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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 a pretty big deal. On 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. Next year, the German shepherd may top the Lab and Italians may eat more pasta, but 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? You can buy whatever you want, whenever you want. But before you set out to make millions, know that 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.



If you want to be able to pay for a nice place to live, transportation—like a car or a train pass—to and from work, and healthy food for yourself and your family, 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. And if a bigger problem like a leaky roof comes along, you have real trouble. 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 for emergencies and things you'll need in the next few months or years. Put that money in a bank savings account where it will earn a small amount of **interest**, but where you won't lose any of it. Once you have saved for emergencies, you can invest your money. That means buying stocks, which are small pieces of companies with names you know, like Nike and Facebook, or mutual funds, which are groups of many stocks and other investments purchased together. If the investments you buy do well, you'll 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 to use for at least five years.

4 Protect your financial world.



There are some emergencies and surprises you can 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. Then there's life insurance. It's easiest to understand if you think of it as **income insurance**. If you have **dependents**, like kids, you need to buy life insurance to take care of them in case something happens to you.

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

dependent *noun*: a person who relies on you for food, clothing, and other expenses

interest *noun*: a charge for borrowed money, usually a percentage of the amount borrowed

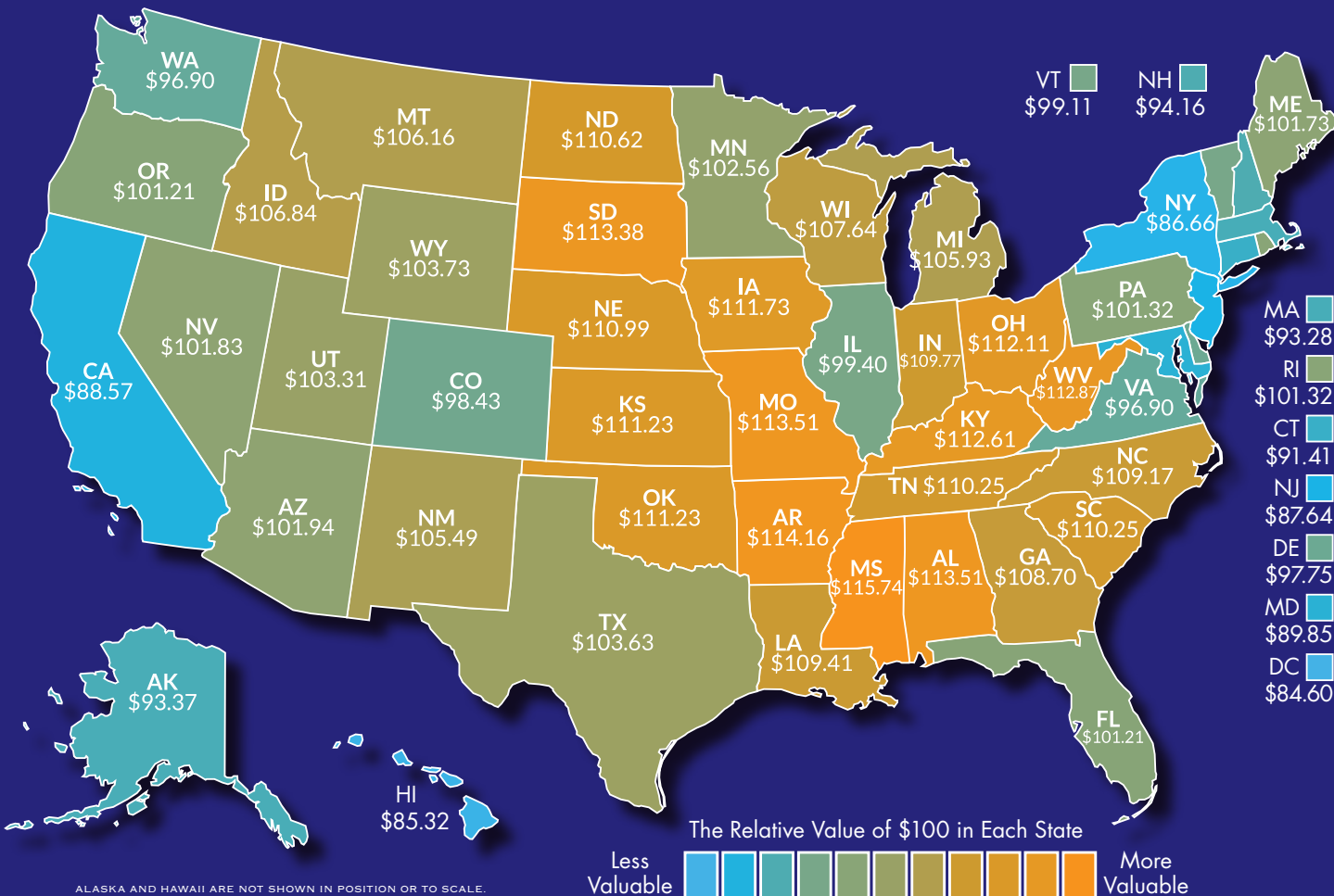
FAMILY CHALLENGE

What's your top money priority?

Talk with your family about each of these five steps. Which do you think is most important, and 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 necessities, including housing, food, taxes, and health care—and it varies widely depending on where you live. A smaller salary will go further in a cheaper state, and a bigger salary might not seem like 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.