MoneyHub's Money in a Nutshell

To help form great money habits for life, we reveal ten super important money must-knows for every teenager

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Every year, tens of thousands of children leave school and go into the world. In a pre-COVID-19 world, no one thought much about getting into debt because everyone else was doing it. However, 2020 changed how people behave forever – **knowing how to manage your money and saving for a rainy day is now essential to functioning as an adult.**

In a nutshell, we wholeheartedly believe in the following principle:
Income of 100, spend 99 = happiness
Income of 100, spend 101 = misery
Creating a life within your means is incredibly important. You can save, buy a property and enjoy things that you value. The alternative, spending more than you earn, is, in no uncertain terms, a recipe for disaster. Eventually, the long-term debt created to meet short-term needs hits a brick wall, and bad things happen.

Why should I read this guide?
We've put this guide together for one reason – to give you the tools and information so you can develop a great relationship with money. We cover what we consider to be the core foundations of financial education. And best of all, we've done our very best to make it as engaging as we can.

Our Money in a Nutshell guide covers ten money must-knows:

1. Income and Expenses
2. Banking and Credit Cards
3. Pay-Later Schemes
4. Insurance
5. Investing
6. Compound Interest
7. Superannuation and KiwiSaver
8. Tax
9. Student Loans
10. Cars

Money in a Nutshell - Everything Teenagers Need to Know

Money doesn't need to be complicated or scary. It doesn't matter if your parents are bad with money, or if you've never earned any, this guide sets out **ten basic must-knows** for a healthy, long-lasting relationship with money.

If you do have any questions, **please email our team** - we'd love to hear from you.

1 Income and Expenses

The most important lesson in life is simple – spend less than you earn and you'll generally be fine. Why? Because you can save, and having savings gives you choices and freedom. Let's test that in an example. Imagine this: you're 25 and, without warning, the company you work for closes down suddenly. This leaves you out of a job. You could be in two situations:

1. You have no savings, $50 in your bank account and owe $3,000 on a credit card
2. You have $7,000 in a savings account, $1,000 in your bank account a $500 credit card debt.

Our view:

- If you have no savings and owe money, life is tough. **If you have savings, you have choices.**
- With money saved, you don't need to rush to find a new job that you might not like – instead, you can choose carefully and wait for the right opportunity.
- If you have no savings and a bit of debt owed to banks, your options are limited. Bills need to be paid, and you have to work to eat. You may have to take any job, even if it's not what you want, and it might not pay as much.
- Ask yourself - do you want to have to rush to find a job, which turns out to be scrubbing floors in a prison 50 hours a week, because you spent $3,000 on clothes and a phone, and didn't save anything from your wages even though you worked for five years straight? Presumably, the answer is NO.

So, to avoid being poor, how do I manage my money to spend less than I earn?

It's not complicated, but it is a bit boring:

1. Firstly, a good habit is to never apply for credit cards (you can read about credit cards below). This means you will only spend the money you have in your bank account.
2. Secondly avoiding payment options like Afterpay and LayBuy mean you don't have ongoing bills to pay for stuff you've bought in the past – we talk about those below too.
3. Thirdly, before you buy something, ask yourself – do I need it? Your friends may laugh if you tell then you do that, but it will make a big difference to your life as having money gives you opportunities.

Summary – Income and Expenses in a nutshell:

1. If we've not made it clear, here it is again: **Spend less than you earn, and you'll be OK**. It's a fast way to a happy life, filled with choices, freedoms and opportunities.
2. If you owe money, you're under the control of someone else – and unless you like worrying and stressing and feeling sick, being in debt is no fun at all. Trust us on that.
3. It's not easy; being young with money in your bank account is a great feeling. But the money you have isn't endless, so choosing wisely is essential. If and when it runs out, you'll either need to earn some more or stop spending (or both).

Additional information: Sorted in Schools has some very useful tools to demonstrate income and expenses - the starter pack is a good place to start. The interactive supermarket shopper is a popular tool to understand how money works.

2 Banking and Credit Cards

Banks are everywhere and everyone needs them, but they make almost all of their money from one thing – debt. Some of the debt is good, like mortgage debt (which helps you buy a home). **But a lot of debt is bad** – like credit card debt and personal loans (which can be harder to repay than you first think). The good news is that as students, you'll be offered good bank account deals as banks want to win you as a customer for life.

We believe everyone should have a bank account, and there's no better time than now. Our guides to **best bank accounts for kids** and **best bank accounts for students** shows you what's out there. Best of all, you're free to pick any bank – it doesn't matter where your parents have an account, the choice is all yours.

What is a credit card, and should I get one?

Anyone over 18 and apply for a credit card; student credit cards, if approved, let you spend up to around $500 and pay it back later. It works like a debit card, but you don't need the money in your account. If you don't repay what you spend (usually by a specific day the following month), you'll pay interest on what you owe. This can get expensive as interest rates are high. Whether or not you should get one is your choice. If you start struggling to pay it back, then you'll learn fairly fast about how expensive bad debt can be.

Does a credit card cost money?

Credit cards do cost money; some charge an annual fee which is something you have to pay just for owning a credit card. All charge interest if you don't pay what you owe in time – 20% per year gets expensive. And finally, if you lose your card or use it buying stuff overseas, there are extra fees too. So, in summary, credit cards cost you in many ways.

Summary – Banking in a nutshell:

1. There are many great bank account deals available to students, and they're free to sign up and get the benefits (your parents won't get the deals you do)
2. Credit cards are an option if you're over 18, but they do have risks and can be a fast way to waste money and end up in debt (definitely not what you want when you're young).

3 Pay-Later Schemes

Afterpay, LayBuy, Oxipay…and countless others promote themselves as alternatives to credit cards. They are, in essence, apps that pay for things you buy, and you pay the cost back later. But instead of charging interest if you pay late, they charge you 'late fees'.

How does Afterpay and the rest of these apps work?

When you buy something, many shops let you pay by credit card, debit card, EFTPOS, cash or a pay-later service. If you choose that option, you have to download the app, sign up for the account, wait to be approved and then use the service to pay for what you're buying. You then get an email telling you that you've got to pay the cost back over 5, 6, 7 or 8 weeks, depending on what app you used. For example, if you bought clothes for $200 using Afterpay, you would pay 25% upfront (via debit or credit card), and then three further 25% payments over six weeks, i.e. one every fortnight. If you miss one payment, you'll pay a fee.

Summary – Pay-Later schemes in a nutshell:

1. They're incredibly aggressive with marketing, and while they are arguably better than credit card debt, saving up and paying for something upfront with EFTPOS etc. is always going to be cheaper, safer and wiser.
2. These schemes make their money when you miss a payment – it's stressful for you, and it's expensive. Buying $100 in clothes today could cost an extra $20 or $30 in late fees by the end of next month.
3. In a post-COVID-19 world, having less (or no) personal debt and saving up for things is a great way to live.

4 Insurance

Insurance is a financial product which protects you against disasters that you can't afford to pay yourself. For example, car insurance covers you if you hit someone else's car, travel insurance pays out if you get taken to hospital while overseas, home insurance gives you money if your house is broken into or burns down. You can also get insurance to pay you money if you get sick and can't work.

All insurance has one thing in common - you pay an annual fee, and if disaster strikes, you can claim on your losses. If and when you do claim, you'll pay an 'excess', which is a sum of money to get the insurance payout. For example, If you have a car crash, your insurer may charge $400 to replace your car.

You'll hear the word 'policy' a lot – when you buy insurance; you get a document which covers what you're covered for, and what you're not. This is the 'policy', and it will also tell you how much your excess charge is per claim.

Do I need insurance?

We don't believe students need insurance unless it's for a specific risk (e.g. travel insurance if you go overseas). Banks and insurers will try to push you to buy contents insurance – our guide explains why you probably don't need it (unless you own heaps of stuff which you can't afford to replace).

Summary – Insurance in a nutshell

- Insurance is necessary to protect risks – your parents will likely have one or two insurance policies, and they'll either pay for them fortnightly, monthly or annually. If your mum or dad owns the house you live in, they will almost certainly have a house insurance policy to cover their investment if something bad happens.
- Don't be pushed into buying insurance ever. Before you buy, ask yourself, what is the risk? This is the most important thing to consider. Can I afford to pay for the worst-case scenario? For example, if your phone costs $300 and a phone insurance policy costs $300 a year, you will want to consider if it's worth it even to buy the policy.
- In the future, if you need insurance, **our insurance guides** cover every possible insurance imaginable, so you can compare and be fully informed that what you're buying is what you need. If in doubt, compare prices and what policies cover – otherwise you will overpay.

Additional information: Banqer has some **helpful pick-a-path insurance examples** that reinforce what we've said above. While the actors are primary school aged, the lessons this resource teaches apply to any adult.

5 Investing

Investing is not something we can cover in a few paragraphs. But we'll do our best. Investing is the process of putting money into a financial scheme (shares, property, or a business) with the expectation of achieving a profit. With any investment, the amount of money you earn depends on the risk. There are low risk, medium risk and high-risk investments, and generally, investing is a long-term activity. For example, you invest $500 today in a term deposit and earn interest over the next 2-3 years until you invest it elsewhere or spend it.

When should I start investing?

You can invest at any age – for example, putting $100 you've saved up into a savings account is 'investing' by definition. If you take the same $100 and buy shares in a company, you are also investing. It's never too early to invest, but investing isn't guesswork – get it wrong, and you can lose all your money. Our guide to investing covers the basics.

What should I invest in, and how much money do I need?

Learn about what you can invest in using this guide. KiwiSaver is also an investment, and you can sign up to that for free. Our KiwiSaver guide below explains what you need to know and why it's a great idea to sign up.

Summary – Investing in a nutshell:

- Only invest what you can afford to lose – don't borrow to invest, as that's just a bad idea, and don't invest all the money you have – that's very risky.
- Make sure you understand what you are investing in – if you don't, then you don't know the right time to sell
- Never rush an investment decision – that's always a bad idea.

6 Compound Interest

This gem needs its own section; we believe understanding compound interest is vital for starting a great relationship with money. To understand compound interest is to unlock a lifetime of wealth and choices.

What is compound interest and why is it important?

It is best explained in an example:

1. Say you have $1,000 and you want to invest it somewhere safe. You find a savings account that pays 3% interest per year. After taxes (yes, you do pay taxes on interest earnings), that $1,000 makes you $26.85 during the 12 months you invest it.
2. Next year, you invest that $1,026.85 (the existing $1,000 and the $26.85 you earned last year) and get 3%, which earns you $27.57 after tax. If you invest what you earn again for another year, then you earn more money and '***interest on the interest***' - **which is what compound interest is**.
3. $25 here and $27 there doesn't sound like much, but it soon adds up. For example, $5,000 invested at 6% over 10 years turns into about $8,500 after tax.

Summary – Compound interest in a nutshell:

- Compound interest is important because it is money working for you day after day.
- Over time, your money grows larger, meaning you have more choices about what you can do.
- Right now, interest rates are at record lows (thanks for the economy), but there's always money to be made from compound interest.
- If you invested $100 right now for 50 years at 5% interest per year, you would earn over $1,000 in interest.

7 Superannuation and KiwiSaver

We see different organisations try to promote retirement as something for teenagers to be 'concerned' about. Our view is very different. We think every teenager should join KiwiSaver as soon as possible, but shouldn't worry about 'superannuation and your retirement' until they're in their mid-20s…if not later. Quite simply, we believe there's enough to focus on without looking at something relevant in 50+ years.

What is KiwiSaver, and what does it give me?

- KiwiSaver is a free-to-join retirement saving scheme. It's simple – you sign up to a scheme (there are many to choose from) and select a fund. If that's too complicated, the Inland Revenue Department (who administer KiwiSaver on behalf of the government) will choose a fund for you. Once signed up, the government will give you 50 cents for every $1 you contribute from working (up to around $520/year).
- **If you're 18 years old or older**, your employer must pay at least 3% of whatever you earn (on top of your normal wages) into your KiwiSaver fund. You must also contribute at least 3% of your wages.
- While 6% doesn't sound like much on around $20/hour, it's $1.20, and it adds up. If you work 400 hours over a summer break, you'll bag $480 into your KiwiSaver fund.
- And being in KiwiSaver is even more awesome because you can use the money you've saved for a home deposit later on, and, if you qualify, free money (like $10,000 or more) when you buy a house. This isn't important now, but it's very important when you're a little older.

Summary – Superannuation and KiwiSaver in a nutshell:

- Don't give your 'retirement' too much attention right now. KiwiSaver is designed to take care of that, and the sooner your join, the greater the reward.
- KiwiSaver gives you money with a little sacrifice. Best of all, it's free to join and you'll get free money from your employer for being a member.
- If you can't decide on a KiwiSaver fund, that's no reason to avoid signing up. The Inland Revenue Department (IRD) will do this for you, and you can always change to another fund later on.

Additional information: Sorted in Schools has some **helpful pick-a-path examples** about KiwiSaver and retirement in general that reinforce what we've said above.

8 Tax

The Inland Revenue, known as the IRD, is a government department in charge of collecting tax. It does this in two main ways:

1. **GST (Goods and Services tax)**: In a nutshell, when you buy something in New Zealand, the seller charges 15% on top of their price, which accounts for GST. For example, when you buy an $11.50 movie ticket, $1.50 of the price is collected as GST and paid to the government. You pay 15% whether you buy lots or a lot - 15% is the set rate and doesn't change.
2. **PAYE (Pay as You Earn tax)**: When you earn wages, your employer will deduct PAYE tax which is paid to the government. How much PAYE is deducted depends on how much you earn, although 10.50% is charged on everything earned under $14,000 in a 12 month period. So, if you earn $19 an hour from a job at McDonald's, about $2 every hour is taken as PAYE and paid to the government.

Where does all the tax money go, and why do I need to pay it?

The government pays for everything with tax revenue – schools, roads, hospitals, pensions for elderly, social welfare, and so much more. Paying income tax is compulsory for anyone working in New Zealand. And, even if you're not working, everything you buy has GST, so the government still earns money from your spending. There's a saying that 'death and taxes' are the only certainties in life, and New Zealanders pay tax to help make the country be the best it can be.

Do I need to do talk to the IRD?

Yes – you will need an IRD number if you work or having savings earning interest. If you haven't already applied for an IRD number, you can do that easily by following this guide. You'll need a passport or proof of ID. It's free, pain-free and takes about 10 days to process. Once done, you'll have a shiny new IRD number to give to employers, banks, investment platforms…and you'll have the same IRD number for life!

Summary – Tax in a nutshell:

You'll pay tax on everything you buy (GST), any money you earn from working, as well as money earned on savings (PAYE). The IRD, generally, is easy to deal with and upfront about your obligations. To start things off, you need an IRD number, which is **easy to get**.

9 Student loans

Student loans allow you to borrow money from the government to pay for studies, including fees, living costs and course-related costs like laptops, books and equipment. If you **plan to go out of town** for university, this section is important. Based on your needs, you can apply for up to four different student loan entitlements. Our **guide to student loans** has been written to help year 12 and 13 students understand what's involved.

Here's what you can get:

1. If you plan to enrol in an eligible course (university and polytechnic offerings are usually 'approved courses', but you can check to see if your course is indeed approved here), your student loan will **cover 100% of the tuition fees**, regardless of whether you study full-time or part-time.
2. If you are studying full time, you can apply to receive a **maximum of $231.92 per week** during the duration of your study. You don't have to borrow the full amount, and as living costs are part of your student loan, you'll have to pay it back.
3. Student Loan course-related costs - you can **get up to $1,000 every 52 weeks**, no matter how many courses you're studying during this time. The amount(s) you claim is added to your student loan balance just like the tuition fees and living expenses. More details are outlined here. You don't have to get the full amount of $1,000. You also don't need to claim it all at once.
4. Student Allowance - what allowance you are entitled depends on your background. Every family situation is different, and for anyone under 24, parental income is the key decider on the amount of student allowance you will receive, if any.

How do Student Loan repayments work, and how much do I need to pay?

It's easy - you repay 12% of everything you earn, but only if you earn at least $380 a week before tax (about $19,760 a year before tax.) You pay 12% of every dollar earned above this threshold. But, your student loan balance is only interest-free as long as you work and live in New Zealand. This means if you move between jobs and/or take time off, you won't be charged interest on the balance owing. Importantly, if it takes you a few months to find a job after graduation, you won't make any loan repayments.

Summary – Student Loans in a nutshell:

- If you are looking to graduate with a small student loan rather than a big one, keeping control of your living costs is a significant factor. High rents all over New Zealand make living at home while you study much more affordable. By doing so, the average student could potentially save at least $10,000 to $15,000 per year. Over three to four years, this adds up to a significant amount - possibly more than the cost of your fees and living costs combined.
- The student allowance/student loan for living expenses remains fixed at around $234 per week. First-year students will find either of these options won't cover halls of residence fees, so will need to have another source of income and/or savings to make up the difference.

10 Cars

Why have we included cars? Because, as your mum or dad have probably mentioned, cars are expensive, and you probably don't need one. But hear us out first before you disagree; cars suck up a lot of money in three main ways:

1. **The upfront cost:** A car that's in decent condition is going to set you back at least $2,000. The value of a car drops each year, so what you can sell it for later will be less than you paid.
2. **The ongoing costs:** Registration and Warrant of Fitness need to be paid annually, and petrol costs are never cheap no matter what coupons you have. If you need repairs, you'll easily have to fork out $200 - $500; many full-time adults would struggle to pay this let alone students.
3. **The insurance:** Car insurers see young drivers as high risk, so insurance they charge are far from good value. You may be tempted to drive uninsured, but it is a huge risk – if you hit someone, they can make you pay for the damage. Being 18 years old and $20,000 or $50,000 in debt is bad news.

A MoneyHub user writes:
"A few years ago I was driving on my restricted but travelling with a friend who didn't have a licence. I had an accident on a corner, and we ended up in a ditch. We were both fine, no one else was involved, but I knew I was in trouble as my friend shouldn't have been with me. I told her to run away and, after calling the police and my insurer, filed a claim. In the following weeks, I felt very guilty – I'd lied to the insurance company about being alone at the time of the accident. It ate away at me, and eventually, I confessed to my parents. We called the insurer – they didn't want to report me to the police (for insurance fraud), but they did make me pay back the money paid out. We agreed on $20/week until the debt was cleared, which took about three years (although my mother helped pay off a bit). It was a bad time in my life, but I learned my lesson.

Summary – Cars in a nutshell:

- **Cars are expensive** – you'll easily spend $2,000 a year on owning a car, if not twice that. There are so many alternatives – borrow your mum or dads, take public transport, ride with a friend, bike, walk...the list goes on.
- If you get a job later on which involves commuting, you'll be stuck in a car more than you'd like. Try to enjoy the freedom of being 'car-independent' before that happens.
- If you haven't worked out already, we're not very positive about cars!

Money in a Nutsell: Next Steps

Money is not an easy subject to master, but what we've outlined above will carry you a long way. Above all else, money is better managed and appreciated when you work for it. Look out our **Student Jobs guide** to see what employers are hiring while you study.

If you have any money questions, **email our research team** - we always enjoy hearing from students.