Newsday
July 13, 2008
Impressions: 1,325,190

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Making the grade financially

7 ways today's grads can build a secure tomorrow

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Tribune Media Services

A few words of advice for the class of 2008: When you get your first real job, you may feel rich. But don't act like it.

There are a handful of money moves you can make now that will virtually ensure your financial security — and possibly create great wealth — later in life. The younger you are, the greater the opportunities and the easier the wealth strategies are to execute. But if you start out spending too much, too fast, your ability to set yourself up for long-term wealth diminishes and eventually evaporates. That makes the first months and years after graduation pivotal to lifetime financial security.

"Good habits are important to start early," said Laura Tarbox, founder of Tarbox Group, a financial planning firm in Newport Beach, Calif. "Take your finances as seriously as you do your relationship and career decisions, and you'll end up way ahead of everybody else. But you've got to do it now. If you start even

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Calculated strategy

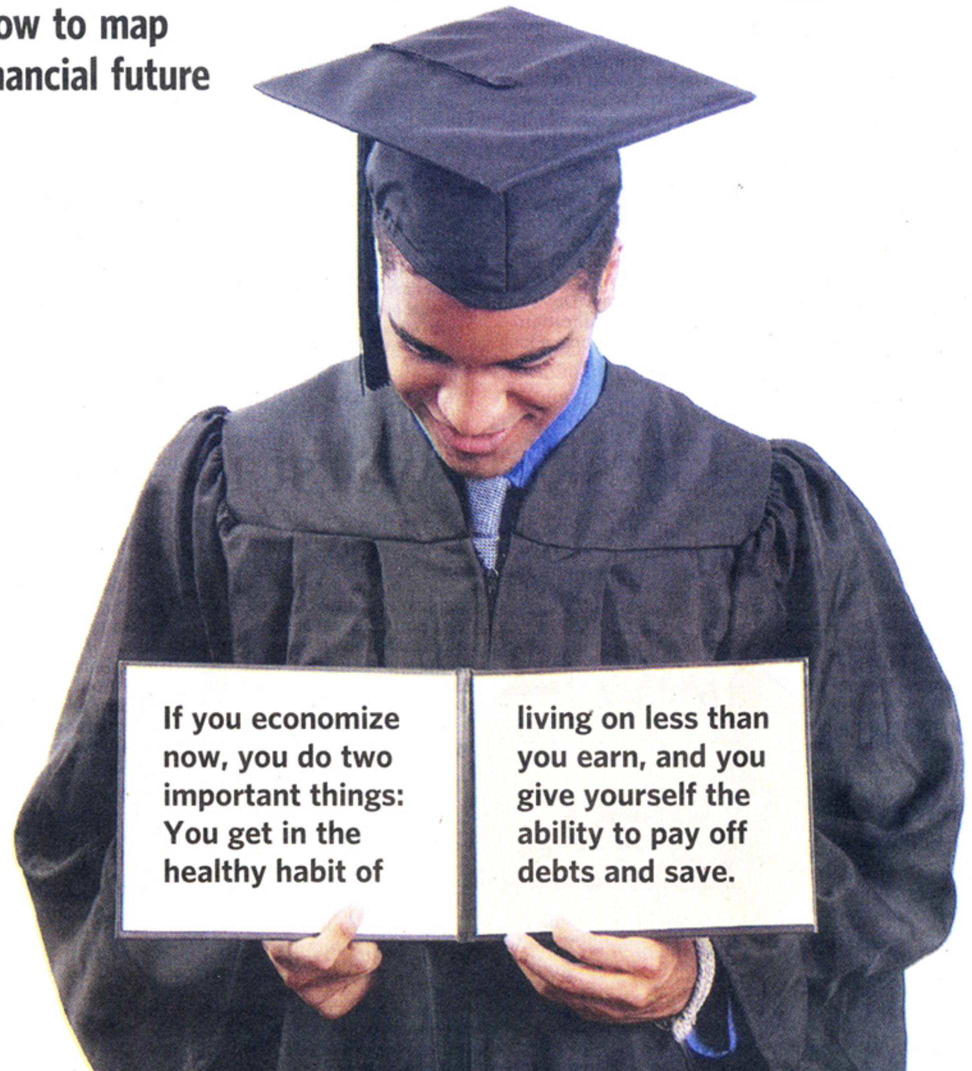
Advice for grads on how to map out a successful financial future

GRADS from F1

five years later, it just doesn't work."

The key, experts say, is a simple one: Live like a poor college student for a couple more years. While you're doing that, you can pay off your debt, start a savings plan and embrace healthy habits that will serve you well for life.

Here's how to start:



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1 Calculate your net worth. Make a list of your assets and debts. Your net worth is your assets minus your debts.

At this point in your life, the list probably is short and depressing. The typical college graduate has virtually no assets and about $23,000 in debt — $20,000 in student loans and $3,000 on credit cards. That's a negative net worth of $23,000.

Save your list and don't despair, said Mark Brown, a financial planner in Denver. Things will change quickly, and it will serve as a reference point.

Recalculate your net worth each year to chart your progress and inspire you to keep going.

"You have to look at where you've come from to see the progress that you have made," Brown said, "and to know that you're actually getting somewhere."

2 List your goals. People who record what they want are far more likely to get it, Brown said. Whether your objectives are personal, professional or financial, take a few minutes to think about what you want and when you want it, and put those goals on paper.

Revisit the list periodically to see whether your goals have changed or have been achieved. If you're not reaching the milestones you've set, you need to consider whether they were unrealistic or you need to revise your strategy.

If you are reaching your goals, give yourself a pat on the back. You've earned it.

3 Add up your payments. Six months after graduation, you'll need to start paying off student loans, noted Dara Duguay, director of the office of financial education at Citigroup Inc. and author of "Please Send Money: A Financial Survival Guide for Young Adults on Their Own." But many new graduates don't even know how much they owe until they start getting the bills. By then, some have locked themselves into other monthly expenses — a lease on an apartment or a car, for example — that make paying debts difficult.

Before you make any new financial commitments, find out how much you already owe, the interest rates on your debts, your minimum monthly payments and the terms of the loans.

You'll then be able to figure out how much of your disposable income will have to go to paying your loans and how much you'll have left for other spending — including paying more than the minimum amounts due.

4 Prioritize your debts. Debts are not all alike. Some, such as federally guaranteed student loans, are relatively low-cost. It's OK to pay these off slowly, said Elaine Bedel, president of Bedel Financial Consulting Inc. in Indianapolis.

Other debts, such as credit card balances and private student loans, tend to have higher interest rates. You'll want to pay these off quickly.

To accomplish that, first rank your debts by their interest rates, with the highest-rate loans at the top.

Then add up your minimum payments, and figure out how much more than that total you can pay on your debts each month.

Apply that extra amount to the highest-rate debt until it is paid off. Cross it off your list. Attack the loan with the next-highest rate in the same way. Keep going until you have no debt.

5 Economize. Keep the old car and the roommate for as long as you can, suggests Margie Mullen, a financial planner in Los Angeles. Pack a lunch several times a week. At least for the moment, live frugally. Nobody expects you — quite yet — to drive a BMW and live in a spacious apartment on the beach.

If you economize now, you do two important things: You get in the healthy habit of living on less than you earn, and you give yourself the ability to pay off debts and save. By doing this now you'll be more capable of buying costly things when society's expectations of you are greater, such as when you attend your 10-year college reunion.

6 Sign up for the 401(k). There's a good chance your employer offers a retirement plan that lets you save for your future and get a tax benefit in the bargain. At a private employer, such a plan is called a 401(k). Teachers are offered

similar programs called 403(b) plans, and public service workers have access to 457 plans.

Retirement, you ask? That may be the last thing on your mind, and you may figure you've got better things to do with your cash. But you don't, Tarbox said. Here's why:

Many employers match the contributions their employees make to these retirement plans. For example, for every $1 you contribute, your employer might kick in, say, 50 cents — a 50 percent match. That means for each dollar of your pay that you save, you sock away $1.50.

Better yet, the money you contribute comes out of your paycheck before taxes are computed. As far as the government is concerned, you never earned it. That means you don't have to pay tax on it (at least not until you withdraw the money several decades from now). And the tax break is instant.

So if you're in the 25-percent income tax bracket, you can contribute $100 each pay period but doing so reduces your take-home pay by only $75.

Plus, if your employer offers a 50 percent match, your contribution instantly grows to $150 at no cost to you — and that's before your savings, once invested through the retirement plan, start growing on their own.

7 **Start saving now.** Because your nest egg will earn an investment return, it's crucial to start saving now. Consider two hypothetical graduates:

Sallie Smart, 22, economizes like crazy in her first years after school so that she can save $500 a month in her 401(k), and she keeps that pace indefinitely. Her employer matches 50 percent, pitching in $250 a month. If she earns a 9 percent annual return on her investments, when she wants to retire at age 65 she'll have $4.1 million in her nest egg.

Patty Procrastinator lives a little better when she first gets out of college and doesn't start saving in the 401(k) until she's 32. From that point, she also saves $500 a month, her employer adds $250 a month, and she earns a 9 percent return — just like Sallie. But at age 65, Patty will have only $1.7 million. That decade of delay will cost Patty $2.4 million.

Incidentally, Sallie contributes from her own money just $60,000 more than Patty does. The rest of the difference comes from employer contributions and investment returns.