insurance probably doesn't make much sense, unless you live in Hawaii, and you don't need crop insurance if you're not a farmer.

But what can't you afford to lose? Here are some kinds of insurance you may need as a young adult living in the U.S.

1 in 3 young adults lack health insurance

\$3,300: average cost of an uninsured hospital visit



Health insurance

As we said, you need it. If you work full-time, your employer may provide health insurance through a group plan. The way this works is that every member pays a premium, and the premiums of those who don't have high medical expenses help cover the cost of those who do. If you're self-employed, you'll need to find and purchase your own health insurance through an individual or group plan. Many individual plans don't cover "pre-existing conditions," which can include any health issue that requires medical treatment before the date your new coverage starts. If you've had no recent or chronic health problems requiring medical attention, you may be fine with individual insurance. But most individual



RENTER'S INSURANCE

Average annual cost: \$150-\$300

Average coverage: \$35,000



Beth Kobliner

plans exclude people with certain pre-existing conditions that may cost the companies millions of dollars. Read the fine print carefully. If you have one of these conditions, your best bet may be to join an organization or union (such as the Freelancers Union) that offers a group plan. Health insurance policies vary widely, so be sure to read the benefits carefully. Don't just get the plan with the cheapest premium. A policy with a \$10,000 deductible won't help if you can't come up with \$10,000 out of pocket.

Don't forget about dental insurance. Many employers no longer offer dental in their suite of benefits. Do some research on how much a cleaning, check-up and filling will cost without it, and then decide if you need it. Even if you never have a major mouth problem, everyone needs their teeth cleaned at least once a year.

Disability insurance

If you're like most of us, your most valuable asset is not your home or your car, but your capacity to work and earn a living. The U.S. government provides Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI). These two programs would ideally provide a safety net for every citizen who is disabled, blind, or over 65

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Tim Bouchard



In today's bleak job market, many people who never considered self-employment before are venturing out on their own. These newly minted entrepreneurs have much to learn about the freelance life, including how to find their market, attract a regular stream of clients, do their taxes, and ensure that they have the best possible health insurance.

Self-employment can be anything from working as a freelancer (or a contractor) to starting your own business. While there are many differences between being a freelancer and owning a business, both of them involve making opportunities for yourself and being smart enough to handle your finances.

Tim Bouchard, a Web designer in Buffalo, New York, started his own business before the recession, but he's still discovering the ins and outs of self-employment. When Tim first graduated from college, he got a job with a Web design firm. But after learning "the tricks of the trade," he explains, "I decided to break off into my own business because I personally love having creative control and a close relationship with the clients from start to finish."

Tim is in the process of building his clientele. One disadvantage of self-employment is that you don't always know

LIVING THE FREELANCE LIFE

By Melicia Trumball

Remember the old, pre-recession days when the career gurus asked, "Are you living for your passion or your paycheck?" Rocketing layoffs have changed the financial landscape and posed new questions: Are you living from unemployment check to unemployment check, or are you using your new free time to turn a hobby you love into the career of your dreams?

FAMOUS FREELANCERS



Oprah Winfrey
Media



Ben & Jerry's
Ice Cream

Pablo Picasso
Painter



P.T. Barnum
Entertainment
(Barnum & Bailey Circus)



Jeff Bezos
Internet (Amazon)

Alvin Ailey
Dance

PHOTO BY:
CARL VAN VECHTEN



COURTESY: HARPO, INC



Mary Kay Ash
Cosmetics
(Mary Kay)



Warren Bechtel
Construction



COURTESY: AMAZON

where your next paycheck is coming from. "The workflow isn't always consistent. I spend about 20 percent of my week searching out new jobs."

Entrepreneurs also have to manage their own business finances. This means knowing your daily operating costs. For instance, Tim has to make sure his Web design company, Sharp Cut Media, has the most up-to-date technology and software. He also pays for copy paper, gas mileage, Web hosting, and many other necessities that his employer would cover if he still worked for a Web design firm.

Since self-employed people have to spend money to make money, the IRS allows them to deduct their business expenses from their gross income, but they also have to put aside part of their gross income for taxes. When you work for an employer, you pay some taxes automatically as you earn money: part of your income is withheld from each paycheck to cover your taxes, social security,

Medicare, and possibly your health insurance.

When you work for yourself, nothing is withheld. You have to keep meticulous records of your income and business expenses. If the IRS thinks you owe them more than you've paid, they may audit you. "It's a pay-as-you-go tax system," explains *Washington Post* personal finance columnist Michelle Singletary. "The government wants their money as you earn your money. If you have not paid enough into the tax system based on your income, you are penalized for that. The IRS does not play. They will come after you, and the penalties for not paying are stiff."

Freelancers are generally advised to save a third of their gross income for taxes. Tim puts aside 30 to 35 percent for taxes and 15 to 20 percent for business

SET ASIDE

- 30% for taxes
- 15% for business expenses and health insurance
- 10% for retirement

expenses and health insurance. His father, a certified financial planner, advises him to save 10 percent for retirement as well. If you're self-employed,

you also have to provide your own pension. You don't have an employer who offers you a pension and 401(k) plan and directly deposits part of your wages into your retirement account.

Freelancers have to keep track of their own money, or hire someone to do it for them. Some freelancers are great at saving and investing, but many hire accountants and certified financial planners to help with filing taxes, investing, and saving for retirement.

Health insurance is among the thorniest challenges freelancers face. When you work for yourself, there are no pre-selected employer health plans you can sign up for, you have to scout out your own. You have the option of applying for an individual plan, or joining a union or organization that offers a group plan (like the Freelancers Union based in New York City).

Whether you are working for yourself or as part of a company, what matters most is that you are happy.

Everything is an opportunity for us to better ourselves. The important thing is what you do with the opportunities you have; if you continually "aspire up" you will prosper.

As Tim Bouchard says, "I live a life of not knowing what I will make in two months or what I will be working on. You could say that it is the ultimate motivational tool. I work more hours than I used to, but I do get the flexibility to work those hours into my day as I see fit. Everyone loves feeling accomplished in one way or another, I am no different."

Visit Tim's site at www.sharpcut.net

Sample Expenses

Office supplies:
\$150/year

Latest software:
\$200/year

Office equipment:
\$2,000

Mileage: \$50/month

Web hosting:
\$220/year



Melicia Trumbull has been self-employed for more than 10 years.



ACTIVITY: ARE YOU LIVING FOR YOUR PASSION OR YOUR PAYCHECK?

Take out a sheet of paper. Quickly write down (without thinking) five things that you most want to do. Now, review them. Are they pointing you towards a career? For example, if you wrote down write a novel, create a TV pilot, own my own magazine, and travel the world, then you may want to consider becoming a travel writer. There are a million things that you can do. It's up to you to fight for the life that you want.



Michael Bloomberg
Financial Information

Richard Branson
Virgin Group



Andrew Carnegie
Steel (US Steel)

Walt Disney
Entertainment



Debbi Fields
Cookies
(Mrs. Fields)

Bill Gates
Software
(Microsoft)



Donald and Doris Fisher
Clothing (Gap Inc.)

START SAVING continued

IT'S NEVER TOO EARLY TO START SAVING FOR RETIREMENT

PERCENTAGE YOU'LL NEED TO SAVE FOR RETIREMENT

Example: If you are 35 years old and have already saved half of your salary (multiple = .5), you need to save at least 15% of your salary each year from now until your retirement date.

Amount you have already saved for retirement:

÷

Annual salary:

=

Multiple:

Round this number to the nearest multiple below

MULTIPLE OF AMOUNT OF SALARY ALREADY SAVED

	0x	.5x	1x	1.5x	2x	2.5x	3x	
25	10%	8%	5%	3%	-	-	-	If you're in this range, your savings strategy is on track.
30	14%	11%	8%	5%	2%	-	-	
35	18%	15%	12%	9%	6%	3%	-	
40	25%	22%	19%	15%	12%	9%	5%	
45	37%	33%	29%	25%	21%	18%	14%	
50	56%	51%	47%	42%	38%	33%	29%	
55	95%	89%	83%	77%	71%	65%	59%	

These results are based on your age and how much money you have already saved, assuming you retire at age 65. The chart assumes your salary increases 3% annually for inflation and that you earn 8% on your investments in a tax-deferred account before retirement. When you retire, it assumes your initial withdrawal amount will be 4% of your balance at that time.

Charts courtesy of T. Rowe Price.

need it, while it is also earning some interest. If you hide your savings under your mattress you will actually



D. Woods at the recording studio

lose money in the long run due to constant inflation. Your best bet is to open up a savings account or CD.

Beth Kobliner, author of *Get a Financial Life*, explains that, "a CD, or certificate of deposit, is like a savings account, except that you promise you'll keep your money in for a set longer period of time." Because of this promise, the interest rate on a CD is usually higher than that of a

bank savings account. Whether you are considering putting your money into a savings account or a CD, make sure the financial institution is FDIC-insured. This means that the government is insuring your money up to a set amount, and if your bank goes out of business you won't lose your savings. Currently, the basic insurance amount is \$250,000 per depositor, per insured bank. Check FDIC.gov for the most up-to-date information.

Putting money aside doesn't have to be painful. Ritter suggests everyone try saving 15% of their monthly income for at least three months, as a test. This isn't as hard as it sounds, think about it this way: if you put aside 5% of your paycheck each month and your company matches you 5%, you are already saving 10%.

Just remember, these days, there are few sources of retirement income other than your own savings. Stuart Ritter reminds us that, "there are no loans, scholarships or work-studies in retirement. You might be able to work, but that's about it."

FINANCIAL TERMS

An IRA (Individual Retirement Account) is a private savings plan set up with a bank, broker or other financial institution. Interest either accumulates tax-free or tax-deferred.

A 401(k) is an employer-sponsored retirement plan.

Tax-deferred means that you postpone paying taxes on your earnings until a later date. This allows you to save money (and earn interest on those savings) in the present and pay taxes in the future.

Shawna Kenney is an author, freelance writer and writing instructor. She co-teaches online writing workshops at www.lifesabitchbooks.com. Her works have appeared in *Veg News*, *Juxtapoz*, *Transworld Skateboarding*, and the *LA Weekly*, among others.

ACTIVITY: MAKE A BUDGET

1. Open a savings account. Research and compare interest rates on regular savings accounts, money management accounts and CDs; bankrate.com is a good resource to get you started. Go back to the budget you made in the section "Make Your Money Work for You." How much are you able to save each month?
2. Open a retirement account. Ask your company if they offer a 401(k) and a company match. If they do, start contributing. If they don't, start researching IRAs.

GET INSURED PROTECT YOURSELF continued



ACTIVITY: RESEARCH A TYPE OF INSURANCE YOU DON'T HAVE. If you don't have health insurance, start there.

Questions to ask when shopping for an individual insurance plan:

How much will the plan cover toward your lifetime medical costs?

What are the premiums?

Are there any circumstances in which the premiums will increase?

Will I be able to automatically review my insurance at the end of the term?

How much will I have to pay out-of-pocket before my insurance kicks in?

What type of pre-existing conditions and family history will I be required to provide?

and uninsured or underinsured. But the monthly stipends are so low that many people can't get by.

Many employers offer optional disability insurance for a small fee. It's usually worth the cost. As a general rule, you should keep enough money in savings to cover your living expenses if you can't work for three months. But what if you need more time to recover, or become permanently disabled? Sometimes even minor accidents cause debilitating pain that makes it hard to get to work or do your job, and it's reassuring to know that if you can't work for a long time, you might still receive 60 percent of your income. If you're self-employed, some insurance companies offer individual plans and some unions and organizations that offer group health insurance let you opt for disability insurance as well.



Rochelle James at work

One major issue with disability insurance is that most disabled people want to continue working in some capacity, and most disability plans penalize you for working. Only "own-occupation" disability insurance allows you to claim disability if you can no longer work at your regular job, but choose to do something else.

Life insurance

Life insurance is primarily for people who are financially supporting children, spouses, domestic partners, disabled people, or older adults. If no one depends on you earning income, you probably don't need life insurance.

Auto insurance





Almost all states in the U.S. require car owners to have auto insurance, though states vary in the minimum level of coverage set by law for liability insurance. Some states require you to show proof of financial responsibility if you choose not to purchase insurance. If you drive, but don't own a vehicle, it's still wise to have insurance in case you have an accident when you're behind the wheel of someone else's car.

Renter's insurance

If you rent an apartment and don't own anything of value, you may not need renter's insurance. But if you have a brand new LCD HDTV or other expensive property, you might consider this kind of coverage. Estimate how much your stuff would cost to replace, because this will determine the cost of your premium. Some landlord's require you to have it in case of an accident, such as a fire or overflowing bathtub.

Lisa Montanarelli is co-author, most recently, of *The First Year – Hepatitis C: An Essential Guide for the Newly Diagnosed*.

OTHER TYPES OF INSURANCE TO CONSIDER:

	HOMEOWNERS INSURANCE: Necessary if you own your own home.
	LAPTOP INSURANCE: Your renter's or homeowner's insurance might cover a stolen laptop but what if you drop it, or it gets stolen outside your home?
	IDENTITY THEFT INSURANCE: It might not be worth the cost, but if you are really worried ask your bank or financial adviser.
	PET INSURANCE: If you have a dog or cat you should look into this. Pet insurance premiums are usually low. Hopefully your faithful companion will never need hip surgery or dialysis, but even regular visits to the vet can be expensive, and pet insurance can help you cover a large part of the cost.