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A University Student's Perspective on Financial Literacy

Matthew Braley

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A University Student's Perspective on Financial Literacy

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Submitted in Partial Completion of the
Requirements for Commonwealth Honors in Accounting and Finance

Bridgewater State University

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A University Student's Perspective on Financial Literacy

Abstract

Financial literacy is one of the most important, if not *the* most important topic students need to prepare them for their future. This should be obvious, yet it still does not have a permanent place in the curriculum. Many financial literacy organizations, such as the Council for Economic Education, National Jump\$tart Coalition, and Next Gen Personal Finance, are making great progress to get financial education in schools throughout the United States. However, there are many young adults that have missed the window of opportunity to obtain financial education in school. The beginning of this paper will address the current state of financial education and evaluate the progress of getting personal finance into the curriculum. The remainder of the paper will provide an overview on the basics of financial literacy from a college student's perspective. My goal is that the information provided can be used by young adults like myself who might have missed out on a quality education in personal finance in order to build a more financially secure life.

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Introduction

There is no question that financial literacy is essential for students to learn in order to prepare them for their future, but why isn't there a larger focus on financial education in school? During my junior year at Bridgewater State University, I had a professor show my class a spreadsheet of an investment plan. The plan showed that if you invested \$2,000 every year from the ages of 18 to 24 into the stock market and then just left it, by the time you retired you would have well over \$1 million. This blew my mind. It seemed too easy. Turning \$12,000 into over \$1 million? It seemed like a scam, but it's true! The only problem was that because I was sitting in this class at the age of 21 years old, I was already behind! This got me thinking about what else have I missed out on?

From that day on, my interest in personal finance was sparked and I began reading books and watching countless YouTube videos on many different financial topics. With every book I read and every video I watched, I would always find the information so helpful and fascinating. At the same time, however, I continued to wonder, why has this information been hidden? Obviously, books and YouTube videos aren't hidden, but I found out all of this because I took a personal interest in it and went out to seek this knowledge myself. With each remarkable thing I learned, I would continue to wonder, why is this information not taught in school? My interest in personal finance was sparked by an accounting class, but what about the millions of students that don't take accounting? Even though they don't want to be accountants, they still have to navigate through countless financial obstacles because the truth is: the world revolves around money.

The whole purpose of school is to educate kids and prepare them for the future, but how do we prepare for the future with little to no financial knowledge? My personal experience with financial education was very small. I had a one quarter class during my freshman year of high

school on personal finance during which we touched upon basic concepts like stocks and bonds. Yet because the class only lasted one quarter, it was difficult to fully grasp any of the topics. I left that class barely understanding the stock market and had no sense of how any of the information related to my own life. I find this to be true for most of the people that I talk to as well. It seems as if we learn about personal finance only when obstacles are placed in our way, such as paying off student loans or other unexpected events. Often times this lack of education causes people to take out high interest loans or use high interest credit cards, and by then it's too late.

The beginning of this paper will address the current state of financial education. The remainder of the paper will provide a concise overview on the basics of financial literacy from a college student's perspective. This will include the financial topics that I believe are important for high school and college students to know. My hope is that the information can be useful for young adults like myself who might have missed out on a quality education in personal finance.

Current State of Financial Literacy in K-12 Schools

Financial education isn't just a good idea, it is a necessity. Kieron Sweeney, a business mindset coach and author, shared in a Ted Talk that less than 20 percent of the US population will retire financially secure.¹ A study done by the Federal Reserve in 2019 showed that one-fourth of non-retired adults had zero retirement savings.² The total credit card debt in the US is currently \$1 trillion.³ The total student loan debt is about \$1.7 trillion.⁴ With all of this mind-blowing evidence that Americans are not prepared to financially succeed, you would think that it

¹ Sweeney, "Financial Illiteracy in the School Curriculum," 0:56.

² The Federal Reserve, "Report on the Economic Well-Being of U.S. Households," para. 7.

³ Comoreanu, "Credit Card Debt Survey," para. 2.

⁴ Friedman, "Student Loan Debt Statistics In 2021: A Record \$1.7 Trillion," para. 1.

is obvious that financial education would be a required part of the curriculum. Let's take a look at what's going on in K through 12 schools throughout the United States.

Next Gen Personal Finance provides an annual report on the access to financial education in the U.S. They break it down into two categories: Gold Standard schools and Silver Standard schools. Gold Standard describes schools where it is required to take a one semester course in personal finance. Silver Standard describes schools that have access to a one semester course as an elective course. Currently, there are only seven states that require students to take at least a one-semester personal finance course in high school. As of their latest report from 2020-2021, 1 in 5 high school students in the U.S. are required to take at least a one-semester personal finance course. If you take out the seven states where it is required, it drops to just 1 in 9 high school students who are required to take a one-semester course.⁵ However, this is an increase from the 2019-2020 report of only 1 in 11 students.⁶ As for the Gold and Silver Standard combined, 7 out of 10 high school students have access to a one-semester personal finance course.⁷

This is actually really good progress. The Council for Economic Education also publishes an annual report and noted that, "After many years of little change, the 2020 Survey of the States shows real progress in the number of states with graduation requirements in both economics and personal finance."⁸ 21 states now require a high school personal finance course to be taken either as a standalone course or integrated into another course. This was an increase of 4 states since 2018. The survey also shows that 25 states now require a high school economics course to be taken as either a standalone course or integrated with another course, which was an increase of 3

⁵ Next Gen Personal Finance, "NGPF's 2021 State of Financial Education Report," 2.

⁶ "2019-2020 Financial Education Access: Progress Report," 2.

⁷ Next Gen Personal Finance, "NGPF's 2021 State of Financial Education Report," 2.

⁸ "2020 Survey of the States: Economic and Personal Finance Education in Our Nation's Schools," 2.

states since 2018.⁹ More and more states are realizing the importance of financial literacy, but why is it so hard to get financial education in schools?

Many states say that the main problems are the creation of a curriculum and the lack of prepared educators to teach the personal finance classes. It takes a large amount of time and money to establish a curriculum and train teachers for financial education. However, there are actually companies out there that have already done the hard work.

Financial Literacy Curriculum Resources

There are some amazing companies and organizations that have already developed K-12 curricula for personal finance. These companies are actively working to educate teachers so that they can provide students with all of the resources needed to gain a complete knowledge of personal finance before they graduate. I chose to highlight three nonprofit companies that share the goal of helping students understand personal finance: The Council for Economic Education, National Jump\$tart Coalition, and Next Gen Personal Finance.

The Council for Economic Education has three goals in mind: to reach all school districts throughout the United States, to make sure every student graduates from high school with a basic understanding of personal finance, and to get every state to require at least one course in economics and personal finance. They do this by providing free resources and training for K-12 teachers. Their training model is designed to help teachers understand the subjects, advise them on how to teach it, and provides hands-on learning tools to use in the classroom. Currently the Council for Economic Education has 55,000 teachers participating annually, and they have reached over 5 million students.¹⁰

⁹ "2020 Survey of the States," 3.

¹⁰ "About the Council for Economic Education."

The National Jump\$tart Coalition is comprised of over 100 national organizations and 51 independent state coalitions and just like the Council for Economic Education, they provide resources for educators. They have developed a curriculum called the *National Standards in K-12 Personal Finance Education*. The goal was to outline the important topics that students should learn about from kindergarten through twelfth grade in order to prepare them to navigate different financial decisions throughout their lives. The standards were designed to guide classroom education and the development of financial education programs, but their value also extends to informal education outside of the classroom as well. The different sections address topics such as spending and saving, credit and debit, employment and income, investing, risk management and insurance, and financial decision making.¹¹

The goal of Next Gen Personal Finance is to “revolutionize the teaching of personal finance in all schools to improve the financial lives of the next generation of Americans.”¹² To achieve this, they partner with teachers to provide free professional development training, and also free, up-to-date curricular resources as well as games to use in the classroom. These resources cover topics like checking, saving, credit, paying for college, budgeting, taxes, and the list goes on. Currently, Next Gen Personal Finance has reached 43,000 middle school and high school teachers and more than 2 million students.¹³

These are just a few of the many fantastic companies that share the same goal: getting students the resources to provide them with financial knowledge to help them throughout their lives, and they are doing really well in the process of achieving this goal! In a study done by Carly Urban of Montana State University that updated the Holden and Way (2009) study,

¹¹ Jump\$tart, “National Standards in K-12 Personal Finance Education.”

¹² Next Gen Personal Finance, “About Us.”

¹³ Next Gen Personal Finance.

professional development for teachers that would teach personal finance classes if their state required them increased from 19% in 2009 to 54% in 2020.¹⁴ More teachers than ever are completing professional development in personal finance and it is primarily being done by the three companies previously discussed: 88.9 percent by Next Gen Personal Finance, 10.4 percent by the Council for Economic Education, and 5.2 percent by The National JumpStart Coalition.¹⁵ Not only has there been an increase in professional development, but this has led to higher confidence for these teachers. They are 10% to 22% more likely to be very confident after completing professional development.¹⁶

The go-to justification that states use to defend the fact that personal finance is not being taught in school is that creating a curriculum and training educators takes a lot of time and money. However, companies have provided the curriculum and the training for free, and the statistics show that teachers are ready and confident in their ability to teach personal finance. The remaining factor is simply the coordination between a state's legislation and the state's department of education. Therefore, the way to get more states to require financial education is to partner with financial education companies, like the Council for Economic Education, the National JumpStart Coalition, and Next Gen Personal Finance, to testify and support the proposed legislation to help move the process along. It can pressure policy makers to face the question of "Why isn't personal finance taught in school?"¹⁷ With sustained effort, every state will realize that personal finance is a core skill that students need to succeed in life.

¹⁴ Urban, "Financial Education in U.S. Schools," 15.

¹⁵ Urban, 15.

¹⁶ Urban, 15.

¹⁷ "Why Isn't Personal Finance Taught in School," para. 18.

What topics should be covered?

All of the evidence shows that real progress is being made to get financial education in schools throughout the U.S. However, the reality is that there are many young adults that have missed the window of opportunity to obtain a quality financial education in school, but that doesn't mean it's too late to learn. Using some of the resources provided by the companies that I previously discussed and also outside resources that I have found useful, I have compiled a list of topics that I believe to be important for high school students, college students, and young adults to learn in order to build a more financially secure life.

Budgeting

Budgeting is a good place to start because once you know how to budget, every other aspect of your life financially starts to fall into place. There are two reasons it is so important: it helps achieve any long-term goals, and it helps keep you out of financial trouble. When you start to budget, a useful tool to go by is the 50-30-20 rule.

The 50-30-20 rule means 50 percent of your income goes to your needs. This can be rent, utilities, groceries, clothing, insurance, or a car payment. Next, 30 percent of your income goes to your wants, so this can be eating out, electronics, travel, and subscription services. The remaining 20 percent is for saving and investing.¹⁸

A good way to layout your budget is to first look at your income. You need to make sure this is your income after taxes are taken out and after any deductions because if you use the before tax income, then you could end up spending money that you don't have. After you have your income recorded, you'll want to subtract your expenses. This would be the needs mentioned

¹⁸ GPO Federal Credit Union, "It's a Money Thing: Building a Budget," 0:54.

earlier. Once you've subtracted your expenses, it'll leave you with leftover money that you can decide to spend or save.

We'll look at saving more in depth later, but let's talk about spending and more importantly, good spending habits. I want to preface this by saying that I'm not telling you not to buy things you want. That's why the 50-30-20 rule leaves 30 percent of your income to wants. All of these "internet financial advisers" are going to tell you not to buy stupid stuff while sitting in their Lamborghini that they probably can't even afford or these financial minimalists that tell you to never eat out and just live off of Ramen noodles and peanut butter, hopefully not at the same time. It's important to treat yourself occasionally because if you try to cut out all spending, you are more likely to give up budgeting entirely, but you have to stick to the budget! Don't go over the 30% that is allocated to your wants. Once that 30% is up, that's it for the month. You never want to take on additional credit card debt to buy something you want because you could be digging a hole that you can't get out of, so only spend the money you have and stick to the budget!

Another useful strategy when it comes to establishing good spending habits is analyzing your current habits, such as money spent on coffee. If you are a heavy coffee drinker but you buy it from Dunkin Donuts or Starbucks instead of making it yourself, be aware of how much you spend over the course of a month or a year. The number might surprise you. The price of a medium coffee from Dunkin Donuts, my go-to place for coffee if I ever don't make one at home, is currently \$1.89.¹⁹ If you buy a medium coffee five days a week for the 52 two weeks in a year, that equals \$491.40 spent on coffee per year, and \$1.89 is on the cheaper end of coffee prices. I'm not saying to eliminate it completely but maybe just do it once a week instead of every day.

¹⁹ Fast Food Menu Prices, "Dunkin' Donuts Menu Prices."

Using my example from before, that would be only \$98.28 per year. Simply cutting back to one day a week can save you \$393.12. Analyzing your spending habits like this will enable you to see where you might be spending too much, and then you can adjust your habits to set yourself up better financially.

The last tip on spending is to do extensive research before purchasing large items. You don't necessarily have to do this for inexpensive items, but if you're looking to make an expensive purchase, do a lot of research to make sure the quality is good for the price and that it meets your needs. YouTube is a great tool for this. Just search for whatever the product is with "review" after it and you'll be able to see what you're getting for your money. In addition to doing research, you should also wait a week or maybe even a month before purchasing something that you want to ensure that it isn't just an impulse purchase. These are important strategies so that you don't waste money.

You might run into a problem where you don't have the income to cover your expenses. You have a few options. You could try to cut back your spending, so that you can afford it. For instance, maybe cancelling some of your streaming services. Another option is to earn more. Maybe you can pick up a second job or look around the house and try to sell things that you don't use anymore, but this option isn't always easy. The last option is to dip into the other sections of the 50-30-20 rule.²⁰ The easiest section to dip into is wants because that is the easiest stuff to give up, but not everyone wants to do that so they might end up dipping into savings. I would really try not to do this because it's just hurting you for the future.

When it comes to actually tracking your budget, there are several options. You could do it by hand, which I don't advise because you're just making extra work for yourself, which can

²⁰ GPO Federal Credit Union, 1:38.

lead to not sticking with your budgeting strategy. The better option is to use an Excel spreadsheet. There are many templates both in excel and online that offer a good starting point, or you can build your own using YouTube videos to guide you. This way it'll be tailored directly to your finances. If you don't want to make a spreadsheet, you still have options! There are a lot of great apps out there, such as *Mint*, *PocketGuard*, and *Wally*.²¹ No matter which option you choose, you'll want to track your spending for two months to see what your current situation is.²² Then you'll be able to analyze it and see what areas need improving. Budgeting is an essential first step on your way to a financially secure life.

Saving

This might be the only topic that is frequently talked about throughout our lives. I feel like everyone knows that saving is important, and we can't just spend all of our money the second we get it. That much is obvious, but no one ever really dives too deep into why we're saving money and how much it is that we should be saving.

Saving is really the basis of how we set ourselves up for the future. Life is basically the sequence of making big purchases. Well, no, technically life is a lot more than that, but I'm not writing a huge philosophical paper here. We can talk about that another time, but throughout our lives we really do strive to just make big purchase after big purchase. I mean when you think about it, we have college, then maybe an apartment, a car, then if we're lucky a house, and so on. You're not making all of these purchases in cash, unless you've got Warren Buffet money, which in that case there's no need for you to be reading this paper. Most of the time you're using some sort of loan or something to make these purchases. All of this really starts with saving.

²¹ Rosenberg, "Best Budgeting Apps," para. 4.

²² GPO Federal Credit Union, 3:18.

Saving is just putting money aside to achieve a future financial goal.²³ For example, you might be saving up for a big purchase. Another big reason to save is to set up an emergency fund. An emergency fund is a portion of your money that you have saved just in case something goes wrong. Some examples could be losing your job, home or auto repairs, or health emergencies.²⁴ If you don't have this emergency fund set up, then you'll have to rely on things like credit cards which will usually have high interest rates and then you get into all sorts of trouble. So, to prevent this, you set up an emergency fund. A good rule of thumb is to have three to six months of living expenses saved up. This paper is mainly tailored to high school and college students, so you might not have too many living expenses right now, but you can still work to build up that emergency fund for after school. Also, you should save for your student loan payments that you'll have to start paying after you graduate. It's a good idea to pay them off sooner rather than later, and saving will help you to do just that.

Here are some savings tips. The first goes along with the 50-20-30 rule that we discussed earlier. To reiterate, 20 percent of your income is a good amount for saving and investing. Most of that 20 percent should be saved until you build up your emergency fund, and then more can be put towards investing. Another good saving tip is to collect any spare change that you have around. A lot of the time when we pay with cash, we end up getting some amount of coins for change and we just throw them in our car or in our pocket and forget about it. However, if you start collecting all of the change, it's going to add up over time. It might seem childish but grab yourself a nice piggy bank and save those coins! The wealthiest people are always looking at every opportunity to save money. Obviously as time goes on, we're using cash less and less. At the time of writing this paper, I honestly can't remember the last time I used cash, but luckily

²³ FranklinTempletonTV, "The Difference Between Saving and Investing," 0:19.

²⁴ Fidelity Investments, "3 Things You Need to Know about an Emergency Fund," 1:11.

there are apps out there that still let you collect some spare change. One popular option is the *Acorns* app. It rounds up all of your purchases and invests it into your portfolio.²⁵ Technically that's investing and not saving, but it's the same idea: every penny counts. The last tip is to set savings goals.²⁶ Everything in life is a lot easier when you take the time to picture what it is you want to achieve. I'm not trying to be a motivational speaker here, but it really rings true with personal finance. For example, if you really want to save for a down payment on a car, figure out exactly how much you want to save and when it is that you want to buy the car. So, if you want \$1,000 for a down payment and you want to buy it in one year, figure out how much you would need to save per month. In this case it would be \$1,000 divided by 12 months, which gives you about \$83 per month. This calculation allows you to know how much you need to save so you can put that money aside every month and achieve that goal that you have.

The last part of saving to discuss is where you should save this money. You don't want to just keep it under your mattress, so where exactly should you save it? Most likely, you already have a checking account, so the best option would be to open up a savings account as well. You want to keep your savings separate from your checking account so that you're less tempted to spend it. You can shop around for different accounts with better interest rates, but usually savings accounts have low rates, typically between 0 percent and 2 percent.²⁷ That's because savings accounts are mainly used to put money aside with little to no risk and easy accessibility. In contrast, we're now going to talk about the real way to earn interest that builds long-term wealth.

²⁵ Tierney and Murakami-Fester, "Best Money-Saving Apps," para. 2.

²⁶ Caldwell, "How to Set and Reach Savings Goals," para. 2.

²⁷ Desjardins, "A Simple Introduction to Investing," 2.

Investing

As I mentioned earlier, the main financial literacy concept that I wish I knew about earlier in life was investing. Let's start the overview with the same thing that sparked my interest. I made figure 1 to demonstrate how much money you would make if you invested \$2,000 from the ages of 18 to 24 only. After 24, you could just let the money sit and earn interest. The table assumes an annual interest rate of 10 percent, which according to NerdWallet, is the average return of the stock market if you buy and hold over the long-term.²⁸

Figure 1:

Investing \$2,000 from 18 to 24:

Age	Beginning Balance	Interest Rate	Interest Earned	Ending Balance
18	\$2,000	10%	\$200	\$2,200
19	\$4,200	10%	\$420	\$4,620
20	\$6,620	10%	\$662	\$7,282
21	\$9,282	10%	\$928	\$10,210
22	\$12,210	10%	\$1,221	\$13,431
23	\$15,431	10%	\$1,543	\$16,974
24	\$16,974	10%	\$1,697	\$18,672
25	\$18,672	10%	\$1,867	\$20,539
26	\$20,539	10%	\$2,054	\$22,593
27	\$22,593	10%	\$2,259	\$24,852
28	\$24,852	10%	\$2,485	\$27,337
29	\$27,337	10%	\$2,734	\$30,071
30	\$30,071	10%	\$3,007	\$33,078
31	\$33,078	10%	\$3,308	\$36,386
32	\$36,386	10%	\$3,639	\$40,025
33	\$40,025	10%	\$4,002	\$44,027
34	\$44,027	10%	\$4,403	\$48,430
35	\$48,430	10%	\$4,843	\$53,273
36	\$53,273	10%	\$5,327	\$58,600
37	\$58,600	10%	\$5,860	\$64,460

²⁸ Royal and O'Shea, "What Is the Average Stock Market Return?" para. 2.

38	\$64,460	10%	\$6,446	\$70,906
39	\$70,906	10%	\$7,091	\$77,997
40	\$77,997	10%	\$7,800	\$85,796
41	\$85,796	10%	\$8,580	\$94,376
42	\$94,376	10%	\$9,438	\$103,814
43	\$103,814	10%	\$10,381	\$114,195
44	\$114,195	10%	\$11,419	\$125,614
45	\$125,614	10%	\$12,561	\$138,176
46	\$138,176	10%	\$13,818	\$151,993
47	\$151,993	10%	\$15,199	\$167,193
48	\$167,193	10%	\$16,719	\$183,912
49	\$183,912	10%	\$18,391	\$202,303
50	\$202,303	10%	\$20,230	\$222,534
51	\$222,534	10%	\$22,253	\$244,787
52	\$244,787	10%	\$24,479	\$269,266
53	\$269,266	10%	\$26,927	\$296,192
54	\$296,192	10%	\$29,619	\$325,811
55	\$325,811	10%	\$32,581	\$358,392
56	\$358,392	10%	\$35,839	\$394,232
57	\$394,232	10%	\$39,423	\$433,655
58	\$433,655	10%	\$43,365	\$477,020
59	\$477,020	10%	\$47,702	\$524,722
60	\$524,722	10%	\$52,472	\$577,195
61	\$577,195	10%	\$57,719	\$634,914
62	\$634,914	10%	\$63,491	\$698,406
63	\$698,406	10%	\$69,841	\$768,246
64	\$768,246	10%	\$76,825	\$845,071
65	\$845,071	10%	\$84,507	\$929,578
66	\$929,578	10%	\$92,958	\$1,022,536

At the end of age 66, you'd have over \$1 million, and again, that's from investing \$2,000 for just 6 years and then letting it sit in the stock market until you're 66. Ideally, you would invest much more than that, but with this simple example you can see how beneficial investing is to build financial security. It is important to know that the stock market varies considerably, so it isn't

guaranteed to yield an interest rate of 10 percent, but the importance of investing over a long period of time is still evident. This is what caught my eye when it came to financial education.

It's no secret that most of the wealthiest people in the world invest their money, but it seems like such a foreign concept to the average student, and I was the same way. Luckily, I took one for the team and compiled what I believe to be the necessary concepts for students to understand about investing.

When it comes down to it, we want our money to make us more money. Throughout life it is always stressed to save money, and when we think of saving money, we think of keeping it in a savings account. You definitely need to save money first and be sure that you have that emergency fund that was discussed earlier. If you only have \$500 to your name, you should not be putting it all in the stock market. Also, to be clear, I'm not talking about getting rich overnight. I won't be talking about "THE TOP 5 STOCKS TO GET RICH IN FIVE MINUTES!" Instead let's be more realistic and start off with what investing is and why we would want to invest.

Jeff Desjardins of Visual Capitalist defines investing perfectly as, "the process of putting your money to work over the long term, by buying and holding assets that will grow from compound interest."²⁹ These assets can include stocks, bonds, mutual funds, index funds, and property. Stocks are an asset that represents the fractional ownership of a company. Companies will sell shares to fund their operations.³⁰ A bond is a loan between an investor and a borrower. These are used by companies to fund projects but can also be used by governments.³¹ A mutual fund is a fund that can include multiple assets and is operated by a money manager.³² An index

²⁹ Desjardins, 2.

³⁰ Hayes, "Stock," para. 3.

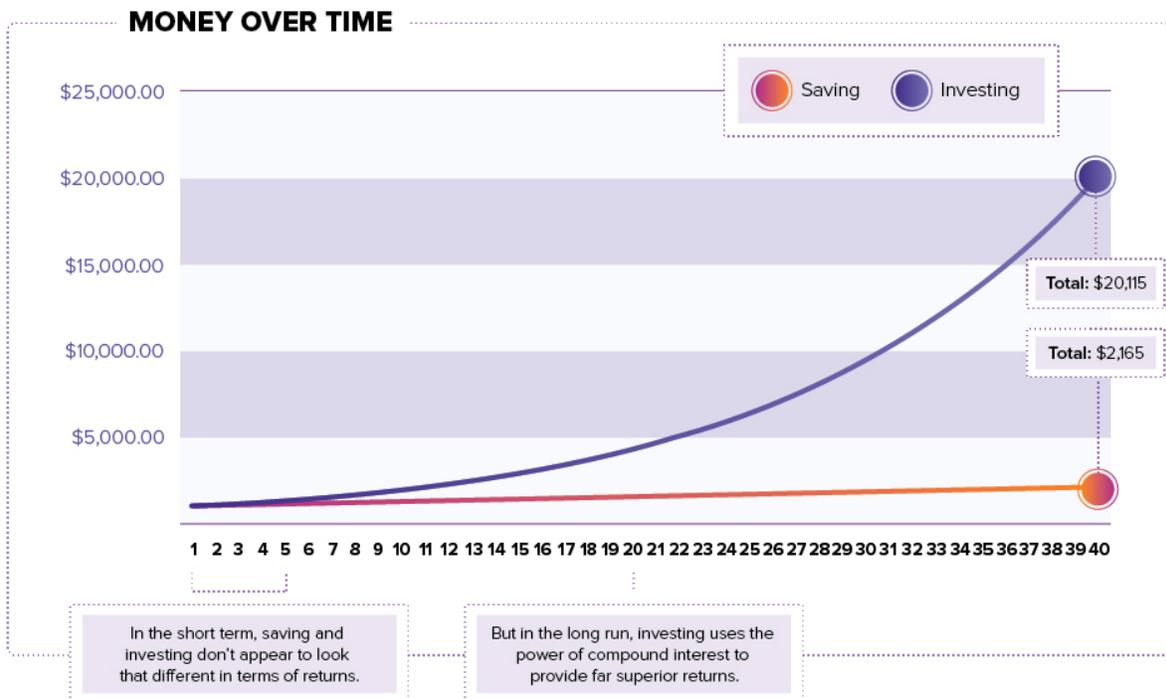
³¹ Fernando, "Bond," para 1.

³² Desjardins, "A Simple Introduction to Investing," 3.

fund is a fund that tracks a wider index.³³ Lastly, property can include investments like real estate.

The whole point of investing is to accumulate wealth long-term for retirement and other long-term goals such as funding your children’s college education. Some might say, “Well if I’m just accumulating wealth, why can’t I just save money instead of investing it?” It all comes down to the interest you earn. As I mentioned earlier, a savings account typically earns an annual interest rate from 0 percent to 2 percent. Investing on the other hand can earn anywhere from 6 percent to 10 percent annual interest long-term. Jeff Desjardins provides a great example of this in his article where he shows the difference between putting \$1,000 in a savings account and putting \$1,000 in an index fund. He assumes a 2 percent return for the savings account and an 8 percent return for the index fund.

Figure 2:



³³ Desjardins, 3.

(Desjardins, "A Simple Introduction to Investing," 2.)

As you can see in figure 2, investing in the index fund provides nearly ten times the amount of return than that of the savings account, and this assumes the 2 percent return for the savings account, which is a relatively high rate. Typically, a savings account won't provide that high of an interest rate. However, for the index fund, it assumes an 8 percent return which is an approximate average return. The range for index funds can be as high as 10 percent. This just shows the benefit of investments for accumulating long term wealth. The reason an investment like the one shown in the graph gets that rate of return is because of an important concept called diversification.

The biggest concern that people have about investing is the risk, and that is absolutely a valid concern to have. If you invest all of your money into one company and that company goes out of business, then you could lose all of your money. However, there is an essential tactic in investing that helps to mitigate that risk, and that tactic is called diversification. Diversification or diversifying your portfolio means spreading out your investments over many different assets.³⁴ An example of this would be not just owning one or two individual stocks, but owning an array of stocks, index funds, bonds, and real estate. That way if one asset declines, the others help to balance it out so that you don't lose everything.

Another reason investing is so valuable is because of compound interest or compounding. This means you're earning interest on the initial investment amount and the interest you've earned.³⁵ An example would be if you invested \$1,000 and earned 8 percent interest, then after the first year you would have earned \$80 bringing the value to \$1,080. After the second year, you wouldn't just earn interest on the \$1,000. Instead, you would earn interest on the \$1,080, so after

³⁴ Segal, "Diversification," para. 1.

³⁵ Investor.gov, "What Is Compound Interest?" para. 1.

the second year you would earn \$86.40 bringing the total value to \$1,166.40. This is different from simple interest because with simple interest you would just earn that \$80 in interest every year. With compound interest, the interest you earn constantly grows. I created figure 3 to show how much more you earn with compound interest as opposed to simple interest.

Figure 3:

Simple Interest vs. Compound Interest

	Principal = \$1,000	Interest Rate = 8%
Year	Simple Interest	Compound Interest
0	\$1,000.00	\$1,000.00
1	\$1,080.00	\$1,080.00
2	\$1,160.00	\$1,166.40
3	\$1,240.00	\$1,259.71
4	\$1,320.00	\$1,360.49
5	\$1,400.00	\$1,469.33
6	\$1,480.00	\$1,586.87
7	\$1,560.00	\$1,713.82
8	\$1,640.00	\$1,850.93
9	\$1,720.00	\$1,999.00
10	\$1,800.00	\$2,158.92
11	\$1,880.00	\$2,331.64
12	\$1,960.00	\$2,518.17
13	\$2,040.00	\$2,719.62
14	\$2,120.00	\$2,937.19
15	\$2,200.00	\$3,172.17

It's already almost a \$1,000 difference and that is just with a single \$1,000 investment that you let sit for 15 years. A useful tool when it comes to investing and compound interest is the rule of 72. This tells you approximately how long it would take for your investment to double in value. All you have to do is take the number 72 and divide it by the expected rate of return of your investment and that will give you the time in years it will take for the investment to double.³⁶ So,

³⁶ Investor.gov, para. 2.

for example, if the expected rate of return is 8 percent, you would divide 72 by 8 and so your investment would double in value after 9 years.

After learning about the basics of investing and why it's so useful to grow your wealth, it's time to talk about investment strategies. The first step is to figure out your risk tolerance. There is definitely some risk that comes with investing, but there is also a lot of reward as well, so risk tolerance is basically how much you are willing to risk for the reward. John C. Bogle explains in his book *The Little Book of Common Sense Investing* that risk tolerance is comprised of two things: your ability to take risks and your willingness to take risks.³⁷ Ability to take risks is mainly based on your age and financial position. If you are young, you have a long time to recoup any losses you may experience. If you start investing at an older age, you have a higher risk because you have less time to make back any losses. Willingness to take risks is just based on your personal preference and situation. Some people aren't too worried about experiencing the ups and downs of the market, while other people are quite worried seeing their money dip from time to time, so it is important to evaluate where you stand with your risk tolerance. There are three main types: aggressive, moderate, and conservative. Aggressive investors are willing to take higher risks for higher returns. Conservative investors are the opposite and prefer lower risks, which will likely lead to lower returns. Moderate investors are somewhere in the middle.

After figuring out your risk tolerance, it is important to decide what type of investment account to open. There are four main types of accounts to consider: a 401k, a traditional IRA, a Roth IRA, and an individual brokerage account. They all have different characteristics so let's break them down.

³⁷ Bogle, *The Little Book of Common Sense Investing*, 228.

A 401k would be offered by your employer. It is a retirement account where you can choose to have a certain portion of your paycheck put into it and those contributions would be invested based on your risk preference. The employer would have different selections that you can choose from, and it's usually made up of stock and bond mutual funds.³⁸ A major benefit of a 401k is the possibility of 401k matching from your employer. This means that for every dollar that you contribute to your 401k, your employer might contribute a certain amount as well. For example, some companies might offer to match 50 cents for every dollar that you contribute.³⁹ So, if you contribute \$5,000 to your 401k, your employer will contribute \$2,500. The amount the employer contributes can be different depending on the company, but one thing that is recommended from many financial advisers is to always try and contribute enough money to get the full employer match.⁴⁰ One downside to 401k's is that you have less input on where the money is invested.⁴¹ As I mentioned before, typically your employer would have different selections to choose from based on your risk preference. This is different from the other three types of accounts we'll discuss because with those accounts, you'll have more of a choice when it comes to where you invest your money.

The next two accounts are individual retirement accounts or IRAs. One is a traditional IRA and the other is a Roth IRA. The key benefit of these accounts is that it is a tax-advantaged retirement account.⁴² Any capital gains that you earn are not taxed. To be clear, the capital gains earned only refers to the amount of interest you earn. The contributions, or the money you invest in the account, are still taxed but in different ways depending on the type of IRA you choose to

³⁸ Fernando, "401(k) Plans: The Complete Guide," para. 5.

³⁹ Wall Street Survivor, "What Is a 401k?" 0:22.

⁴⁰ Fernando, "401(k) Plans: The Complete Guide," para. 8.

⁴¹ TD Ameritrade, "Investing Basics: Planning for Retirement," 1:41.

⁴² Coombes and Orem, "What Is an Individual Retirement Account (IRA)?" para. 3.

use. For a traditional IRA, you pay income tax on your contributions at your retirement age when you withdraw them. For a Roth IRA, you pay income tax first before you invest the money.

When deciding which scenario is better, it is a good idea to think about whether or not you think your tax rate will increase or decrease between now and when you retire.⁴³ If you think your tax rate will go down, then you would probably want a traditional IRA because you would pay less in taxes when you retire than you would pay now. If you think your tax rate will go up, then you would probably want a Roth IRA because you'd pay less in taxes now than when you retire.

Another thing to consider is any penalty you might face for withdrawing money early from these accounts. With a Roth IRA, you can take out your contributions any time with no tax penalty, but if you try to withdraw early from a traditional IRA, you'd be taxed and face a 10% penalty.⁴⁴ To be clear, this is just about contributions. You can be penalized with both accounts if you try to withdraw any earnings early. A final point about IRAs is that there are limits to how much you can contribute every year and it is phased out if you have an adjusted gross income over a certain threshold. In 2020, the contribution limit was \$6,000 per year or \$7,000 if you are 50 years or older.⁴⁵ Overall, individual retirement accounts are a great way to save for retirement and also a good idea to supplement any other retirement account like a 401k.

The last account is an individual brokerage account. This is an account where individuals can buy and sell securities, like stocks and bonds. It differs from a checking or savings account because a brokerage account gives you access to the stock market.⁴⁶ You can invest in different companies or funds and earn interest on those investments. The major "con" about brokerage accounts is that there's no tax advantage. Any investment income is taxed at capital gains rates

⁴³ Wall Street Survivor, "What Is an IRA," 1:10.

⁴⁴ Yochim and Coombes, "Roth IRA vs. Traditional IRA," para. 11.

⁴⁵ Yochim and Coombes, "Making the Call" Table.

⁴⁶ O'Shea, "What Is a Brokerage Account and How Do I Open One?" para. 2.

when it is realized (a gain is realized when the asset is sold). The “pro” is the freedom you get with the account. You can withdraw your money at any time and invest as much as you want.⁴⁷

So, what account should you choose?

If your employer offers 401k matching, then that is the first account to make sure you have. It's free money! After that, think about opening up an individual retirement account if you're eligible to supplement your 401k. Beyond that, if you want to invest where you can take out the money anytime, open up an individual brokerage account.

Once you decide on the type of account you're going to open, it is time to figure out the asset allocation of your portfolio. Asset allocation means the breakdown of how much you invest in different types of assets, and this will be based on your risk tolerance that you figured out earlier. If you are an aggressive investor, then you'll want to have about 85 percent of your portfolio in stocks and 15 percent in bonds. If you are a moderate investor, then it'll be about 60 percent in stocks and 40 percent in bonds. Lastly, if you are a conservative investor, then it'll be about 30 percent in stocks and 70 percent in bonds.⁴⁸ It's also important to break it down even further and figure out what kinds of stocks to invest in. You don't want that stock portion of your portfolio to be invested all in one company or a few companies. An easy way to mitigate risk is to invest in index funds, mutual funds, or exchange traded funds (ETFs). These funds allow you to buy into a collection of companies instead of just one company. For example, the index fund VOO is a collection of all of the companies in the S&P 500. The majority of your stock portfolio should be in these funds, but you can absolutely invest in individual stocks if you'd like. It's just a good idea to keep that to about 5 percent to 10 percent of your portfolio.⁴⁹

⁴⁷ O'Shea, para. 8.

⁴⁸ Benson and Jackson, “Investment Portfolio: What It Is and How to Build a Good One,” para. 22.

⁴⁹ Benson and Jackson, para. 13.

The last step of any investment strategy is to change things as needed. Sometimes your asset allocation might need to be rebalanced. If a certain portion starts to rise in value, it might change the percentage of that portion, so you may want to sell off something to rebalance to your desired allocation.⁵⁰ For example, if a certain stock skyrockets, then your percentage of stocks in your portfolio might change from 80 percent to 85 percent, so you may choose to sell off some stock to bring it back down to 80 percent of your portfolio. Other factors such as your age might cause you to rebalance your allocation as well. As you get older and closer to retirement, you might want to decrease the amount you have in stocks and increase the amount in bonds to lower the risk. Overall, the process of investing is the best way to build wealth long-term, and it is essential for everyone to understand how it works in order to gain more financial freedom.

Building Credit

Credit is such a confusing and irritating financial topic but also a very important one. If you ever want to make a big purchase in life, such as buying a house or a car, you are most likely going to need to borrow some money from a bank in the form of a loan. However, you can't just walk in and ask for a loan and expect it to be this nice easy process where everyone gets free money because that's not the case. You have to meet certain requirements and one aspect of that is your credit score.

Your credit score is based on your credit report. Your credit report contains all of the information about your past uses of credit. This can include credit cards, loans, or even rent payments. The information in your credit report is then calculated into a numerical value called a credit score.⁵¹ Basically, a good credit score gives you more access to financing because lenders

⁵⁰ Benson and Jackson, para. 25.

⁵¹ Konsko and O'Shea, "Credit Score vs. Credit Report: What's the Difference?" para. 3.

use your credit score to make lending decisions.⁵² There are several important factors that make up your credit score. First, is your payment history. You want to always pay your bills on time! Next, is the amount of your credit limit that you use. Your credit limit is the maximum amount of money that you can borrow when using a credit card or other type of credit.⁵³ Ideally, you want to keep your balances under 30 percent of your total credit limit,⁵⁴ but sometimes you may need to make a big purchase, for instance if your laptop broke and you need a new one. That's fine if you have to go over that 30 percent mark. You just want to make sure you pay it off right away! This way you don't risk falling behind and having to pay high rates of interest. The third factor is the age and type of credit. The goal is to have a mix of credit types, such as credit cards, mortgage, or auto loans. This one can be tough for individuals who are starting out but be assured you'll end up getting a better mix of credit types over time. The next factor is total amount of debt. This one is pretty simple. You don't want to have too much, so you should always be trying to reduce the debt that you have. The last two factors are available credit and recent credit behavior. This means you shouldn't apply for more credit than you need, and you shouldn't open or apply for too many credit accounts too quickly. All of these factors help determine your credit score, but what is even a good score and how do you find out what your score is?

One thing to note is that there are different types of scoring models. Some models have higher scores being "good," but others have lower scores meaning that it's a "good" score. Typically, however, the higher the score, the better it is. Credit Karma says that on a scale of 300 to 850, "scores starting in the high 600s and up to the mid-700s are generally considered to be

⁵² Experian, "Credit Score Basics," 1.

⁵³ Irby, "What Is a Credit Limit?" para. 1.

⁵⁴ Experian, 1.

good.”⁵⁵ It is important to note that different lenders will have different criteria to decide whether or not to lend you money, so considering a credit score as “good” or “excellent” is definitely relative. As for finding out your credit score, if you already have a credit card or loan, your monthly statement could have your credit score on it. If not, there are free services, such as Experian or Credit Karma, where you can check your credit score for free. Some of these websites might have additional costs for other features, so you’ll just want to be careful to make sure you’re not being charged for anything unexpectedly.

Let’s move onto the important question: what’s the best way to build up a good credit score? Hopefully I’m reaching you early in your adult life because then the answer is simple: get a credit card. However, credit cards have a reputation of being bad. People often think that paying with cash or a debit card is much better than using a credit card. I was the same way. I’ve seen many people in my life get caught up in loads of credit card debt, so I just assumed credit cards were the enemy. However, when used correctly, credit cards are the easiest way to build credit.

It can sometimes be difficult getting approved for a credit card when you are young and just starting out, but if you are a college student, a lot of credit card companies have a student credit card. For example, I got approved for Discover’s Student Cash Back card with no credit history. One thing to watch out for, though, is credit cards with very high interest rates. Some companies might try to take advantage of the fact that you’re young and have no credit history by having an exceptionally high interest rate. If you are using the credit card properly and paying off your balance in full each month, then this won’t matter much because you won’t be paying interest. However, keep in mind that things can happen. You might miss a payment and you

⁵⁵ Hollis, “What Is a Good Credit Score?” para. 2.

don't want to get slammed with a very high interest payment. But what does it mean to "use the credit card properly?"

The whole point of having this credit card is to build credit. It's not to spend money that you don't have. So that's how you use it properly: never buy anything with your credit card that you don't already have the money for. If you start buying a lot of goods and services with your credit card when you don't actually have the money for them, then that's when you start to get into trouble because you can't pay off your monthly bill. What you want to do is use your credit card whenever you are going to buy things where you would've just used cash or your debit card, and then just pay off your credit card right away. I know it's kind of annoying having to transfer the money all the time from your checking account to your credit card, but this is hands down the best and easiest way to build credit.

A bonus tip when it comes to credit cards is to try and get a credit card with some sort of rewards program. The most common type would be cashback rewards. An example for this would be a credit card with 1 percent cashback. This means if you spend \$100 and you use your credit card for the purchase, you'll get one dollar back. It may not sound like much, but it adds up over time. The best thing in life is when your money makes you more money. In this case, you're not just using your credit card to buy something, but you're earning money back from the purchase. Another common type of rewards program provides travel points or miles. When you purchase things using the card, you get miles or points to use for certain airlines. These types of additional rewards bonuses are something to keep in mind when choosing a credit card.

Choosing a career

Choosing a career might not seem like a financial topic, but it actually might have the biggest financial impact of any of the topics covered in this thesis. Throughout our years of

schooling, we're told non-stop that you need a college degree to be successful. I'm not going to get into that entirely, but when it comes to major investments in life, a college education is hands down one of the most expensive, yet I feel that we do not put enough emphasis on actually choosing a career.

Some students just know exactly what they want to do. They find the right college, they love their major, they graduate, and they enjoy their job. However, not all students go down that path. According to a study of 25,000 undergraduate students done by the United States Department of Education, about one third of undergraduates change their major within three years of enrollment.⁵⁶

When we're in school, we're often asked what we want to be when we grow up. Some people know that they want to be an engineer or a teacher, but other students don't know what they want to do. Then, they are often told, "That's okay! You've got plenty of time!" I was one of those students and I heard that constantly. It was reassuring at the time, but then when I got to my senior year of high school, I still had no idea what I wanted to do. Many teachers still assured me that it was fine, and I could just go undecided. The only issue with that, which I find often goes overlooked, is that when you go to a college or university undecided and have no idea what major you want to pursue, you are now limited to only the majors that the college or university has to offer. Also, everyone says you have time, and that you can take some introductory courses for different majors, but the truth is time is ticking. You can only take so many courses in a semester, and the more introductory courses you take, the longer it will be until you choose a major. Every major has its requirements, and the longer you take to choose a major, the more likely you are that you are not going to finish in four years. Most people say, "Oh that's fine! Not

⁵⁶ Leu, "Beginning College Students Who Change Their Majors Within 3 Years of Enrollment," 1.

everyone finishes in four years!” Which is very true, but it is also more money that you are now required to spend.

With college being one of the most expensive investments, you would think that we would spend plenty of time in school choosing a career, but the truth is we don't spend nearly enough time. Ideally, we would make this a larger part of the curriculum, but unfortunately as discussed earlier, that's not always an option. So, my biggest recommendation, since these are all examples of topics students should learn, is for students to spend time thinking deeply about what they want to do for the rest of their lives.

The first step is to sit down and think about what you want in life. I know, it's sort of a deep question here, but you should really think about what you want your future to look like. Maybe you want a nice house, a nice car, a big family, and to have fun on the weekends. Maybe you're hungry to inspire people, perhaps through teaching or entertainment. Maybe you want to change the world - whether it's through politics or by creating the next big invention. A key part of this first step is to think about the risks you're willing to take. Some careers are riskier than others. For example, being an entrepreneur or an artist is riskier than being an accountant, so think about what kind of life you want to live, and the great part about this step is that it's going to change. Throughout life, you're going to meet new people and have different experiences that will alter your vision of your future, but always try to take time to think about what kind of life you want to live.

The second step is to think about what you're good at. However, Liz Brown, a professor at Bentley University, offered some great advice in one of her TED Talks by saying not just to ask yourself, “What are you good at?” but to ask yourself, “What do you *like* being good at?”⁵⁷

⁵⁷ Brown, “Work Flow: Finding Work You Love at Any Stage,” 1:10.

There's a key difference here. We might be good in some areas, but do we actually *enjoy* doing these things? Liz Brown was told throughout her life that she was good at arguing, so she became a lawyer, but after several years, she realized that she really didn't like arguing and she started to hate going to work every day. After thinking deeply about what she enjoyed being good at, she discovered that she likes taking legal language and turning it into simpler words. She also discovered her love for public speaking. This led her to a job where she can combine all of these things that she loves as a business law professor. I myself, had a similar experience where I was told my entire life that I'm good at math. It's true, I've always done really well in all of my math classes, and so accounting just kind of fell in my lap. Now, in my senior year of college, I'm realizing that I'm good at accounting, but I don't *like* being good at accounting. I enjoy some aspects of it. For example, I really enjoy thinking about how businesses operate and make decisions, but I also really enjoy being creative and unfortunately, there isn't a whole lot of room in accounting for creativity. However, when I step back and think about what I *enjoy* being good at, I can combine my interest in business and my interest in creativity and see that entrepreneurship might be the right path for me. So, I encourage you to think about what you want in life from step one, and then spend some time really dissecting what you enjoy being good at. Another thing to keep in mind as well is that if there's something you really enjoy but you don't think you're good at, you just might not be good at it *yet!* Learning never has to stop, so if there's something that you truly enjoy doing, I believe you can always become good at it through hard work and dedication.

The next step is to research. This might seem tedious to some people, but it's about your future, so maybe you'll end up enjoying it. Now that you have things you enjoy being good at, try to combine these things and find careers that include as many of these as possible. Start

making a list and branching out as far as possible. Take a love of music for example. Let's say you love singing and playing the guitar. Your list can start out with the obvious options: singer, songwriter, or touring guitar player, but let's dive deeper. There's audio engineering. This can be broken down even deeper. There's audio engineering in a studio for musicians to record songs and albums. There are also audio engineers for podcasts and radio shows. Then there's live audio engineering for concert venues. Maybe you like music, but you like business as well. There's music marketing. My point is to take whatever you found in step two and just write down as many career options as you can find that relate to your passions. After you have your list, research everything about these careers. How much do they make? Where are these jobs primarily located? What responsibilities do they have? What does the average day look like? Write all of this down. Once you've done this for your whole list, start to eliminate the careers that no longer interest you. Do this until you have a solid list of careers that you're really interested in.

After compiling some solid possible careers, it's time to figure out which one is right for you. The best way to do this is to experience it first-hand. Try to set up a time where you can shadow someone in that profession. Your school might have a way to set this up or you can do it on your own. Find some people in that profession and just send them an email asking if you can shadow them for a day. Most people will be happy to help and will offer some very valuable information to help you decide if that career is right for you. However, sometimes it might not be possible to shadow someone. Maybe you can't find someone locally or you don't have the time. That's where YouTube becomes your best friend. Go to YouTube and just search "What's it like to be a (insert profession here)?" I guarantee you'll find tons of videos for whatever career you

want. Some videos will be better than others, but this will give you a good idea of what a day in the life of certain jobs is like and it will help you decide if that job is right for you.

The point of all of this is to put in the hours figuring out what career you want to pursue before you even start applying to colleges because once you're confident in your career choice, you can then build a roadmap for after high school. Once you choose a career, you can figure out whether or not you need a college education. If you do need to go to college, you can start researching the best colleges that offer your major. Once you find the best colleges for you, compare the price tag of these schools to make sure you're not spending more than you have to. If you're going to an ivy league school, then the price tag might make sense. However, if one college is going to cost you \$100,000 and the other is going to cost you \$50,000, but it's the same quality of education, you should save yourself the money and go to the cheaper school. It's not this simple to decide because many other factors come into play when deciding on a school, but the point is you should do a lot of research because college isn't cheap! This planning before you even get to college will decrease the likelihood that you'll have to change majors and spend more time (and more money) in college.

Protecting and Insuring

It's never good to live in fear, but the reality is: accidents happen. Whether it's a car accident, a health emergency, or some sort of damage to your house, painful and unexpected incidents can happen, and it can end up being very expensive to cover the costs that result from the accidents. In order to protect against financial ruin, it is important to have insurance.

When you buy insurance, you are entering into a contract with the insurance company in order to transfer some of your risk to them. The way it works is by paying a monthly premium. A premium is just the amount you are charged for the policy. Different factors can affect the

amount that you pay depending on what type of insurance it is and the type of risk involved. Then, there is the deductible. When you file a claim for a loss that is covered by your insurance company, it is the amount of money that you will have to pay out of pocket before the insurance benefits kick in. Typically, the higher the premium that you pay, the lower the deductible will be. The last major component of insurance is the limit. This is just the maximum amount covered by the insurance company. Anything over that limit would be paid out of pocket.

There are many types of insurance, such as auto, health, home, and life insurance, but in this paper, we'll be focusing on auto and health insurance. Auto insurance is a policy purchased where you pay a premium to cover any costs of an auto accident.⁵⁸ There are many factors that affect the amount of your premium. First is your deductible. The higher the deductible, the lower you'll have to pay for the premium, but this means if you get into an accident, you will have to pay more out of pocket before the insurance benefits kick in. The relationship is the same the opposite way as well where the lower the deductible is, the higher the premium would be. The second factor is the make, model, and year of your car. Usually, the more the car is worth, the higher the premium will be. The next factor to consider is mileage. If you drive a lot, you are more likely to be in an accident. Therefore, the more miles you drive each year, the higher the premium might be. Another factor is your personal information. Your age, gender, marital status, and years of driving experience can all affect the amount of your premium. The last factor, and a very important one, is your driving history.⁵⁹ Any accidents or violations, such as speeding or driving under the influence, can increase your premium.

Another thing to consider when thinking about auto insurance is the different types of coverage you can get. There are five main types: liability, collision, comprehensive, personal

⁵⁸ Kagan, "Introduction to Auto Insurance," para. 1.

⁵⁹ insuranceQuotes.com, "5 Factors That Affect What You Pay for Auto Insurance," 0:15-2:07.

injury protection, and uninsured or underinsured motorist coverage. Liability coverage pays for any damage you cause in an accident where you are the one at fault. It covers the bodily injury of others and any property damage of others, but it does not cover any damages to your own property. Collision coverage covers any crash-related damages to your car even if you were at fault. Comprehensive coverage covers any losses that are out of your control. This could be natural disasters, fires, vandalism, theft, and hitting an animal. Another type of coverage would be personal injury protection. Typically, if the other driver is at fault, their liability insurance would cover your costs. However, for added protection, personal injury protection covers the cost of treating your injuries no matter who is at fault. The last type is uninsured or underinsured motorist coverage. While most states require a minimum amount of insurance, some drivers still do not have insurance or have insurance that might not cover the full cost of the damage, so uninsured or underinsured coverage covers the risk of being hit by one of those drivers.⁶⁰

When deciding what types of coverage to go with, there are two main considerations. First is to figure out your state required minimum coverage. For example, in Massachusetts the state minimum is the following:

- \$20,000 bodily injury liability per person
- \$40,000 bodily injury liability per accident
- \$5,000 property damage liability per accident
- \$20,000 uninsured motorist coverage per person
- \$40,000 uninsured motorist coverage per accident
- \$8,000 personal injury protection⁶¹

⁶⁰ 99_Insurance, "Understanding 5 Types of Car Insurance Coverage," 0:21-3:37.

⁶¹ Norman, "Minimum Car Insurance Requirements by State."

The next step would be to decide what you think you need to feel protected because the truth is, even if you are a really great driver, there are a lot of terrible drivers on the road. Therefore, you want to be sure that an accident will not leave you vulnerable to financial ruin.

The last thing that I feel is necessary to know about auto insurance is what information to exchange if you get into an accident. This was something I wasn't entirely aware of until my car was hit recently. The insurance company Allstate offers the following list of information to record after an accident:

- Full name and contact information
- Insurance company and policy number
- Driver's license and license plate number
- The type, color and model of the vehicle
- Location of the accident⁶²

All of this information will be used to file the claim with your insurance company.

Another main type of insurance is health insurance. Medical emergencies are extremely expensive and can lead to bankruptcy. You may be really healthy, but accidents happen and anything from broken bones to emergency surgery can cost thousands of dollars. Therefore, it is very important to have health insurance because it covers if you get sick or injured and also covers preventative care like doctor visits.⁶³

There are different costs associated with health insurance that are important to understand when choosing a plan. The first cost is the monthly premium. This could provide free preventative care such as vaccines and different screenings depending on the plan you have.

⁶² "What To Do After A Car Accident: An 8-Step Guide," "Step 6."

⁶³ Lalley, "Health Insurance Basics | 101 Guide to Health Insurance," para. 1.

Anything beyond preventative care can be a little more complex when it comes to the cost. After the premium, the next cost is the deductible. As mentioned before, this is what you will pay out of pocket before the health insurance benefits kick in. Once you reach the deductible, the next stage would be where you and your insurance company share the costs through either a co-pay or co-insurance. You would pay the co-pay or co-insurance and then your insurance company would pay the rest. The last stage would be your out-of-pocket maximum. Once you hit this mark, the insurance company would pay everything.⁶⁴ It is important to note that everything starts over every year and these stages can be different with every insurance plan.

The first step when choosing a plan is to see what is offered by your employer. Many employers offer health insurance to employees. This can be beneficial because the employer does the research and chooses a plan and also might share some of the costs. However, it could also be beneficial to purchase an individual plan instead. Choosing an individual plan allows you to choose a plan that is catered to your personal needs but could also lead to higher costs.⁶⁵ Both employer health insurance and individual plans have their pros and cons. It is just important to analyze the costs and the amount of coverage from each option and to find the balance between the two that fits your life.

When choosing an individual plan, it is important to understand the different types. Exclusive Provider Organizations (EPOs) and Health Maintenance Organizations (HMOs) only cover in-network health care costs. In-network means the network of hospitals and clinics that the insurance company has contracts with. EPOs and HMOs typically have the lowest costs. The difference between HMOs and EPOs is that HMOs require a referral from a primary care physician for any tests or appointments with specialists. Another type of health insurance plan is

⁶⁴ Consumer Reports, "Understanding Your Health Insurance Costs," 0:33-3:33.

⁶⁵ Medical Mutual, "Employer Health Insurance Vs. Individual Plans."

a Preferred Provider Organization (PPO). This plan offers more flexibility since it does not require referrals and covers costs in-network and out-of-network. However, out-of-network care is still more expensive and overall, PPOs have higher costs. The last type of plan is a Point of Service plan (POS). POSs are basically a mix of HMOs and PPOs because they cover in-network and out-of-network care but requires a referral from your primary care physician for certain care. This mix puts the cost in between the cost of HMOs and PPOs. Most plans also have different tiers based on different metals. These tiers range from bronze to platinum, and this just represents the average percent of costs the insurance company pays each year.⁶⁶

The last important topic on protecting and insuring is identity theft. Identity theft is when someone illegally uses someone else's personal information in order to steal money or credit.⁶⁷ However, there are some easy precautions you can take to protect against identity theft. First, you want to keep any important documents and information, such as your social security card and birth certificate, in a safe and secure place. In addition to that, if you are getting rid of any documents that have any personal information on them, you should shred the documents so the information cannot be stolen. Another tip is to choose secure passwords for your accounts. Luckily, the days of having the word "password" as a password are in the past since most accounts make it required to have a combination of uppercase letters, lowercase letters, numbers, and symbols in your password. The next precaution is to be wary of any offer that seems too good to be true because most of the time it is some sort of scam.⁶⁸ Lastly, you want to make it a habit to monitor your bank accounts and credit accounts regularly because if there are any sort of

⁶⁶ MoneyCoach, "Health Insurance 101: Types of Plans," 0:27-3:28.

⁶⁷ FDIC, "Money Smart: Grade 9-12 Parent Guide - Module 5: Protect," 27.

⁶⁸ FDIC, 27.

fraudulent purchases, you can identify them quickly and hopefully limit the damage. With identity theft protection and insurance, you'll save yourself the risk of financial ruin.

Taxes

Nowadays with tax software and tax professionals, you really don't need to have extensive personal knowledge on taxes. You don't have to be an accountant and have the ability to do your taxes by hand. However, you should have a good understanding of tax basics so that you can make sure you are getting the most out of filing your return. A good place to start is figuring out whether or not you even have to file your own taxes yet. The first step is to find out if you are claimed as a dependent, and the second step would be to find out your earnings for the year.

First, we'll look at if you are *not* claimed as a dependent. If you are under 65, single, don't have any unusual circumstances such as self-employment income, and earn less than the standard deduction for a single taxpayer, which in 2020 is \$12,400, then you do not need to file a return.⁶⁹ To find out the standard deduction for the current year, you can always find it on the IRS website. However, if you *do* have unusual circumstances or you earn more than the standard deduction, you are required to file a tax return.

Now let's move onto if you *are* claimed as a dependent. The circumstances from above are the same. If you are under 65, single, don't have any unusual circumstances such as self-employment income, and earn less than the standard deduction for a single taxpayer, then you do not need to file a return. However, there is another detail for dependents. If you are a dependent and you have unearned income of more than the standard deduction for dependents, which is

⁶⁹ TurboTax, "Does Everyone Need to File an Income Tax Return?" para. 4.

\$1,100 in 2020, you must file a return. Unearned income means income from sources like interest and dividends.⁷⁰

Even if you are not required to file a tax return, it still might be a good idea to file. You might have earned less than the requirement to file, but taxes could have still been taken out of your paychecks. Often times too much is withheld, which is given back in the form of a tax refund. However, you can only receive a refund if you file your taxes. Therefore, it still might be a good idea to file a tax return even if you do not meet the requirements.

There are a few options when it comes to filing your taxes. The first option is paper filing, which means you are doing it yourself by hand. This option really isn't advisable because it makes you prone to mistakes which can lead to issues down the road. The only benefit is that you are in charge, but the cons really outweigh the pros.⁷¹ Plus, who actually wants to file a tax return themselves? I'm an accounting major and I don't even want to, so let's move onto the other options. Option two is to use tax software. A popular software would be TurboTax. Using tax software allows you to get as many credits or deductions as possible and often has faster returns.⁷² The software works by asking you questions and giving you step by step instructions for inputting your information from your different forms. The software then compiles your answers and information and fills out the tax return, which leads to a relatively easy process for the user. The last option is to hire a tax professional. This is very useful if you have a lot of complex situations, such as self-employment income or certain deductions and credits, and don't want to worry about making any mistakes. The only con is that this is typically the most expensive option, but tax software is still going to charge you more for the more complex return

⁷⁰ TurboTax, para. 14.

⁷¹ manillavideos, "Ways to File Your Taxes," 0:23.

⁷² manillavideos, 0:56.

that you have. My advice would be if you're a high school or college student, software like TurboTax is going to be your best option and basic returns are typically free, which makes it even better.

Once you know whether or not you are going to file, and what method you are going to use, you need to make sure you have all of the forms you need to file. The most common form if you are employed is the W-2 form. This should be given to you by your employer. The W-2 contains all of the information regarding the money you made in the previous year, such as wages, federal income tax withheld, and state income tax. When filing using tax software, you'll be asked to locate certain information on the W-2 and to enter it into the software. Another common form is a 1099. A couple examples could be a 1099-INT or a 1099-DIV. A 1099-INT would be for any interest you earned from a financial institution. A 1099-DIV would be for any dividends that you received.⁷³ Nowadays, it isn't necessary to know every little detail when it comes to doing your taxes, but it is important to have a basic understanding in order to collect your documentation and get the most out of your return.

Conclusion

Financial literacy is one of the most important, if not *the* most important topic students need to prepare them for their future. Many financial literacy organizations and advocates are making great progress in their mission to get personal finance taught in every school throughout the United States. However, there are still many young adults who have missed out on financial education. My hope is that this paper is a place for them to start. It is never too late to educate yourself. I believe that understanding the topics above can help students to begin their journey to a financially stable and secure life.

⁷³ Next Gen Personal Finance, "Reference: Tax Preparation Checklist for Teens."

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