

## Money Management 1-2-3: **ONE: Getting a Strong Start**

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Wise choices about how to use your income and credit when you're young—or if you get a late start—help you build a strong foundation for a lifetime of financial security. Prioritizing spending, establishing a savings habit, and keeping consumer debt to a minimum enables you to achieve important financial goals sooner. And once you understand the basics of taxes, borrowing and banking, you'll be well prepared for even greater financial responsibilities and opportunities.

### **Income and taxes**

Earned income (as opposed to income from investments, rent and other non-work sources) includes the paycheck you may receive from an employer and any money you might make from gigs (like driving for a ride-sharing company or delivering meals), contract work, running a "side hustle," or owning a business.

Many workers who earn a paycheck are sur-

prised to find that their take-home (net) pay is less than what they earned (gross pay) because of various deductions. Federal and state income taxes typically take the biggest bite out of earnings. How much is withheld from your check depends in part on the number of allowances you claim on the Form W-4 your employer provides. Follow the instructions on the form or use the calculator (<https://www.irs.gov/individuals/tax-withholding-estimator>) at the Internal Revenue Service (IRS) website to determine the correct number of allowances.

If too much is withheld, you'll receive a refund when you file your tax return (between Jan. 1 and April 15 every year, unless you request an extension). A refund is nice, but it is better to have the correct amount of tax withheld from your paychecks so that you can spend or save your money throughout the year. If too little is withheld, you will have to pay the difference. If you are unable to pay what you owe, the IRS will add fees and interest to your balance.

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Social Security (FICA) and Medicare (MedFICA) taxes pay for government-sponsored retirement and healthcare benefits for eligible seniors. These taxes are nonrefundable. There may also be state-mandated deductions for things such as state-sponsored disability insurance.

Other deductions are voluntary, such as your share of the cost of your employer-sponsored health insurance and contributions to an employer-sponsored retirement plan.

If you don't get a paycheck—you're self-employed or do gig jobs (<https://www.irs.gov/filing/taxable-income>)—plan to put some of your earnings aside to pay taxes. If you expect to owe \$1,000 or more in tax, you must make quarterly estimated tax payments (<https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes>).

## Budgeting and saving

How do you manage your income so that you can pay for the things you need, buy the things you want and still achieve financial goals? You set priorities.

First, pay for necessities—rent or mortgage, food, utilities, insurance, transportation, credit payments, etc. Second, contribute to savings for important goals, including an emergency fund that covers three to six months of living expenses. Only then should you spend on such non-essentials as dining out and recreational shopping.

To help allocate your income according to your priorities, create a monthly budget. Include all your expenses: fixed and variable, essential (needs) and discretionary (wants). Break down annual and occasional expenses (car registration, insurance premiums and holiday gifts, for example) into monthly amounts. Include savings as a fixed monthly expense. And don't forget to include money you "fritter" away on things like coffee, snacks and subscriptions. (For a real eye-opener, track your daily spending for a month.) You can find many budget templates online (<https://www.nerdwallet.com/article/finance/free-budget-spreadsheets-templates>). You can also use one of the many available budgeting apps (<https://www.forbes.com/advisor/banking/best-budgeting-apps/>). These can offer some significant advantages over traditional budgeting tools,

such as the ability to sync the app with your financial accounts for real-time updates, but they aren't right for everyone. (Learn more in [The Pros and Cons of Budgeting Apps](https://www.oneazcu.com/about/financial-resources/saving-budgeting/the-pros-and-cons-of-budgeting-apps/) [<https://www.oneazcu.com/about/financial-resources/saving-budgeting/the-pros-and-cons-of-budgeting-apps/>].)

If your income doesn't cover all your wants and needs, make cuts in spending, increase income, or do a combination of both.

## Checking and savings accounts

A checking account allows you to write checks, use a debit card, or use online banking to access money you deposit (for example, to pay bills electronically). It can help you manage your money and avoid the costs of check cashing services, prepaid cards and money orders. A savings account provides a safe (insured) place to keep your money until you need it, and it pays a small amount of interest.

You can set up your accounts at a bank or a credit union. Shop around: Compare monthly and transaction fees, initial deposit and minimum balance requirements, interest rates, and other account terms. Compare bank accounts in your area at [Bankrate.com](https://www.bankrate.com). Find credit unions you may be eligible to join at [MyCreditUnion.gov](https://www.mycreditunion.gov).

Most financial institutions require two pieces of ID to open an account, one with a picture on it. If you are a non-citizen and non-permanent resident who is opening only a non-interest-bearing checking account, the financial institution might accept a consular ID card or non-U.S. passport. If you want to open an interest-bearing account, you'll need an Individual Taxpayer Identification Number (ITIN). If one bank is not satisfied with your ID, try another one—requirements vary.

Understand what types of activities will result in an account fee, and then take steps to avoid them. For example, keep close track of your balance to avoid overdrawing your account and incurring an overdraft fee. Use your bank's own automated teller machines (ATMs) to avoid an ATM surcharge. When reordering checks, it is probably cheaper to purchase them from a mail-order company than from your bank.

Although the debit card that comes with your checking account may have a Visa or Mastercard

logo on it, it is not a credit card. The cash you withdraw at the ATM and the money you spend will be deducted directly from your checking account.

Check your monthly account statement as soon as it arrives to verify that all deposits, withdrawals, debits, checks and fees are accurate. Better yet, enroll in online banking, and then check your account activity frequently to verify transactions and catch any suspicious activity sooner. Reconcile your statement by following the step-by-step instructions on the statement or online (or here: <https://www.experian.com/blogs/ask-experian/how-to-reconcile-your-bank-statements/>). This will help you spot errors and avoid overdrafts.

If you are denied an account, ask why. It may be because your name is in the ChexSystems database, which collects information about mishandled checking and savings accounts and reports it to banks that request the information when evaluating an account applicant. You have the right to one free copy of your ChexSystems report each year or whenever your account application is rejected. Request yours at [www.ChexSystems.com](http://www.ChexSystems.com) or call 800-428-9623.

Certegy and TeleCheck are databases of returned checks. If your check was not accepted at a store, you can order a free report from Certegy (<https://www.askcertegy.com>) (800-237-3826) and TeleCheck (<https://getassistance.telecheck.com/index/>) (800-710-9898).

Learn more about checking and savings accounts in Consumer Action's Checking and Savings Accounts publication (<https://www.consumer-action.org/modules/articles/checking-and-savings-accounts>).

## Learning about credit

Credit can help you handle a financial emergency and achieve financial goals. But credit can also get you into financial trouble if you don't understand how to avoid high fi-

nance charges, growing debt and unmanageable monthly payments.

There are two types of credit: installment and revolving. Installment credit requires you to make fixed monthly payments until you repay the full loan amount. Car loans and home mortgages are examples of installment credit. In these cases, the loan typically is secured by the property you purchased with the borrowed money (the collateral). If you default on the loan (don't repay it), the lender can repossess your car or foreclose on your home.

Revolving credit allows you to borrow money over and over again, up to your "credit limit." The amount of your available credit fluctuates as you use it and then repay it. You have the option to pay the entire balance when the bill is due or to pay a part of it and carry over the remainder to the following month. You can avoid interest charges by paying it off each month. Examples of revolving credit include credit cards and lines of credit.

Banks, credit unions, credit card companies, retailers, mortgage companies and others offer credit. The cost of credit includes interest—what the lender charges for allowing you to use its money—and various fees.



Some types of credit, such as pawn loans and payday loans, are best avoided because of their exorbitant interest rates and fees. With these and similar types of loans, you are at high risk to lose your collateral or get locked into a cycle of refinancing an evergrowing debt.

You have the right to upfront disclosure of all credit terms and costs (Truth in Lending Act: <https://finred.usalearning.gov/assets/downloads/FINRED-TruthLendingAct-FS.pdf>). If you are denied credit, you have a legal right to know why. Learn more about your rights from the Federal Trade Commission (<https://consumer.ftc.gov/credit-loans-and-debt/credit-and-debt>).

## Building a positive credit history

If you have never had credit, or if you didn't pay your bills as agreed, you may have a poor credit history or no credit history at all. Without a good credit history, it can be difficult to buy or rent a home, start a business, get insurance, set up utility service, borrow money, or even get a cell phone. Some employers reject job applicants with bad credit.

Because it can take time to establish and build a strong credit history, it's wise to begin the process even if you don't need the credit right away.

**Seek out opportunities.** Try to get a credit card from a retailer or gas company, which is sometimes easier than qualifying for a general-purpose credit card. If you're an immigrant without a Social Security number, you may be able to get a credit card with just an ITIN. A good place to inquire is with a local credit union or any of the financial institution partners of Bank On programs (<https://joinbankon.org>) in your area.

**Get a secured credit card.** This type of card is easier to get because you put up a deposit in the amount of the credit line, to be used by the card issuer if you don't repay your debt. Eventually, if you pay your monthly bills on time, you could graduate to an unsecured card and get your deposit back. Ask your bank or credit union about any secured cards they may offer. Learn more about building credit with a secured card here (<https://www.nerdwallet.com/article/credit-cards/secured-credit-cards-vs-unsecured-difference>).

**Take out a credit-builder loan.** When you take out a credit-builder loan, you do not receive the loan funds—but you do make payments. Once you have made all the payments, you will receive the loan amount (which you could use to establish or add to an emergency fund). Like a secured credit card, a credit-builder loan does not require good credit to get, but you will have to make regular payments in order to improve your credit. Learn more here (<https://www.nerdwallet.com/article/loans/personal-loans/what-is-credit-builder-loan>).

**Find a cosigner.** Ask a friend or relative with good credit to cosign your credit application. Be aware that if you don't make the payments, your cosigner will be responsible for the loan, and his or her credit could be damaged.

To build good credit:

- Keep your total outstanding debt to 30% or less of each credit line.
- Make at least the minimum payment by the due date.
- Don't charge over your credit limit.
- Make up any past-due payments.
- Apply for new credit only when you need it.

Your credit report is a record of how you've paid your bills and managed your credit over the years. Information about your payment history is provided by your creditors to companies that compile the data (credit reporting agencies, or credit bureaus). Other information, such as bankruptcy filings or tax liens, comes from public records.

Be sure to check your credit reports (<https://www.consumerfinance.gov/ask-cfpb/how-do-i-get-a-free-copy-of-my-credit-reports-en-5/>) regularly to catch any errors and to know where you stand. You can get one free credit report every 12 months from each of the three major credit bureaus (Equifax, Experian and TransUnion) at [AnnualCreditReport.com](https://www.annualcreditreport.com) or 877-322-8228, and, since the pandemic, consumers have been able to view free weekly reports online. You're also entitled to a free report from the credit bureau that supplied it if a company denies your application based on the content of that report. You must make your request within 60 days.

Do not fall prey to credit repair scams that

promise to remove derogatory (negative) information from your report for a fee. You can do anything these companies can do at no cost. Only discipline and time can repair damaged credit.

Your credit score is a three-digit number, usually ranging from 300 to 850, that summarizes the information in your credit report and attempts to predict how likely you are to repay your debts and make bill payments on time. Rather than review your entire report, businesses make a decision just by looking at your score.

Typically, your free credit reports do not include your score, but there are many sources of free credit scores, including major credit card issuers, banks, lenders, nonprofit credit counseling agencies, and credit card comparison websites, such as [CreditKarma.com](https://www.creditkarma.com), [Credit.com](https://www.credit.com) and [Credit-Sesame.com](https://www.credit-sesame.com). If you can't get a free score through any of these sources, you can purchase your FICO score at [myFICO.com](https://www.myfico.com) and you can purchase your VantageScore at [AnnualCreditReport.com](https://www.annualcreditreport.com) and at the Experian, Experian and TransUnion websites. (FICO and

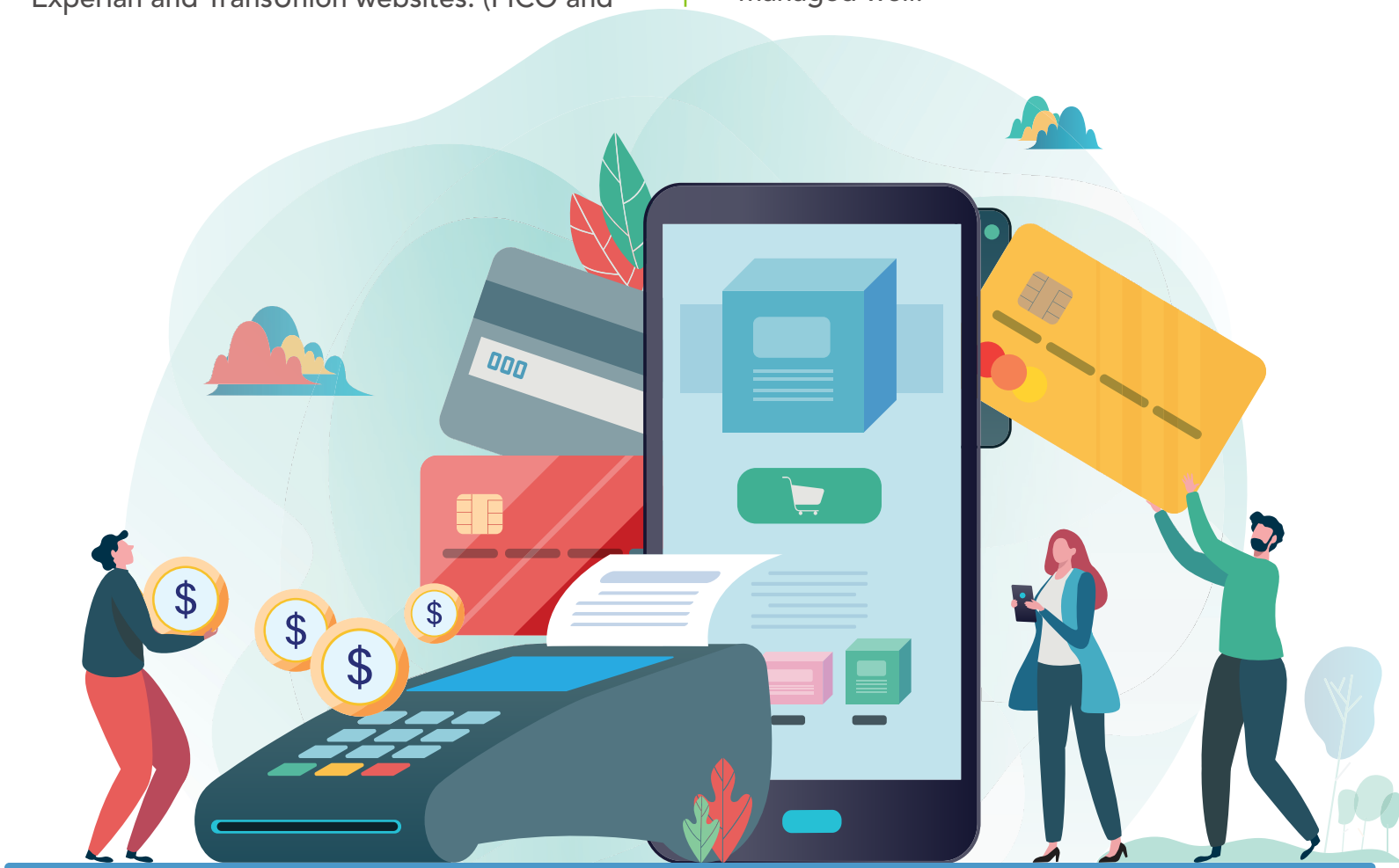
VantageScore are the two most widely used credit scores.) Beware of offers of "free" credit scores that enroll you in a monthly fee-based credit monitoring service.

While different types of credit scores use different scoring models, all can give you an idea of generally where you lie on the creditworthiness scale.

## Using credit cards

Credit cards offer users many benefits, including:

- An interest-free loan on purchases if you pay your balance in full each month;
- Greater safety and convenience than carrying cash;
- Protection against fraud, undelivered or damaged goods, and billing errors;
- The ability to shop safely online, buy airline tickets, or rent a car or hotel room; and
- Positive information in a credit report, if managed well.





But credit cards can also be expensive:

- Interest rates are high relative to some other loans.
- Purchases cost more if you carry a balance from month to month.
- Cash advances begin to accrue interest immediately, even if you pay your full balance by the due date. They also might incur a higher interest rate than purchases, and there is often a per transaction fee when you get cash.
- It's possible to remain in debt indefinitely and waste much of your income on finance charges.

Credit card interest rates, fees and other terms and conditions vary widely. You can compare cards at websites such as [CompareCards.com](https://www.comparecards.com), [CardRatings.com](https://www.cardratings.com) and [Credit.com](https://www.credit.com). Cards that earn you points, miles, cash back or other rewards for spending can be tempting, but they can cost more in annual fees and higher interest rates than the rewards are worth. The CFPB offers advice for selecting a credit card ([https://files.consumerfinance.gov/f/documents/cfpb\\_adult-fin-ed\\_how-to-find-the-best-credit-card.pdf](https://files.consumerfinance.gov/f/documents/cfpb_adult-fin-ed_how-to-find-the-best-credit-card.pdf)).

Charge cards are different from credit cards in that they set no limit on purchases but require you to pay your balance in full each month, and they typically charge an annual fee. (American Express is an example of a charge card.)

When you do use a credit card:

- Make at least the minimum required payment by the due date each month to avoid fees and penalty interest rates.
- Pay your balance in full as soon as possible.
- Avoid cash advances.

Avoid accumulating debt. If it's getting difficult to make monthly payments, stop using credit and contact the National Foundation for Credit Counseling at [NFCC.org](https://www.nfcc.org) or 800-388-2227 for help. Depending on your situation, a counselor might give you the option to participate in a debt management plan (DMP). Under a DMP, you would make one payment to the counseling agency, which would disburse funds to all your creditors. In turn, your creditors may agree to accept lower payments and waive or reduce interest rates and fees.

## Managing student loans

Defaulting on student loans can result in damaged credit, wage garnishment or even loss of your tax refunds. If you're having trouble making payments, it's important to address the issue head-on to avoid these consequences.

There are federal student loans and private ones. Federal loans offer more repayment options for borrowers. These include income-based repayment plans, forbearance and deferment. There may be other breaks for those who work for a nonprofit or in the public sector. Private lenders don't offer these programs, but may work something out with you—for example, allowing you to make interest-only payments—if you are struggling.

Another option, if you have multiple loans, is consolidation, which could lower your interest rate or monthly payments. But beware of scams that offer to consolidate your loans for a fee.

Learn more about managing your student loans with the National Consumer Law Center's Student Loan Borrower Assistance website (<https://studentloanborrowerassistance.org>) and Student Loan Toolkit ([https://www.nclc.org/wp-content/uploads/2024/06/202405\\_Report\\_Student-Loan-Toolkit\\_fillable.pdf](https://www.nclc.org/wp-content/uploads/2024/06/202405_Report_Student-Loan-Toolkit_fillable.pdf)).

## About Consumer Action

[www.consumer-action.org](https://www.consumer-action.org)

Through education and advocacy, Consumer Action fights for strong consumer rights and policies that promote fairness and financial prosperity for underrepresented consumers nationwide.

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