Personal Finance Tips for College Graduates

By: Linda Bowen
July 2017

Graduation is a time for new adventures and new financial responsibilities. It is about transitioning from student life to the workforce and from focusing on education to focusing on a career. When starting out, it is important to have a firm foundation in the basics, from budgeting to saving to staying on top of debt.

Spend Mindfully and Live Within Your Means— Having a steady paycheck can feel pretty good. However, you need to know where your money is going and where you want it to go, both in lean times when you may have to cut back, and in flush times when you can afford to treat yourself. Ultimately, this means that you control your money instead of it controlling you. However, in order to make sure that you have enough to live on and still keep an eye on the future, look at your needs versus wants. One of the best ways to do this is to make a budget. Add up the essentials, such as rent, transportation, groceries, utilities, student loan payments, car payments, and savings. Also include some "walking around" money. Subtract this amount from take-home pay and what is left can be directed to things that you want.

Prepare for the Unexpected—One rule of thumb is to try to set aside three to six months' worth of living expenses in case you become ill or unemployed. A good way to do that is to set aside a certain amount each month for emergencies and build up this emergency fund.

Be Sure to Save by Paying Yourself First—Start this important habit as soon as possible. One way to do this is to make it part of the monthly budget. Ideally this can be done through direct deposit: either of your paycheck (some companies will let you split the deposit of a paycheck into more than one account), or through an automatic payment from checking to savings. Also, when you get a raise, make sure that part of the increase goes into savings. Guidance on how much you should save depends on your circumstances. However a general rule of thumb is at least 20% of your income should go towards savings. Meanwhile, another 50% (maximum) should go towards necessities, while 30% goes towards discretionary items. This is called the 50/30/20 rule of thumb, and it is popular quick-and-easy advice.

Keep a Lid on Credit and Debt—Research which card makes the most sense given your spending habits and ability to pay. Look at the annual percentage rate, annual fee, grace period, rebates, and penalty fees. You may also want to research affinity credit cards. These are a type of credit card issued by a bank with a charitable organization. Each time the card is used, a percentage of the transaction is donated to the organization. Affinity cards are popular with consumers who like the idea of giving while they spend. However, these cards may have higher rates and there is no tax deduction to the cardholder for contribution to the charity.

Once you have decided on a card, charge only what is absolutely necessary. Always pay off your monthly balance in full and on time. Do not look at your credit limit as a goal for spending.

Be aware of your credit score. Credit scores influence the terms and conditions of a consumer's ability to borrow from lending organizations, retail stores and even landlords. A low credit score makes borrowing more expensive, and a high credit score generally makes obtaining loans (credit) easier. Carrying too high a balance on your card can hurt your credit. One way to make life easier is to have only one credit card. This will prevent you from getting in over your head and help you build a credit history. To find out more about your FICO credit score, check out our piece on "The World of Credit" at http://bowenasset.com/sg_userfiles/World_of_Credit_03.30.2017_Final.pdf or www.myfico.com

Put Bills on Automatic Payment—If you do not have a bank account with online bill pay, open one and have your paycheck deposited directly if that is an option. Also, set up your important bills for automatic payment.

Plan for Retirement—Retirement should be on your list of goals. The longer you wait to start, the larger the percentage you will need to save. If your employer offers a 401(k), aim to contribute enough to get the full company match. If you don't have a 401(k) or company sponsored plan, be sure to open a Roth IRA or regular IRA. Some companies do offer a Roth 401(k), where your contribution is made with after-tax dollars and the funds grow tax-free for retirement. The Roth IRA is often seen as the better option for young investors who are typically in a lower tax bracket and who would not get as much benefit from a tax reduction today as they would in retirement. Investing $5,500/year from age 22 to age 30 may create an account of more than $1 million when you're using those funds in your retired years. If you invested the same amount annually but waited until your 30s to start, your account might be worth half as much.

Have the Right Insurance—If your employer offers health insurance, take advantage of it. If not-look for a low-cost, high-deductible policy. Also, take advantage of a health savings plan to help defray out of pocket expenses. Health insurance is a must, unexpected medical emergencies are a large reason for bankruptcies, as is car insurance if you own a vehicle. If you are renting, you should also consider renters insurance. Renters insurance and homeowners insurance can protect personal property against theft or catastrophic damage.

Umbrella insurance is extra liability insurance. It is designed to help protect you from major claims and lawsuits, and as a result it helps protect your assets and your future. It does this in two ways: First, it provides additional liability coverage above the limits of your homeowners, auto, and boat insurance policies. This protection is designed to kick in when the liability on these other policies has been exhausted. Second, it also provides coverage for claims that may be excluded by other liability policies including: false arrest, libel, slander, and liability coverage on rental units you own.

Stay on Top of Student Loans—Getting behind on student loans can mean mounting fees and penalties. Make sure to stay on top of the repayment process and when it begins. Always try to pay at least the minimum every month. Studentaid.gov is a good resource for more information on how to repay student loans as well as loan forgiveness programs for certain types of work. As a borrower, you should focus on paying off private student loans first, because these loans allow for less flexibility in how they can be managed. This truth becomes particularly clear when you look at repayment options, which often dictate a fixed minimum payment without any flexibility. Plus, private loans don't come with the same benefits as federal loans, including income-based repayment and loan forgiveness. Just make sure you have a strategy.

Learn How to Invest—Once you have a working budget and have some money saved for emergencies as well as long-term goals, you can begin to put it to work. Investing can give you the opportunity for meaningful long-term growth, valuable at any age, but especially when you are young.

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