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FINANCIAL LITERACY FOR KIDS

**FIVE**  
**THINGS YOU**  
**NEED**  
**TO KNOW ABOUT**  
**MONEY**

**Money expert Jean Chatzky shares  
her top tips for financial success.**

# 5 Steps to Financial Success

Top-five lists are all over the Internet. You'll find everything from the top five most popular dog breeds (Labrador retriever is Number 1) to the top five countries that consume the most pasta (the U.S. is first, topping even Italy!) Well, here are the top five things you need to know about money. This top-five list will never change. If you can learn—and stick to—these lessons, you'll be set for life.

—By Jean Chatzky

## DOES MORE MONEY MEAN MORE HAPPINESS?

Having a lot of money sounds pretty nice, right? But once you have enough to live comfortably—which means being able to afford a home, a car, and dinner out once in a while—more won't make you happier. Being comfortable costs about \$75,000 a year, research has shown. But that's a national average. As you see on the map on page 4, it costs a lot more to live in New York than in Tennessee. How does your home state stack up?

# 1

Earn a decent living.



To pay for a nice life, you have to earn enough money. How much is that? The average household **income** in America is about \$52,000 a year. Where you live plays a big role in how far your money will go (see page 4). It's cheaper to live in Detroit, Michigan, than it is in Cincinnati, Ohio, for example. (When you are an adult, if your employer asks you to move to a place with a higher cost of living, be sure to ask for a raise.)

# 2

Spend less than you make.



Life is full of emergencies and small surprises. You get strep throat and have to go to the doctor. You forget your mother's birthday—*oops*—and have to buy a last-minute gift. If you spend everything you make, you have nothing left to bail you out of these small jams. Learning to do this is difficult, but it's important. Don't make excuses. A good rule of thumb is to try to save 15% of every dollar you bring home.

# 3

Save, then invest, the money you don't spend.



Save money for emergencies and things you'll need in the next few months or years. Put it in a bank savings account. It will earn a small amount of **interest**, but you won't lose any of it. After that, you can invest your money. That means buying stocks, which are small pieces of companies, or mutual funds, which are groups of many stocks and other investments purchased together. You might make a profit when you sell them. But, unlike savings, investments can also lose money. That's why you should only invest money you don't need for at least five years.

# 4

Protect your financial world.



There are some emergencies and surprises you can—and should—save for, but others cost too much. That's why adults should protect themselves by buying insurance to replace things you couldn't replace on your own—homeowners' insurance for your house, renters' insurance for the belongings in your apartment, auto insurance for your car, and health insurance in case you end up in the hospital. Adults who take care of kids should buy life insurance. It provides security in case something happens to the adult.

# 5

Give back.



If you want to feel good about your money, the best thing you can do is give some of it—or some of your time—to a cause you believe in. How much? That's up to you.

### POWER WORDS

- income:** money that is earned from work or investments
- interest:** a charge for borrowed money, usually a percentage of the amount borrowed

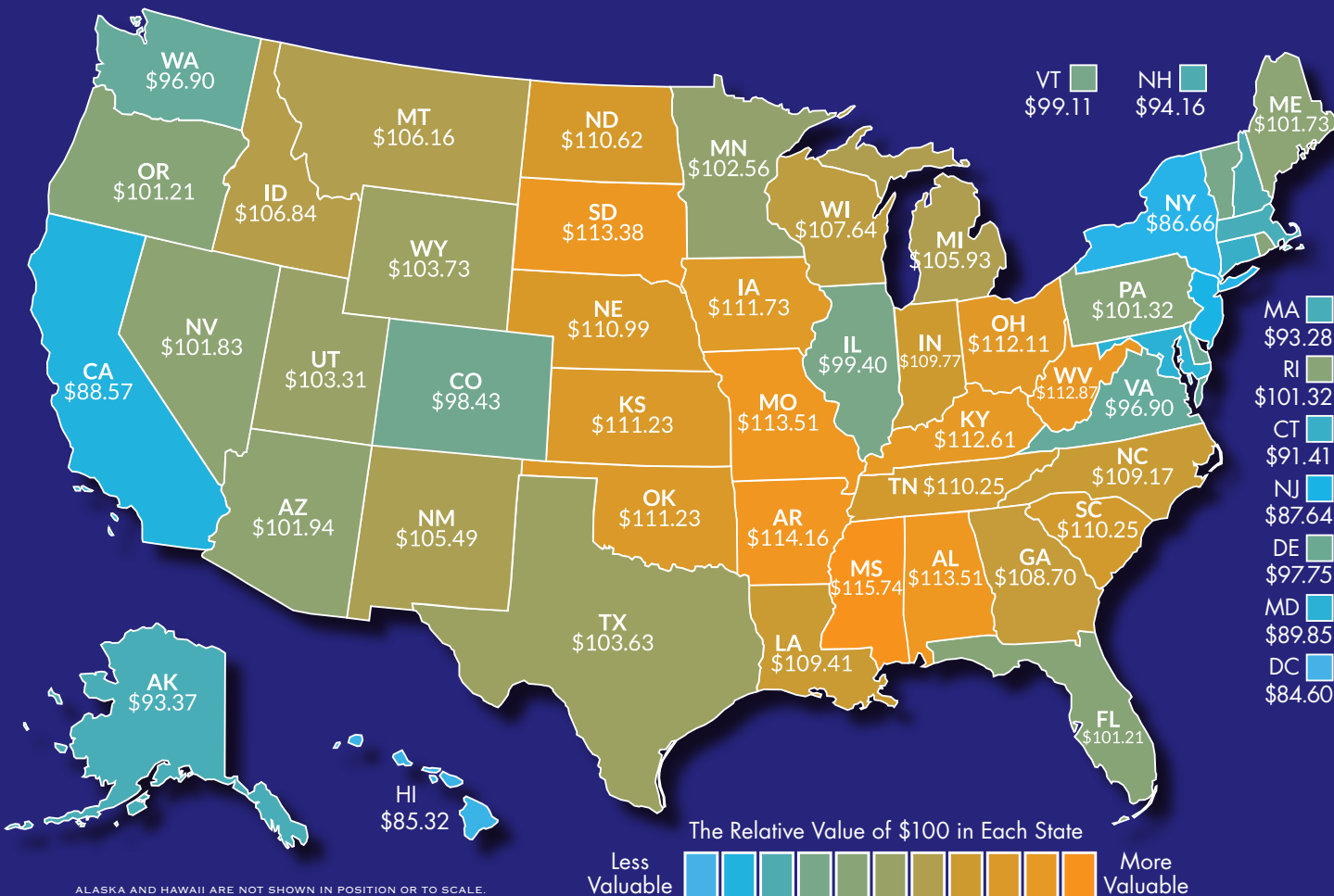
### FAMILY CHALLENGE

#### What's your top money priority?

Talk with your family about each of these five steps. Which do you think is most important? Why? Do your family members agree?

# How Much Does It Cost to Live in Your State?

Have you ever heard adults complain about the cost of living? The term describes the price you pay for things you need, including housing, food, taxes, and health care. These costs vary widely depending on where you live. Less money will go further in a cheaper state, but might not be enough in a more expensive part of the country. Look at the map below to see how much \$100 is really worth in your state! The lower the number on the map, the more expensive the state.



SOURCE: BUREAU OF ECONOMIC ANALYSIS, REGIONAL PRICE PARITIES



## ASK JEAN

Jean Chatzky is a money expert.

**Who decides how much things cost?**

—Sasha Fried, 10, Chappaqua, New York

There are really two deciders. The company or person who makes the product usually puts the first price on it. This price is based on how much it costs to make, distribute, and advertise the product as well as how

much people will be willing to pay for it. But the market, or the potential buyers of that product, also plays a big role in determining the price. If the market decides the price is too high, the product will just sit there. People won't buy it. That's when companies typically put their products on sale.

**Do you have a question? Write to Jean at [tfkasks4you@timeforkids.com](mailto:tfkasks4you@timeforkids.com).**