



UTEP
CENTER FOR
FREE ENTERPRISE
WOODY L. HUNT
COLLEGE OF BUSINESS

PERSONAL FINANCIAL LITERACY WORKSHOP

Session 1

Budgeting, Saving, Debt, and Credit

Center for Free Enterprise · Woody L. Hunt College of Business · The University of Texas at El Paso

Interactive tools: center-for-free-enterprise.github.io/PFL



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For learning only. This reading is educational material for the C4FE Personal Financial Literacy Workshop. It is not financial, legal, or tax advice. Figures are simplified examples; tax figures use 2026 federal rules for a single filer.

The interactive calculators mentioned in “Try it” boxes are free at **center-for-free-enterprise.github.io/PFL**. Nothing you type there is saved or sent anywhere.

INTRODUCTION

Why This Matters

Most people learn about personal finance the hard way: by making costly mistakes. They overspend, carry credit card debt, and reach their thirties or forties with little savings and no clear plan. The good news is that the basics of managing money are not complicated. You don't need to be a math whiz or an economics major. You just need to understand a few fundamental concepts and build some good habits early.

This session covers those fundamentals in order: how to understand your income, how to build a budget, how to save with purpose, how debt works, how to use credit cards wisely, how to build a strong credit score, and how to protect yourself with insurance. Each topic builds on the last, so by the end you will have a complete picture of what it takes to manage your personal finances well.

DID YOU KNOW?

Nearly 74% of Americans live paycheck to paycheck. That means most people would struggle to pay their bills if they missed even one paycheck. Learning to manage your money now puts you ahead of the majority of adults.

SECTION 1

Understanding Your Income

Before you can manage money, you need to understand how much you actually take home. There is an important difference between what you earn and what you keep: taxes.

Gross income is your total salary or wages before any deductions. If you are offered a job paying \$40,000 per year, that is your gross income.

Net income, also called take-home pay, is what is left after taxes and other deductions. This is the number that lands in your bank account, and this is the number you should base your budget on. For most people, net income is meaningfully lower than gross income, which is why understanding what gets deducted and why is so important.

Reading Your Pay Stub

Every time you get paid, you receive a pay stub, which is a document, physical or digital, that breaks down exactly what you earned and what was taken out. Understanding each line item helps you make sense of your finances and catch errors. A typical pay stub includes:

- ◆ **Gross pay:** your total earnings for the pay period before any deductions.
- ◆ **Federal income tax withheld:** the portion sent to the IRS on your behalf.
- ◆ **State income tax withheld:** if applicable (note: some states, like Texas, do not have a state income tax).
- ◆ **Social Security tax:** 6.2% of your gross pay, up to an annual income limit.
- ◆ **Medicare tax:** 1.45% of your gross pay.
- ◆ **Other deductions:** health insurance premiums, retirement contributions, or other benefits your employer offers.
- ◆ **Net pay:** your actual take-home amount after all deductions.

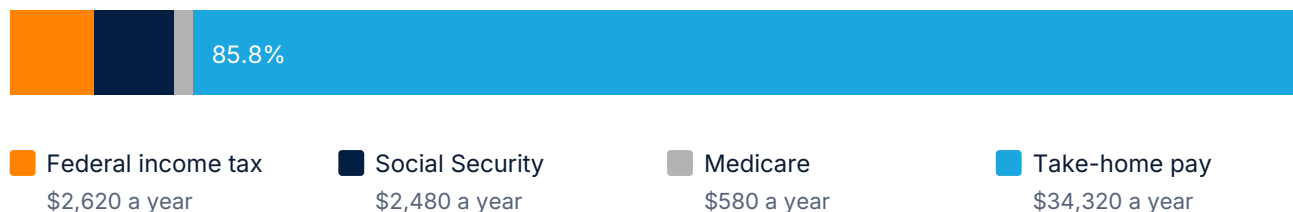
EXAMPLE — A PAY STUB IN PRACTICE:

Suppose you earn \$1,538.46 every two weeks (which equals \$40,000 per year). Your pay stub might show federal income tax of about \$101, Social Security of \$95, and Medicare of \$22, plus any health insurance or retirement deductions your employer offers. After all of that, your net pay might be closer to \$1,270, roughly \$268 less than your gross pay. Over the year, that gap amounts to nearly \$7,000. This is why you should never plan a budget around your gross salary.

Getting into the habit of reading your pay stub is worthwhile. It tells you exactly where your money goes before it reaches you and gives you a concrete starting point for building a budget.

Your Employer, Inc.		Earnings statement	
EMPLOYEE Jordan Rivera	SSN XXX-XX-1234	PAY PERIOD Aug 17 – Aug 30, 2026	PAY DATE Sep 4, 2026
EARNINGS		THIS PERIOD	YEAR TO DATE
Regular pay		\$1,538.46	\$26,153.82
Gross pay		\$1,538.46	\$26,153.82
DEDUCTIONS		THIS PERIOD	YEAR TO DATE
Federal income tax		\$100.77	\$1,713.09
Social Security (6.2%)		\$95.38	\$1,621.46
Medicare (1.45%)		\$22.31	\$379.27
Texas state income tax		\$0.00	\$0.00
Health insurance		\$50.00	\$850.00
Total deductions		\$268.46	\$4,563.82
Net pay			\$1,270.00
Year to date: \$21,590.00			

A sample pay stub: a \$40,000 salary paid every two weeks, with 2026 federal withholding for a single filer and a \$50 health insurance deduction. Real stubs mask most of your Social Security number, as here.



Where a \$40,000 salary goes in 2026: about 86% reaches your bank account. Texas has no state income tax.

Taxes: Where Does the Money Go?

When you work, a portion of your paycheck is automatically sent to the government through a process called withholding. Your employer calculates how much to hold back based on a form called a W-4, which you fill out when you start a job. The W-4 tells your employer your filing status and any adjustments you want to make to your withholding.

At the end of each year, you file a tax return, usually by April 15, to settle with the government. If too much was withheld throughout the year, you get a refund. If too little was withheld, you owe the difference. Filing taxes for the first time can feel intimidating, but free tools like the IRS Free File program or services like TurboTax and H&R Block make it manageable for most people with straightforward situations.

Federal Income Tax works on a progressive system, meaning you pay a higher rate only on the portion of income above certain thresholds, not on your entire income. For example, if you earn \$40,000 a year, you do not pay 22% on all of it. You pay 10% on the first portion, 12% on the next, and so on. Each income range and its corresponding rate is called a **tax bracket**.

Social Security and Medicare taxes (FICA) are an additional 7.65% of your income. These fund retirement and health programs for elderly Americans and are paid automatically through payroll.

EXAMPLE:

Under 2026 rules, someone earning \$40,000 per year would pay roughly \$2,620 in federal income tax (after the standard deduction) and about \$3,060 in FICA taxes — a total of about \$5,680. Their actual take-home pay would be around \$34,320, roughly 14% less than their advertised salary.

TRY IT Budget Simulator

See your own take-home pay and build a 50/30/20 plan.

center-for-free-enterprise.github.io/PFL/budget.html

Filing Taxes for the First Time

If you have a job, you may need to file your own tax return soon, even if a parent or guardian still claims you as a dependent on their return. Being claimed as a dependent simply means your parent receives certain tax benefits for supporting you; it does not exempt you from filing your own return if you earned enough income.

Generally, if your earned income exceeds a certain threshold in a given year (this amount is adjusted periodically, so it is worth checking current figures), you are required to file your own tax return, separately from your parent's. The good news is that as a dependent with a modest income, you will often owe little or no federal income tax, and any tax withheld from your paychecks throughout the year is typically refunded to you when you file.

PRO TIP:

Filing your first tax return can feel intimidating, but free tools like the IRS Free File program walk you through it step by step. Many dependents with simple, single-job income can complete the process well under an hour.

Gig Work and 1099 Income

Not all income comes from a traditional job with a regular paycheck. If you drive for a rideshare app, do freelance work, sell goods online, or work seasonal gigs like lawn care or tutoring, you may be paid as an independent contractor rather than an employee. This income is often reported on a form called a 1099 instead of the W-2 used for traditional employment.

The key difference is withholding. When you work as an employee, your employer automatically withholds federal income tax, Social Security, and Medicare from each paycheck. When you work as an independent contractor, nothing is withheld and you receive the full amount you earned, and you are responsible for setting aside money for taxes yourself.

This catches many young workers off guard. Independent contractors owe not only regular income tax but also self-employment tax, which covers the Social Security and Medicare contributions that an employer would normally split with you. Combined, this can mean a tax bill of 15% or more of your gig income that you must pay yourself.

PRO TIP:

If you earn money through gig work, set aside roughly 20 to 30% of every payment in a separate savings account specifically for taxes. This way, when tax season arrives, the money is already there instead of coming as an unpleasant surprise.

Deductions: Reducing What You Owe

Not all your income is necessarily subject to tax. Deductions are amounts that reduce your taxable income, meaning you pay taxes on a smaller amount, which lowers your overall bill.

Every taxpayer can take the standard deduction without providing any documentation. For a single individual, this is a significant amount (\$16,100 in 2026) that is automatically subtracted from your income before taxes are calculated. Some people choose to itemize deductions instead by listing specific expenses like mortgage interest, charitable donations, or large medical bills if those add up to more than the standard deduction.

Common deductions worth knowing about include contributions to retirement accounts, student loan interest payments, and health savings account contributions. As your financial life grows more complex, understanding deductions becomes an important tool for legally reducing your tax bill.

KEY TAKEAWAY:

Always base your budget on your net income; that's the money you take home. Read your pay stub, understand what is being withheld, and file a tax return every year whether your income comes from a traditional paycheck or gig work.

SECTION 2

Building a Budget

Now that you know how much money you take home, the next step is deciding what to do with it. That is exactly what a budget does — it is a plan for your money before you spend it. Budgeting is the process of creating that plan, and it is one of the most powerful habits you can build.

Why Bother?

A budget helps you know exactly where your money is going, avoid spending more than you earn, set financial goals and reach them, and stop stressing about whether you can pay your bills. Many people who feel like they “never have enough money” are not necessarily earning too little; they simply have no plan for where their money goes, so it disappears.

A budget also reveals something most people underestimate: how quickly small, repeated expenses add up. A daily coffee, a few delivery fees, or a handful of forgotten subscriptions can each feel negligible on their own, but tracked over a month, they often add up to a surprisingly large number. A budget makes that pattern visible rather than invisible.

Example: A \$6 coffee bought five days a week comes to about \$130 a month, and over a year, that’s more than \$1,500. No single purchase felt like a big decision, but the pattern adds up to a meaningful sum.

Budgeting also has a powerful psychological benefit: it lets you see progress toward your goals, not just track spending. Big financial goals — paying off a loan, saving for a car, building an emergency fund — can feel like they’re moving painfully slowly, especially at the start. A budget that tracks your progress month to month shows you that progress is real, even when it doesn’t feel that way. Much like running a marathon, the first few miles can feel like they’re getting you nowhere, but the distance steadily adds up mile after mile. Seeing that visual progress is one of the best defenses against giving up on a goal too early, simply because it didn’t feel like it was working.

Ideally, update your budget weekly rather than waiting until the end of the month. Checking in every week catches small overspending before it snowballs into a bigger problem, and reviewing a week’s worth of spending is faster and easier than trying to reconstruct an entire month at once.

PRO TIP:

Round your expenses up when budgeting. If something costs \$42, plan for \$45. If a bill comes to \$78, budget for \$80. This builds in a small safety cushion, and whatever you don’t end up spending becomes extra savings at the end of the month.

Budgeting Methods

There is no single right way to budget. What matters is finding a method you will actually stick with. Here are three common approaches, starting with the simplest.

The 50/30/20 Rule divides your after-tax income into three broad categories:

- ◆ **50% for Needs:** rent or housing, groceries, utilities, transportation, insurance, and minimum debt payments. These are things you genuinely cannot go without.
- ◆ **30% for Wants:** dining out, subscriptions, entertainment, clothing beyond basics. These improve your life but are not strictly necessary.
- ◆ **20% for Savings and Debt Repayment:** building savings, an emergency fund, and paying debt faster than required.

This is the best starting point for someone new to budgeting. It is simple, flexible, and does not require tracking every individual purchase.

Zero-Based Budgeting takes a more detailed approach: every dollar of your income is assigned a specific purpose until you reach zero. You are not spending all your money; you are allocating it deliberately, including savings. This method requires more effort but gives you complete visibility into your finances and works well for people who want a tighter grip on their spending.

The Envelope Method is a cash-based system where you divide your money into physical or digital envelopes labeled by spending category: groceries, gas, entertainment, and so on. When an envelope is empty, that category is done for the month. This is particularly useful for people who overspend in specific areas because the limit is visible and concrete.

If you have never budgeted before, start with the 50/30/20 rule. Once you are comfortable tracking your spending at that level, you can decide whether a more detailed method makes sense for you.

Needs vs. Wants: Honest Self-Assessment

One of the hardest parts of budgeting is being honest with yourself about what is a need and what is a want. A cell phone is a need. The newest iPhone on an expensive plan may be a want. A car can be a need if you have to drive to work. A brand-new car with a high monthly payment when a reliable used one would do is often a want.

There is nothing wrong with spending money on wants; that is part of enjoying life. The problem arises when wants crowd out needs and savings without you realizing it.

THINK ABOUT IT:

Go through a typical month in your head. How much do you spend on things you truly need versus things you simply want? Most people are surprised when they see the numbers written down.

The Psychology of Spending

Budgeting is not just a math problem; it is a behavior problem. Even people who understand budgets perfectly can struggle because of how spending feels in the moment.

Impulse buying is when you purchase something unplanned, often triggered by a sale, an advertisement, or simply boredom. A useful rule: if you see something you want but did not plan for, wait 24 to 48 hours before buying. The urge often fades.

Lifestyle inflation is the tendency to spend more as you earn more — upgrading your car, your apartment, your wardrobe — so that despite earning more, you never seem to get ahead. Earning a raise is an opportunity to save more, not just spend more.

Subscription creep is a modern and particularly sneaky version of the same problem. Streaming services, apps, gym memberships, and delivery subscriptions each seem small individually, but they can quietly drain \$100 to \$200 a month from your budget without you noticing. Auditing your subscriptions every few months is a simple way to recover that money.

Budgeting with Irregular Income

If your income varies month to month — from a part-time job, tips, or seasonal work — base your budget on your lowest expected monthly income, not your best month. Cover needs and savings goals from that conservative number first. Any extra income goes toward wants, additional savings, or debt. This prevents the common mistake of spending freely in good months and scrambling in slow ones.

Tracking Your Budget

You do not need anything fancy to track a budget. Options include apps like Mint, YNAB (You Need A Budget), or EveryDollar, a simple spreadsheet, or pen and paper. Many banks also offer built-in spending trackers in their mobile apps. What matters is that you review your spending frequently so small overruns do not quietly become big problems.

TRY IT Budget Simulator

See your own take-home pay and build a 50/30/20 plan.

center-for-free-enterprise.github.io/PFL/budget.html

KEY TAKEAWAY:

A budget is not about restricting your life. It is about making sure your money works for you instead of disappearing. If you are new to budgeting, start with the 50/30/20 rule and build from there.

SECTION 3

Saving with Purpose

A budget tells you where your money goes. Saving is what gives you options, security, and eventually freedom. Without savings, unexpected expenses can become a crisis. The relationship between budgeting and saving is direct: a good budget always makes room for saving, even if it starts small.

Checking vs. Savings Accounts

A checking account is where your everyday spending money lives. It is linked to your debit card and used for regular transactions such as paying bills, buying groceries, and making other purchases. Most banks offer them for free or with minimal requirements, but it is worth knowing about a few fees that can catch new account holders off guard:

- ◆ **Overdraft fee:** charged when you spend more money than you have in your account and the bank covers the difference, typically \$30 to \$35. Many banks let you opt out of overdraft coverage, which simply declines the transaction instead of letting it go through and charging you a fee. For a new account holder, opting out is often the safer choice.
- ◆ **ATM fee:** charged for withdrawing cash from machines outside your bank's network, often \$2 to \$5 per withdrawal, sometimes charged by both your bank and the ATM owner. Sticking to your own bank's ATMs, or choosing a bank with a large free ATM network, minimizes this cost.

A savings account is where you park money you are not going to spend right away. Traditional savings accounts earn a small amount of interest. **High-yield savings accounts**, often available through online banks, offer significantly higher interest rates with little additional risk. For anyone building savings, a high-yield account is almost always the better choice.

A Certificate of Deposit (CD) is another option worth knowing about: a savings product in which you agree to leave your money untouched for a fixed period, typically 6 months to 5 years, in exchange for a guaranteed interest rate, usually higher than that of a regular savings account. The tradeoff is liquidity: withdrawing your money before the term ends typically triggers a penalty. CDs work well for money you know you will not need for a specific stretch of time, but they are not a good place for your emergency fund.

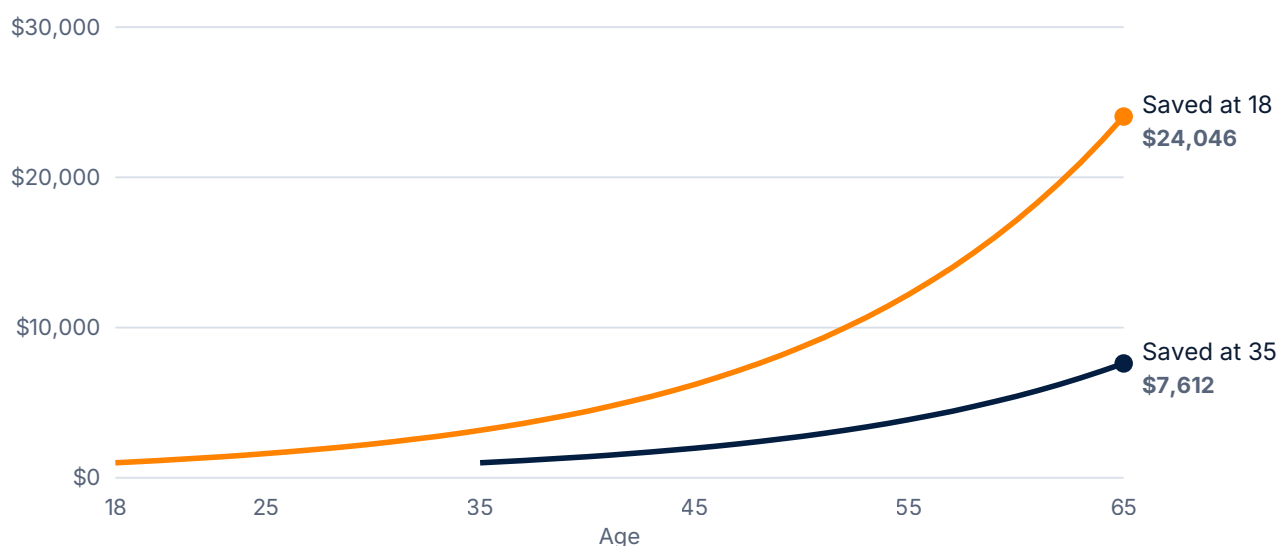
PRO TIP:

Automate a transfer from your checking to your savings account every time you get paid, before you have a chance to spend it. This is called "paying yourself first." If you never see the money in your checking account, you are far less likely to spend it.

How Compound Interest Works in Your Favor

When your savings account earns interest, that interest is added to your balance. The next time interest is calculated, it is applied to the larger balance, meaning you earn interest on your interest. This is called compound interest, and over time it can significantly grow your savings with no extra effort on your part.

The two key variables are the interest rate and time. Even modest amounts grow meaningfully over years and decades, which is one of the most powerful reasons to start saving early. A dollar saved at 18 has far more time to compound than a dollar saved at 35.



The power of starting early: the same \$1,000 deposit at the same 7% yearly return, left until age 65. Starting at 18 ends with about three times as much.

Short-Term, Medium-Term, and Long-Term Savings Goals

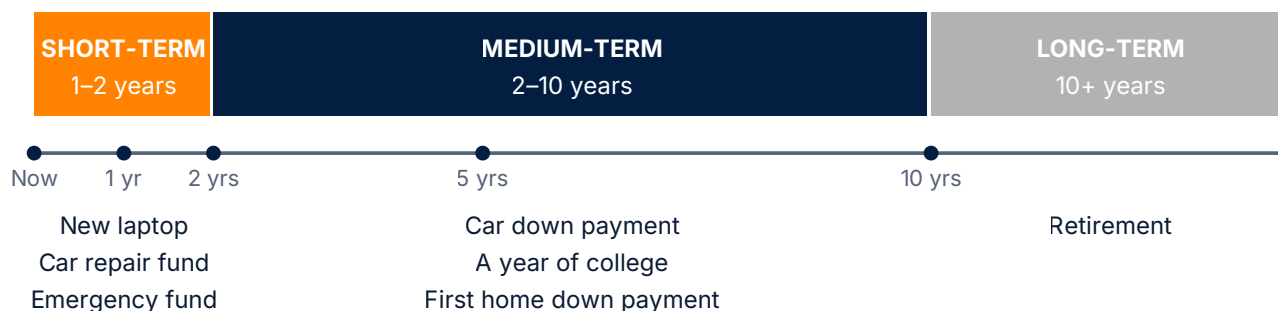
Not all savings serve the same purpose, and thinking of them in three categories helps you stay organized and motivated.

Short-term goals are things you want to achieve within one to two years, such as getting a new laptop, a car repair fund, a vacation, or building your emergency fund. These savings should be kept in an accessible account, such as a high-yield savings account.

Medium-term goals are two to ten years out, such as a car down payment, a year of college expenses, or moving into your own apartment. These can also live in a savings account or a CD, though as your financial knowledge grows, you may explore other low-risk options.

Long-term goals are ten or more years away, most importantly, retirement. These savings benefit most from being invested, which is the subject of Session 2.

Giving each savings goal a name, a target dollar amount, and a target date makes them feel real and motivates consistent contributions.



Savings goals by time horizon. Short- and medium-term goals belong in a savings account; long-term goals benefit most from investing (Session 2).

TRY IT Saving for a Goal

Find the monthly amount for a car, a down payment, or your own goal.

center-for-free-enterprise.github.io/PFL/savings.html

The Emergency Fund

An emergency fund is money set aside specifically for unexpected expenses: a medical bill, car repair, a sudden job loss, or any other financial shock. Without one, even a modest emergency can force you into debt.

The general recommendation is to save three to six months of living expenses in an emergency fund. If your monthly expenses are \$1,500, your target is \$4,500 to \$9,000. That may feel like a lot at first. Start small. Even \$500 set aside is meaningfully better than nothing, and you can build from there over time.

Your emergency fund should live in a savings account so that is accessible quickly when needed, but separate from your everyday checking account so you are not tempted to dip into it for non-emergencies.

Is My Money Safe in a Bank?

A common and reasonable question for first-time account holders is whether money kept in a bank is safe. The answer is yes, but up to a point. In the United States, most bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC). If your bank were to fail, the federal government guarantees your deposits up to \$250,000 per depositor, per bank. For the vast majority of people, this means their savings are fully protected. Credit unions offer equivalent protection through the National Credit Union Administration (NCUA).

KEY TAKEAWAY:

Build your emergency fund before anything else. Save with specific goals in mind, take advantage of compound interest by starting early, avoid avoidable fees, and keep your money in FDIC-insured accounts.

SECTION 4

Understanding Debt

With a budget in place and savings building, the next financial reality to understand is debt. For many people, the word debt carries a negative weight. Debt is not something to fear, avoid, or feel ashamed of. That negative reaction is understandable, but it is not quite accurate.

The truth is that debt is one of the most common financial tools in adult life. Most people who buy a home use a mortgage. Most people who earn a college degree take out some student loans. Many small businesses get off the ground using a loan. Having debt is not, by itself, a sign of financial trouble or poor decision-making. It is simply borrowing money now with a plan to pay it back later, usually in exchange for being able to do something today that would otherwise take years of saving.

What separates a healthy relationship with debt from a harmful one is not whether you have debt; it is whether you understand what you are borrowing for, what it costs you, and whether you have a realistic plan to pay it back. The rest of this section, and the credit card section that follows, cover real risks worth taking seriously: high interest rates, minimum payment traps, and borrowing for the wrong reasons. None of that should be read as “debt is dangerous, stay away.” It should be read as “debt is a tool, and tools deserve respect for how they are used.”

WORTH REMEMBERING:

Having debt isn't a financial failure. Most adults carry some form of debt, be it a mortgage, student loans, or a car loan. What matters is whether you understand it and have a plan to repay it.

Debt means borrowing money that you promise to pay back with interest added on top. Not all debt is the same, and understanding the difference can save you thousands of dollars over your lifetime.

Good Debt vs. Bad Debt

Good debt is borrowing that can improve your financial situation over time. A student loan that leads to a higher-paying career, or a mortgage that lets you build equity in a home rather than paying rent indefinitely, can both be considered good debt provided you borrow responsibly and have a clear plan to repay.

Bad debt is borrowing to pay for things that lose value quickly or are consumed immediately; a vacation on a credit card, clothing, gadgets, or everyday expenses you simply cannot afford. Bad debt is expensive, leaves you with nothing of lasting value, and can compound into a serious financial burden.

RULE OF THUMB:

If you must borrow to buy something that will be worth nothing in a year, think very carefully before doing it.

Types of Debt

Credit card debt is one of the most common and most expensive forms of consumer debt, with interest rates typically between 18% and 29% annually. It is covered in detail in the next section.

Student loans help many people access higher education that they otherwise could not afford. Federal student loans generally offer lower interest rates and more flexible repayment options than private loans. However, borrowing more than you need or taking on debt for a degree without a realistic plan to repay can leave you financially burdened for years. Before taking out student loans, research the expected starting salary in your intended field and make sure the math makes sense.

Auto loans are used to finance car purchases. Interest rates vary based on your credit score and the loan term. A longer loan term means lower monthly payments, but more total interest paid. A reliable used car financed over a shorter period is almost always a better financial decision than a new car financed over five or six years.

Personal loans are general-purpose loans from a bank or lender. They can be useful in specific circumstances, consolidating high-interest debt, for example, but should be approached with care.

How Interest Works

Interest is the price you pay for borrowing money, expressed as an annual percentage rate (APR) applied to your outstanding balance. The higher the rate and the longer you carry the balance, the more expensive the debt becomes.

For example, if you borrow \$1,000 at 20% annual interest and make no payments, after one year you owe \$1,200. After two years, you would owe \$1,440. The original purchase becomes increasingly expensive the longer you wait to pay it off.

How Amortization Works

Most installment loans, such as car loans and student loans, are amortized, meaning each payment is split between interest and principal (the original amount borrowed). In the early months of a loan, a larger portion of each payment goes toward interest, and a smaller portion reduces the principal. Over time, as the principal shrinks, more of each payment goes toward the actual debt.

This is why making extra payments early in a loan is especially powerful: it reduces the principal faster, which means less interest accumulates over the life of the loan. Even a small additional amount added to each monthly payment can save a meaningful sum in total interest.



Example: a 5-year, \$20,000 loan at 6% APR. Every payment is \$386.66, but early payments carry more interest. Total interest over the loan: \$3,199.

TRY IT **Loan Calculator**

See how term and rate change the payment and the total interest.

center-for-free-enterprise.github.io/PFL/loans.html

Paying Off Debt: Two Strategies

If you carry multiple debts, two popular strategies can help you pay them off systematically.

The Debt Avalanche method involves paying the minimum on all debts and directing any extra money toward the debt with the highest interest rate first. Once that debt is eliminated, you move to the next highest rate. This is the mathematically optimal approach because it minimizes total interest paid over time.

The Debt Snowball method involves paying off the smallest balance first, regardless of interest rate. Once the smallest debt is gone, you roll that freed-up payment into the next smallest. This approach may cost slightly more in total interest, but it delivers psychological wins early on, which helps many people stay motivated and on track.

Both strategies work. The best one is the one you will follow through on.

DEBT AVALANCHE

Highest interest rate first

1 Credit card
Extra payments go here
Balance \$2,500 · 22% APR

2 Personal loan
Balance \$4,000 · 11% APR

3 Student loan
Balance \$1,200 · 6% APR

DEBT SNOWBALL

Smallest balance first

1 Student loan
Extra payments go here
Balance \$1,200 · 6% APR

2 Credit card
Balance \$2,500 · 22% APR

3 Personal loan
Balance \$4,000 · 11% APR

Two ways to pay off the same three debts. Pay the minimum on all of them and put any extra money toward number 1; when it is gone, move to the next.

KEY TAKEAWAY:

Debt is a normal financial tool, not something to fear. Used purposefully, it can help you build a better life. Used carelessly, it can take years to escape. Always understand the full terms before you borrow and always have a concrete plan to repay.

SECTION 5

Credit Cards — Friend or Enemy?

Credit cards are one of the most misunderstood financial tools. They have a bad reputation, but they are not inherently dangerous. What makes them dangerous is using them without understanding how they work. Used responsibly, a credit card offers real advantages. Used carelessly, it is one of the fastest ways to accumulate expensive debt.

How a Credit Card Works

When you use a credit card, you are borrowing money from the card issuer to make a purchase. At the end of each billing cycle, you receive a statement showing the total amount you owe. If you pay the full balance by the due date, you pay no interest whatsoever. If you pay only part of the balance, or just the minimum payment, the remaining amount carries over to the next month and interest begins to accrue.

Most credit cards carry high interest rates, often between 18% and 29% annually. Carrying a balance is therefore very expensive.

Reading a Credit Card Statement

Your monthly statement includes several important figures worth knowing:

- ◆ **Statement balance:** the total amount owed at the end of the billing cycle.
- ◆ **Minimum payment due:** the smallest amount you must pay to avoid a late fee.
- ◆ **Payment due date:** the deadline to make at least the minimum payment.
- ◆ **Available credit:** how much more you can charge before hitting your limit.
- ◆ **Interest charges:** what you were charged if you carried a balance.
- ◆ **New charges:** a list of all purchases made during the billing period.

Reading your statement every month is a good habit. It helps you catch fraudulent charges, track your spending, and stay fully aware of what you owe.

The Real Cost of Carrying a Balance

Suppose you have a \$500 balance on a credit card with a 24% annual interest rate. If you pay only \$100 this month, your balance drops to \$400, but then interest accrues. At a daily rate of about 0.066%, with a 30-day billing cycle and an average daily balance of about \$320, you would owe approximately \$6.31 in interest. That may seem small, but if you keep carrying a balance and adding new charges, the debt grows quickly.

Credit card companies are required to disclose in your statement how long it would take to pay off your balance if you make only minimum payments. The number is often startling. A \$1,000 balance at a high interest rate, paid at the minimum, can take over five years and cost hundreds of dollars in interest on a purchase long since forgotten.

The Minimum Payment Trap

Credit card companies intentionally set minimum payments low; often just 1–2% of your balance or a flat \$25–\$35. This keeps you in debt longer and maximizes the interest they collect. Paying only the minimum is one of the costliest financial habits you can develop.

WARNING:

Never treat the minimum payment as your target. Always pay the full statement balance if possible. If you cannot, pay as much above the minimum as you can manage.

TRY IT Credit Cards

See what paying only the minimum really costs.

center-for-free-enterprise.github.io/PFL/credit.html

Credit Card Fees to Know

Beyond interest, credit cards can charge a variety of fees:

- ◆ **Annual fee:** a yearly fee just for having the card. Many good cards have no annual fee; make sure any fee is justified by the rewards or benefits offered.
- ◆ **Late payment fee:** charged if you miss your payment due date, typically \$25 to \$40.
- ◆ **Cash advance fee:** using your credit card to withdraw cash from an ATM triggers an immediate fee and interest that begins accruing instantly with no grace period. Avoid cash advances.
- ◆ **Foreign transaction fee:** some cards charge 1–3% on purchases made outside the United States. Travel-focused cards often waive this fee.
- ◆ **Over-limit fee:** charged if your balance exceeds your credit limit.

Debit vs. Credit Cards

A debit card draws directly from your checking account. Therefore, you can only spend money you already have. A credit card is a short-term loan that must be repaid. For everyday spending, either can work. However, credit cards offer stronger consumer protection. If your credit card number is

stolen and used fraudulently, federal law limits your liability to \$50, and most major card issuers offer zero-liability policies. With a debit card, fraudulent charges are taken directly from your bank account, and recovery can take longer.

A reasonable approach: use a credit card for most purchases to build credit and earn rewards, but only if you are disciplined enough to pay the full balance every month. Use a debit card if you are not yet confident in your ability to avoid overspending.

Smart Ways to Use a Credit Card

Used responsibly, credit cards offer fraud protection, purchase warranties, cash back or travel rewards, and the ability to build a strong credit history. The golden rule is simple — only charge what you could pay for in cash right now, and pay the full balance every month.

KEY TAKEAWAY:

A credit card is not free money. It is a short-term loan that becomes very expensive if you carry a balance. Understand your statement, know the fees, use the protections, and pay in full every month.

SECTION 6

Your Credit Score

How you handle debt and credit cards feeds directly into something that will follow you for decades: your credit score. It is a three-digit number, typically ranging from 300 to 850, that represents how reliably you manage borrowed money. Banks, landlords, car dealerships, insurance companies, and even some employers use it to assess how financially trustworthy you are. The higher your score, the better your options.

Why It Matters

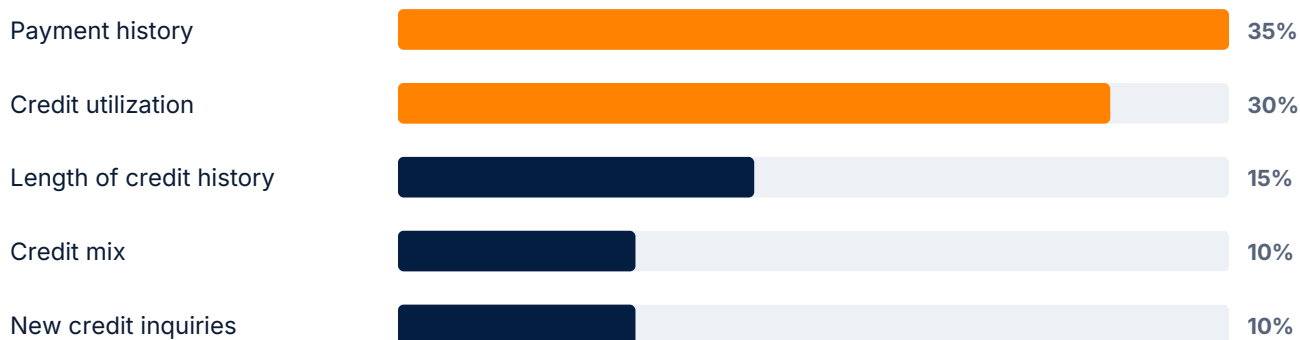
A high credit score can save you a significant amount of money over your lifetime. It means lower loan interest rates, better odds of apartment approval, and access to credit cards with better terms and rewards. A low credit score can cost you thousands of dollars in higher interest rates, result in rejection for housing or financing, and create obstacles that take years to clear.

For example, the difference between a good and a poor credit score on a car loan can easily translate to hundreds of dollars per year in additional interest on the same car, from the same dealership.

What Affects Your Credit Score

The most widely used credit scoring model, the FICO score, is based on five factors:

- ◆ **Payment history (35%):** Do you pay on time? This is the single most important factor. Even one missed payment can noticeably lower your score.
- ◆ **Credit utilization (30%):** How much of your available credit are you using? If your credit limit is \$1,000 and your balance is \$700, your utilization is 70%, which is considered high. Staying below 30% is recommended; below 10% is even better.
- ◆ **Length of credit history (15%):** How long have your accounts been open? Older accounts help your score, which is one reason to avoid closing old credit cards even if you rarely use them.
- ◆ **Credit mix (10%):** Having different types of credit — a credit card, student loan, an auto loan — can modestly improve your score.
- ◆ **New credit inquiries (10%):** Applying for new credit triggers a “hard inquiry” that can slightly lower your score temporarily. Applying for several new cards in a short period sends a negative signal.



What affects your FICO credit score. The two biggest factors, paying on time and keeping balances low, are the ones you control every month.

TRY IT **Credit Score Explorer**

See how each habit moves the five credit score factors.

center-for-free-enterprise.github.io/PFL/score.html

Things That Can Hurt Your Score — and Surprise You

Beyond missed payments, several less obvious things can damage your credit score:

- ◆ **Closing a credit card** reduces your total available credit, which raises your utilization ratio and can lower your score.
- ◆ **Co-signing a loan** makes you equally responsible for that debt. If the other person misses payments, your score suffers too.
- ◆ **Medical debt** sent to collections can appear on your credit report, though rules around medical debt reporting have been evolving in recent years.
- ◆ **Having no credit history at all**, called a “thin file,” can be nearly as problematic as bad credit, since lenders have nothing to evaluate.

How to Build Credit Early

You do not need to go into debt to start building credit. A few practical steps:

A secured credit card is backed by a cash deposit you make upfront, which acts as your credit limit. Use it for small regular purchases such as gas or groceries and pay the full balance every month. After 12 to 18 months of on-time payments, most issuers will upgrade you to a standard card and return your deposit.

A student credit card is designed for people with limited credit history and typically comes with modest limits and manageable terms.

PRO TIP:

Set up automatic payments for at least the minimum balance so you never accidentally miss a due date. One missed payment can significantly damage a score you spent months building.

Checking Your Credit Report

Your credit report is the detailed record of your borrowing and repayment history from which credit scores are calculated. You are entitled to one free credit report per year from each of the three major bureaus — Equifax, Experian, and TransUnion — through AnnualCreditReport.com. Reviewing it regularly helps you catch errors and spot signs of identity theft early.

Your credit score can be checked for free by many banks, credit card issuers, and financial apps without affecting it.

Recognizing Scams and Fraud

Being new to managing your own money also makes you a target. Scammers specifically look for young people who are unfamiliar with how banks, employers, and government agencies communicate, because that unfamiliarity makes scams more convincing. A few patterns show up again and again:

- ◆ **Fake job and “mystery shopper” scams:** you are offered an easy job, sent a check to deposit, and asked to wire back a portion. The check eventually bounces, and you are left owing the full amount to your bank.
- ◆ **Phishing messages:** texts or emails pretending to be your bank, a delivery service, or even the IRS, asking you to “verify” your account by clicking a link and entering your information. Legitimate institutions never ask for your password or full account number this way.
- ◆ **Overpayment and fake check scams:** someone buying something from you online pays more than the asking price and asks you to refund the difference before their check has actually cleared.
- ◆ **Romance and social media scams:** someone you have only met online builds trust over time and eventually asks for money, gift cards, or your financial information.

A few habits go a long way: never send money or gift cards to someone you have not met in person, never click links in unexpected texts or emails claiming to be from your bank, and remember that a real bank or government agency will never ask you to pay a fee using gift cards. If something feels urgent or too good to be true, it almost always is.

GOING FURTHER – CREDIT FREEZES:

If you are concerned about identity theft you can place a credit freeze with each of the three credit bureaus at no cost. A freeze prevents new credit accounts from being opened in your name until you lift it. It does not affect your existing accounts or your credit score, and it is one of the most effective tools available for protecting your financial identity.

KEY TAKEAWAY:

Your credit score is built through consistent, responsible behavior over time, and protecting it means staying alert to scams and paying on time. Start early, pay on time, keep balances low, check your report annually, and never send money or personal information to someone you do not know and trust.

SECTION 7

Protecting Yourself with Insurance

Just as a strong credit score protects your access to affordable borrowing, insurance protects everything else you have built from being wiped out by a single bad event. Insurance is a tool for managing risk: you pay a relatively small, predictable amount on a regular basis to protect yourself against a much larger, unpredictable financial loss. As you move into adulthood, several types of insurance become directly relevant to your life, and often sooner than you might expect.

Health Insurance

Health insurance covers some or all of the cost of medical care, from routine checkups to emergency treatment. Most working adults get health insurance through an employer, though plans can also be purchased independently through state or federal marketplaces.

One important rule worth knowing now: young adults can generally stay on a parent's health insurance plan until age 26, regardless of whether they are a student, married, or living independently. This removes a layer of pressure many people feel about acquiring their own coverage right out of high school.

A few terms are worth understanding before you ever need to use a health plan:

- ◆ **Premium:** the regular amount you pay (often monthly) just to keep your coverage active.
- ◆ **Deductible** — the amount you pay out of pocket before your insurance starts covering costs.
- ◆ **Copay:** a fixed amount you pay for a specific service, like a doctor's visit.
- ◆ **Out-of-pocket maximum:** the most you will have to pay in a given year before your insurance covers 100% of additional costs.

Auto Insurance

If you drive, auto insurance is required by law in nearly every state. It protects you financially if you cause an accident and, depending on your coverage, can also cover damage to your own vehicle and medical expenses.

Liability coverage pays for damage or injury you cause to others and is the minimum required virtually everywhere. Collision and comprehensive coverage are optional add-ons that cover damage to your own car from an accident, theft, or other events.

Auto insurance premiums are heavily influenced by factors such as your age, driving record, the type of car you drive, and, in many states, your credit score. Young drivers typically pay more because they are statistically a higher risk, but maintaining a clean driving record and good credit can meaningfully lower costs over time. Many insurers also offer discounts for students with good grades.

Renters Insurance

If you rent an apartment, renters insurance protects your personal belongings — electronics, furniture, clothing — in case of theft, fire, or certain other types of damage. It is often surprisingly affordable, frequently under \$15 to \$20 per month, yet many renters skip it, assuming their landlord's insurance covers their possessions. It typically does not: landlord insurance covers the building itself, not the things inside your unit.

Renters insurance can also provide liability protection if someone is injured while visiting your rental unit.

KEY TAKEAWAY:

Insurance is not a wasted expense — it is a way to trade a small, predictable cost for protection against a large, unpredictable one. Know what is required by law (auto insurance in nearly every state), what is available to you for free or low cost (staying on a parent's health plan until 26), and what is worth the modest cost even when it is not required (renters insurance).

SUMMARY

What to Take Away from Session 1

Managing your personal finances is not about being rich; it is about being intentional with what you have. The concepts in this session build on each other: understanding your income lets you build a realistic budget; a good budget makes room for saving; savings protect you from debt; responsible use of debt and credit builds the financial reputation that opens doors later in life; and insurance protects everything you have built from being wiped out by a single bad event.

Here are the key ideas to carry forward:

1. **Know your net income.** Budget based on what you actually take home. Read your pay stub and understand your withholdings.
2. **If you do gig or freelance work, save for taxes yourself.** Independent contractor income has no automatic withholding; set aside 20 to 30% for taxes as you earn it.
3. **Build a budget.** Give every dollar a purpose. Start with the 50/30/20 rule if you are new to budgeting.
4. **Watch your spending habits.** Impulse buying, lifestyle inflation, and subscription creep can quietly drain your budget.
5. **Build an emergency fund first.** Three to six months of expenses is the goal; start with whatever you can.
6. **Save with purpose.** Name your goals, take advantage of compound interest, avoid avoidable bank fees, and keep your money in FDIC-insured accounts.
7. **Debt is a tool, not a failure.** Most adults carry some form of debt. What matters is understanding what you borrow for, what it costs, and having a real plan to repay it.
8. **Use credit cards wisely.** Pay the full balance every month, know the fees, and use the card's protections to your advantage.
9. **Build your credit score early.** Payment history is everything. Check your report annually.
10. **Stay alert to scams.** Scammers specifically target people who are new to managing money. Never send money or personal information to someone you have not met in person, and never click suspicious links claiming to be your bank.
11. **Protect what you have.** Insurance turns large, unpredictable losses into small, predictable costs. Know what is required, what is free, and what is worth paying for.

A FINAL THOUGHT:

The habits you build now, even small ones like tracking your spending or saving a little each month, will compound over time just like interest does. The best time to start is today.



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