

# Money Management Tips for Teens

## Banking Basics

- Educate yourself - money is important in all aspects of your life, now as well as later.
- Have at least 2 bank accounts - one for savings and the other for your weekly spending.
- Lower the limits on your bank cards and consider not having easy access to your savings account with your debit card. Use technology to help keep your money safe from yourself!
- Keep your passwords and PIN numbers secret - no exceptions!

## Budgeting Basics

- Set realistic, easy to reach goals for your money. A short term goal (3 - 6 months) might be to save for a new iPod. A medium term goal (1 - 3+ years) may be to save towards the down payment for your first car. A longer term goal might be to save towards post-secondary education costs.
- Put a picture of your goal where you see it often - in your locker, a sticker on your debit card, on your computer desktop. It will help you when temptation strikes!
- Track your spending in a little notebook or on a slip of paper in your wallet. Change adds up whether you spend it or save it - decide what's best for you.
- Plan your spending based on when you receive your money. Always borrowing from the bank of Mom, Dad or Grandparents doesn't help you develop good habits while you have the chance!
- If you have trouble saying no to spending money when you're out with your friends, don't bring extra money along and leave your debit card at home.



## Planning Ahead

- Pay yourself first. You might have heard this time and time again, but interest adds up. Consider these examples:



**Savings Interest:** You start with \$0 in your savings account. Every second week you add \$20. Assuming an interest rate of 3% per year, after only 10 years you'd have more than \$6000 saved! Add some birthday money to the account too and it'll add up even faster.

**Credit Card Interest:** Credit cards charge you interest if you don't pay the whole bill every month by the date it is due. This means that you add about 50% to whatever you buy. For example, you buy something for \$19.99. With tax, the total is \$23.39. If you buy it using a credit card, and you don't pay the whole bill when it comes, it will actually cost closer to \$33.00 by the time you're doing paying for it. Looking at it this way, is it still a good deal?!?

- If you're tempted to spend without thinking, develop strategies to help you avoid times or situations when it's hard to say no. Plan to have your friends over rather than hang out at the mall, stay away from the stores if you're in a bad mood and not able to make good choices, or decide not to buy "stuff" just to fit in with certain friends.



- Have a small, part-time job if you are allowed to. Not only will it help your bank account, it will help your resume when you apply for scholarships, bursaries and jobs later on.
- Don't make long term commitments (like cell phones or tanning memberships) without thinking it through carefully - 3 years can be a very, very long time to pay for something you don't really need or want.

## Credit Reports

A credit report is a summary of how you pay your financial obligations. It begins when you first apply to borrow money. Lenders use it to verify personal information about you, your borrowing activity and your repayment history. It allows potential lenders to evaluate risk - based on your past behaviour, if they lend you money now, are you likely to repay that money or not.

While a **credit report** is a summary based on what you have done in the past, your **credit score** is based on information in your credit report and is used by lenders to *predict* the likelihood that you will repay future debt. Your credit score can change frequently.

There are 2 main consumer credit bureau companies in Canada, Equifax and TransUnion, and they may have different information about you. Everything pertaining to regular consumer debt, good or bad, stays on your credit report for 6 - 7 years depending on which Province you live in. For more information about credit report details and ratings, consult the web sites for each of the credit bureau companies.

## Credit Rating

As young people not yet using credit, the factors that affect your credit worthiness are different than those for people who have been using credit for a number of years. This is largely due to the fact that you do not have a credit report for lenders to rely on when you first ask to borrow money.



There are some things you can do in preparation for the first time you ask to borrow money:

- Have a bank account that you use regularly. Deposit your pay cheque and show that you can spend it responsibly.
- Have a second bank account for savings. Contribute regularly to this account, e.g. every time you get paid.
- If you drive, pay your parking tickets and driving fines in full and on time.
- Develop a realistic budget for your day to day spending, as well as a longer term plan, e.g. how to fund post-secondary education. This shows that you have good money management habits and are likely to honour future commitments.

Many young people look forward to having their first credit card. The right time to apply for one is when you can afford to pay back the money you borrow with your credit card. Some things to keep in mind:



- The limit on your credit card is not free, extra money for you to have. When you make a purchase with your credit card, you are agreeing to pay that money back. The longer it takes to pay it back, the more it will cost you.
- Only apply for credit that you need. One credit card, with a very reasonable limit based on your income, is all you need to establish a credit rating. Pay the card off in full every month.
- You need to consent for someone to check your credit report. Monitor how often you allow inquiries on your credit report and keep inquiries to a minimum. Potential employers and landlords will want to see if you are responsible with your money, as will the people processing your student loan applications.
- Cell phones on contract, gym memberships and ICBC monthly car insurance are all forms of credit. Paying all of your bills on time is crucial for a good credit rating.
- Do not co-sign for a friend to get credit. If they don't pay, you will have to pay the bill for them.