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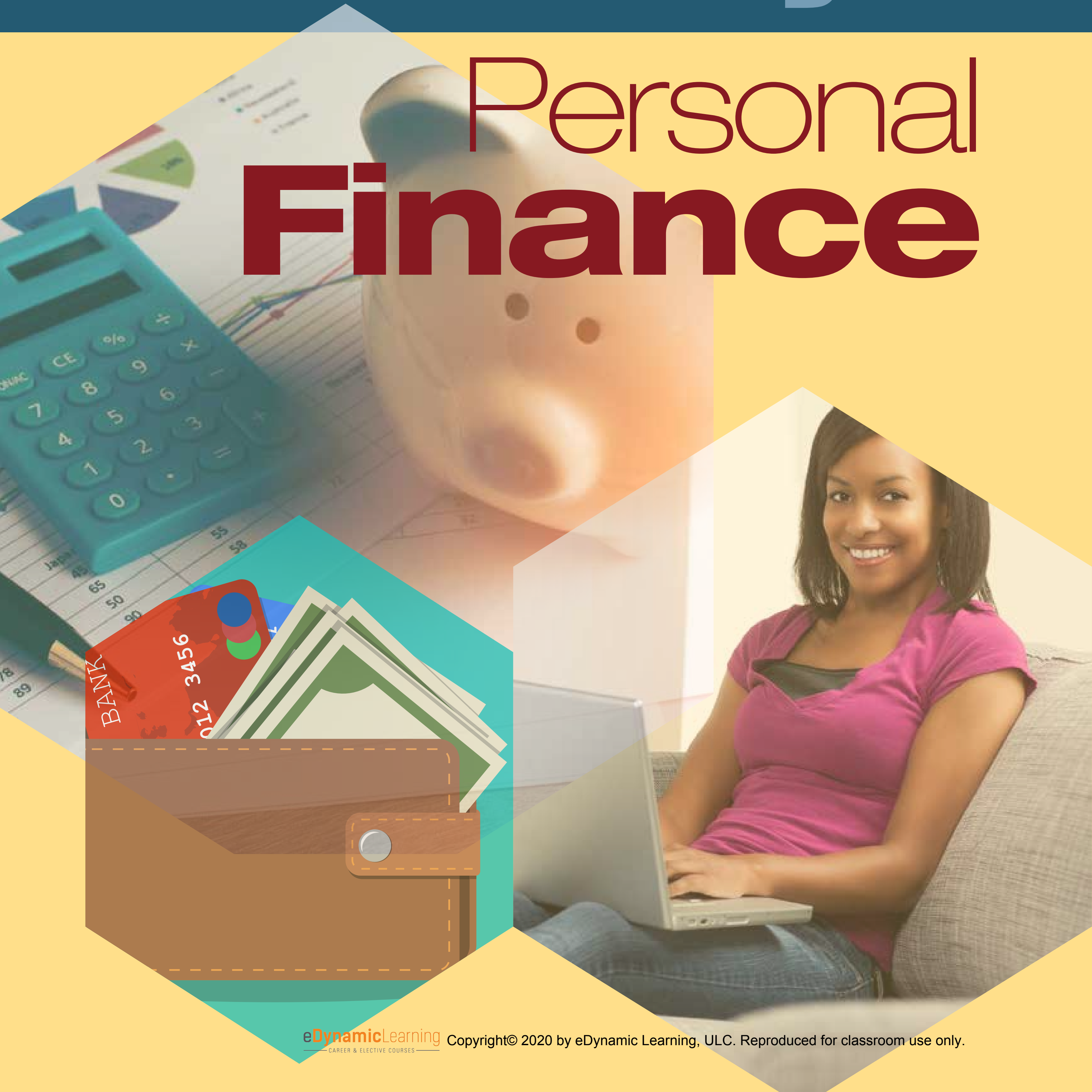
Discovery

Personal Finance



Avoiding Financial Feuds

(long-form critical thinking)

Dealing with your own money issues—and those of your close family members—is one thing, but what happens when your cash gets tied up in the spending decisions of others? Things are not always simple when you share financial responsibilities with friends, family, or even strangers, like when renting an apartment with roommates, buying a car with someone you trust, or even just splitting the bill for a pizza. Purchasing something with another person takes a **partnership**, which means both people have to work together. Partnerships around money are important because they can really help you get ahead and take advantage of great opportunities all around you. Rent, trips, food—there are plenty of things made easier (and even more fun) by sharing the cost. And if you can't pay for them on your own, finding a partner (or even a bank) to help you may be the answer!

partnership: when two individuals work together for a common goal

Think more on this. Imagine a future situation where you might really, really need someone else to help out with the cost of something. An apartment is a great example. Say you have just found the perfect one in the city or farm of your dreams. Now think about how happy you are to move in, live there, and make it your own. Hanging out, cooking up dinner, sleeping in—this is your private space where you can safely relax and live your best life.

But there's a catch. This pad you want to rent so badly, the one near the best park, is too pricey for you.

The rent is $2,000 a month, but your budget right now only allows for $1,000 in rent each month. *What can you do?*

One answer is to walk away and find a cheaper place to live—but the other option is to take on a partnership with a roommate, someone who can pay the other half of the $2,000 rent. You might even become friends. Sounds good, right? It can be. But there are some things you should know first…

Renting an apartment with a roommate is a great way to live more comfortably while paying only what you can afford. Don't laugh, grown-ups. Nearly 32 percent of adults in the United States had a roommate in 2017. That means finding a living partner isn't just for college kids. No matter who you are, finding the right person to live with is super-duper important because you need to agree on things. You want to get along and also make smart money decisions together.

Shared living means both **tenants** who are renting the space have to take their financial decisions seriously. When two people agree to split the rent and live together, they each need to hold up their end of the **contract**, or agreement.

For months, you have looked and looked at places to live, and

you finally found a roommate who doesn't drive you crazy—*and* who can pay their half of the $2,000 rent. *Whew!*

Yes, you have actually found a place and a partner, but this job isn't over. Remember, this is a *partnership*, so you and your new roomie will need to work together for as long as the agreement lasts.

And if you're lucky, that may be a long and happy time. But there will be bumps in the road… Will you know how to handle them?

tenants: people who rent their home

contract: agreement

What Would You Do?

A Quiz For New Roomies

Scenario #1

Finally, school is over for the day. All you want to do is go home, kick off your shoes, and grab that cold Chinese food from last night—maybe watch a little Netflix and go to bed early. But when you open the fridge, you don't see any chicken chow mein or fried rice. You don't see anything but some spoiled milk. *Someone* ate your leftovers, and that someone was not you! Just as you are about to scream in frustration, your roomie walks in and says, "Hey, what's up?"

expenses: costs

What would you do?

1. Shout at your roomie to order some takeout before you starve to death.
2. Tell your roomie to keep their hands off your property.
3. Remind your roomie to please ask before touching your food.
4. Ask your roomie to help you come up with a future agreement for how food is handled.

Welcome to key household issue number one—boundaries. Setting up rules for common areas, such as kitchens, living rooms, and bathrooms, is key when you live with someone. Of course, both tenants are welcome to use these spaces, but there are still *some* things, like those yummy leftovers, that belong to you. And there are surely some things in these areas that don't belong to you. These boundaries need to be clearly defined. Tempting as it may be, shouting or offering quiet reminders doesn't work as well as formal agreements. These plans create real boundaries both people can follow and understand.

What does this have to do with money?

Aside from housing, purchasing meals for yourself is one of the biggest personal **expenses**, or costs, you will experience, so finding out your roommate ate your takeout isn't just about messing with your boundaries—it's about respecting your money too. This can be a hard (maybe even a little embarrassing) thing to say out loud, but it's important to voice your concerns openly if you want to keep up a good roomie relationship.

Scenario #2

You arrive home to see your roommate hanging out on the couch. No big deal—except she is eating a really big piece of super-gooey pizza on that couch. So what's the problem? The problem is, it's really your couch; you paid for it with your own paycheck and moved it in. Sure, your roomie is allowed to use it! But is she allowed to stain it with hot cheese? Maybe not the best decision.

What would you do?

1. Ask you roommate to please take her pizza to the kitchen where it belongs.
2. Remind your roommate that eating on the couch is "off limits."
3. Shame your roommate for being stupid and inconsiderate.
4. Tell your roommate to move out.

Again, you are dealing with boundaries. But sometimes these boundaries are tricky to define. New apartments need a lot of household items—furniture, dishes, linens, you name it—and all of these things cost money. Sometimes moving in just means bringing what you already own. But other times, you are going to need to buy some new items together to make the place comfy and livable. This can be a great way to decorate and furnish your space, but it can also lead to bad feelings if it goes wrong.

What does this have to do with money?

Anything you bring to the apartment, like a television, table, or carpet, should be discussed as being shared but also "belonging" to one person. Why? Mostly because they probably paid for it. Both parties need to understand this boundary. If the purchase was split half-and-half, then the household item needs to be viewed as having two owners. If one person pays for the entire couch, then the other person who did not pay will need to respect the rights of the owner.

Of course, these decisions are deeply affected by personal relationships and opinions, but in general, money dictates ownership of something. No matter what it is.

Just remember, splitting the cost of big-ticket items is tricky, especially if someone moves out, because it's pretty hard to cut a couch in half.

Roomies usually choose one person to buy big things like furniture that can be kept after the partnership has ended. This means you can focus on splitting the costs of smaller "shared" things, like toilet paper and cleaning products.

There are a lot more examples of roomies paying for stuff together, but you get the idea. It's about communication. Taking the time to talk and agree is important. One way to make communication a real "thing" is to create a roommate agreement. This written document between two tenants can be scratched out in pencil or officially stamped, just as long as both people agree on what it says. *So,*

what happens when you guys decide to have a move-in party? Who pays for the food? Who does what job? Who will you invite?
So many questions. Do you have answers?

Taking such a serious step may seem a little silly, but it's really not. Putting some rules and boundaries in place is healthy and would look great on the refrigerator. Your agreement doesn't have to be complex; it just has to be clear. That way, both people can understand and follow it. "Only eat what is yours!" or "No pizza on the new couch!" or "First one home feeds the dog!" are all great things to agree on. In fact, they are just as important as more serious things like how to pay a cleaning service after your move-in party. Make sure you work them out so you can focus on the good parts of having a great place to live.

Dangerous Debt

A True Story

Names and identifying details have been changed to protect the privacy of individuals.

Meet Diane. She lives in Maryland and loves yoga. One morning, Diane's car wouldn't start, so she had to miss her favorite class across town. Being a nice person, Diane called the fitness studio to let them know she wouldn't be there, but they insisted she cancel in person. But… but… she couldn't do this—because she didn't have a car! So, Diane finally gave up arguing with the yoga studio and said, "I'm not paying for that silly class!" And she moved on with her life.

Jump forward two years. Diane is driving her now-fixed car down the road when she is side-swiped by a van. To be safe, the police are called to settle the situation and file a report. Diane isn't hurt and thinks the police officer will simply look at her driver's license and insurance information before letting her go—but no, the cop tells her she has to get into the squad car and come down to the station. Apparently, her license has been suspended due to an **outstanding debt** she owes. That means she never paid a bill she is legally supposed to pay. In the state of Maryland, a **creditor**, or an organization who holds a person's debt (like a yoga studio…), can issue an order of arrest if a debt remains unpaid.

outstanding debt: unpaid bills

creditor: entity who holds someone else's debt

Diane is confused because she can't think of one bill she hasn't paid—until she arrives at the police station and learns the yoga studio from two years ago filed a complaint against her! They claimed she broke their payment policy. *Namaste!*

Long story short, Diane has to show up in court twice for her $18 yoga debt and ends up paying $1,000 in past interest and late fees for a class she didn't attend or even remember.

collection agency: third-party company who collects money on a debt

bankruptcy: the legal state of being unable to pay outstanding debt

liquidate: sell any valuable assets you own

Diane's true story is also a debt nightmare. Her life was damaged by an unpaid bill she didn't know she had. These unfair things do happen sometimes. And as a consumer who may owe money,

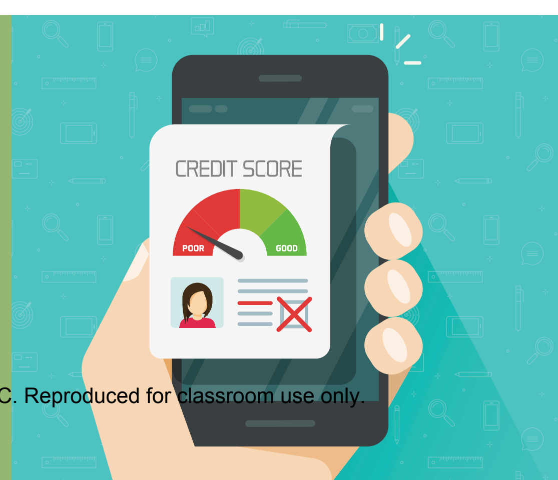
you can (and will) be dinged by invisible debts if you are not careful. Unpaid parking tickets, an overdue phone bill, you name it. Bad "marks" on your credit report are no laughing matter.

They can make it hard to buy things in the future through loans or other money-related services. Just ask Diane.

One way to clear up any invisible debt is to run your own credit check, which can be done online quickly, easily, and at no cost to you. This "check" then creates a credit report to let you know if there's any debt you forgot about. If you miss a payment to your credit card or internet provider (or you ditched a yoga class), some agencies will put a mark on your credit report (which lowers your credit score) to indicate that you are a riskier borrower to lend to. Sometimes these marks are unrealistic, like in the case of poor Diane, but a negative mark like this on your credit report can haunt you for many years.

If your bills go past due for a while, your account is passed along to a third-party company called a **collection agency**, who will work like crazy to get their money back. And if you can't pay your way out, you might have to declare **bankruptcy**. This means you are relieved of debts that are dischargeable in bankruptcy—but this remains on your credit report and lowers your credit score for up to 10 years. Being bankrupt is tough because it makes buying anything on credit (like a house or a car) in the future much more difficult. It also means you might have to **liquidate**, or sell any valuable assets you own, to squeeze out what you can. And that money, of course, goes straight to your angry creditors, leaving you with little to no financial security.

Racking up debt can sometimes be accidental, but it is usually the result of bad decisions like buying things you can't afford or don't think through. Sure, everyone wants what they want, but purchasing stuff on credit and pretending it's free is a recipe for disaster. Even though home and car lenders usually verify your income before giving you credit, there are some companies who will lend you plenty of money—even though you don't earn enough to pay it back. It's not really their problem. Unfair as it may seem, the responsibility is on you to spend responsibly and to create sensible boundaries with money. Credit cards are easy to get and hard to pay off, so always think carefully before taking on a deal that sounds too good to be true.



Finding Kindness in Giving

Debts, and credit scores, and bankruptcy—oh my! Sometimes it's hard to imagine a situation where money is all about kindness. But it can be. Your hard-earned money is great at buying stuff, but it also can be great at helping others. In the United States, families and individuals donate an average of $1 billion to charity each day, not because they have to, but because they want to make a difference in the world. When we spend a lot of time thinking about how to earn and save money for ourselves, it's easy to forget the value of donating to others through **charitable giving**. If you have ever volunteered your time or donated old clothes to a charity, you already understand a bit about what **philanthropy** means. This desire to help others through generous donations is what keeps food in the mouths of hungry children and endangered animals alive. Giving your time is generous, but giving real dollars to a charitable organization is one of the best ways to help the world.

charitable giving: the act of donating to others in need

philanthropy: the desire to help others through donations

If you are wondering how people choose their charities and their giving amounts, you are asking the right questions. These are the two main areas to think about when planning a charitable donation. The best way to choose a charity is to research what or who they support and how they give out their funds. Rather than just giving for the sake of giving, take the time to learn about different charities and how their work (and your financial donation) can help a cause you love, like animals, the environment, or curing cancer.

"Be the change you want to see in the world."

—Mahatma Ghandi

Here are some questions to ask a charity when the time is right to choose a cause:

- Can you clearly communicate who you are and what you do?
- Can you define the short and long-term goals of your organization?
- Can you offer some evidence of progress toward this goal?

And here are some questions to *ask yourself* when the time comes:

- Do the goals of the organization make sense to you?
- Can you trust this charity with your donation?
- Are you willing to make a long-term commitment to this organization?

The answers to these questions should be yes across the board, otherwise you may want to do more research. Making a charitable donation should feel good, so don't rush the process.

Once you feel totally confident about your choice, you have another hurdle to overcome—how much should you give? This decision up to you. How much money do you have? Do you have a steady job? How much do you want to help your charity? Everyone is different. But experts do suggest people donate 3 to 5 percent of their annual wage to charity.

So if you make $60,000 a year, you should be donating somewhere between $1,800 to $3,000 toward some sort of philanthropic effort.

Financial folks say to pick just a few charities and donate to them regularly, instead of making smaller donations to lots of different causes. This ongoing effort makes it easier for the charities you really care about to do some actual good with your money. Most charities will tell you what they value most is loyal givers who keep on giving.

Without downplaying the kindness in charitable giving, there are some practical reasons to do it. When you make a philanthropic donation, you may be entitled to a **tax deduction**, which means your annual payment to the government goes down. If you claim your charitable donations on your tax returns, you can sometimes lower your taxable income and can get a small financial break from Uncle Sam just for being kind.

tax deduction: when less money is owed to the government

A Global Perspective on Money

Like life, money and the people who have it are viewed differently around the world. The way we, as citizens, think about our own money situation has a lot to do with our social and cultural norms.

How we use money—how we talk about it, how we view it—all has to do what we think it means, what it's worth.

In the past, some Native American or indigenous peoples operated on a "gift economy," offering goods and services to others hoping they will return the favor. In this case, wealth isn't about actual money; it's about making life easier and better for everyone by sharing what you have. In Panama, many people pay monthly installments to a personal savings account, so they'll have plenty of money to spend when Christmas finally comes. The average American owes about $5,000 on their credit cards, but folks in Germany pay mostly in cash for things they need.

And then there are other countries like Israel and Pakistan who try to teach a practice of charitable giving through law.

Citizens are not just encouraged to donate some of their income to charity, they may be required by law to help those who are less fortunate—and to think less about themselves and more about others who need help.

Take the act of *tzedakah*, for example. It means "justice" or "righteousness" in Hebrew, and it refers to a type of charity most people in the West may find unusual. While folks in America and Europe typically view philanthropy as a voluntary act of goodwill, tzedakah is an ethical obligation to do what is right and just.

This belief is embedded in the religion of Judaism, which teaches the importance of living a spiritually accountable life. Be a good person. It's not a choice! Tzedakah is thought to be mandatory—even for people with limited financial means—because everyone, no matter who they are, should be giving to the less fortunate. Interestingly, there are eight levels of charitable giving in Jewish law, dating all the way back to the Middle Ages.

Not all donations are the same, and understanding how they stack up could make you try harder. Starting with the least impressive, they are:

1. Donating against your will
2. Giving less than you should—but cheerfully
3. Giving directly to the poor when asked
4. Giving directly to the poor without being asked
5. Donating to an unknown person using your real identity
6. Donating anonymously to a known person
7. Donating anonymously to an unknown person
8. Donating enough to help another person become self-supporting through a loan or employment

Even though most people don't see charitable giving as so black and white, it's still an interesting way to think about money. Seeing personal wealth in these terms is a big shift from a system like capitalism that focuses on making profit. Your relationship with money probably falls somewhere in between, like most people. Either way, understanding the power of your own money, over your life and that of others, is a smart way to learn respect for one of history's greatest inventions.

Key Terms

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charitable giving: the act of donating to others in need

contract: agreement

collection agency: third-party company who collects money on a debt

creditor: entity who holds someone else's debt

expenses: costs

liquidate: sell any valuable assets you own

outstanding debt: unpaid bills

partnership: when two individuals work together for a common goal

philanthropy: the desire to help others through donations

tax deduction: when less money is owed to the government

tenants: people who rent their home

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