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Expert View

7 Financial Tips For New Grads

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One of the most common things I often hear from people after one of our financial education workshops is how much they wish they had learned about personal finance when they were younger. I particularly think about this with all the new college grads this year. There are a lot of things I'm glad I knew back then and a lot I wish I knew. Here would be my financial advice to new grads:

1) **Upgrade your lifestyle…slowly.** If you have a new full-time job with a full-time paycheck, it may be tempting to go out and buy a new car and get a nice, new apartment all to yourself but you'll probably be happier in the long run if you use your early years to keep your living expenses low so you can save for things like emergencies, buying a home, and eventually becoming financially independent. That might mean driving an older car and living with your family or one or more roommates a little longer. I did both and they were some of the best financial decisions I ever made. My life was a lot less stressful without high rent and car payments and I was actually able to spend more on experiences like traveling and eating out with friends that made me happier than a bigger apartment or newer car.

Not convinced? Look at it this way. I'm sure you're excited about graduating but that excitement will eventually wear off. Postponing having a new car and your own place will give you things to be excited about in the future.

2) **Learn to cook.** After housing and transportation, food is the next largest expense for most people. Since you won't have a meal plan anymore, learning to cook can be one of the best ways to save cash. If you're single, it's also a great way to impress dates. This is definitely something I wish I had done much earlier!

3) **Build up a financial freedom fund**. Your early years will likely involve a lot of changes between jobs and places to live as you try different things out. However, it can cost a lot of money to leave a job or move to a new location. Having some cash in the bank (ideally enough to cover 3-6 months of necessary expenses) gave me some peace of mind and the freedom to leave a job or living situation if needed. The easiest way to do this is to set up an automatic transfer of money from your checking account to a separate savings account each month.

4) **Open a Roth IRA.** One of the first places I put that cash was a Roth IRA. (The limit was only $2k a year back then but you can contribute up to $5,500 for 2015). You can take out

whatever you put in without tax or penalty and anything you don't take out can grow to eventually be tax-free for retirement. If you withdraw any earnings before you turn 59 ½, you may have to pay a tax and 10% penalty on those withdrawn earnings but your contributions always come out first.

You can open a Roth IRA at practically any financial institution. Just be sure to keep your Roth IRA funds somewhere safe like a savings account or a money market fund if it's part of your emergency fund. Once you build up enough cash outside the Roth IRA, you can invest it more aggressively for retirement (see #6 below).

5) **Take advantage of your employer's retirement plan.** If your new employer offers a retirement plan with a match, try to contribute at least enough to get that full match. If you can't afford to save much now, you can gradually increase your contribution rate each year. Many retirement plans even have a feature that will do this for you automatically.

Retirement may seem like a long way off but the sooner you save for retirement, the longer your money can grow and compound. For example, a 25-yr old earning $40k a year, contributing 10% of their salary, receiving a 6% match from their employer, and earning a 6% average annualized rate of return will have over a million dollars by age 65. If they wait until 35, they'll have just over $535k. Start saving now and your future millionaire self will thank you.

6) **Invest aggressively for retirement.** One advantage of being young is that you have time on your side so you can recover from any short term downturns in the stock market. One downside of being young is that you may not have the long term perspective to realize that and may bail out of stocks the minute they lose value or be too afraid to invest in stocks at all.

If lack of investing knowledge is your obstacle, see if your retirement account has target date funds available. All you need to do is pick the fund with the year closest to when you think you might retire and you can put all of your retirement money in that one fund. The fund is fully diversified (so no, you're not putting all your eggs in the proverbial basket) and will automatically become more conservative as you get closer to that date so you can essentially set it and forget it.

7) **Be smart about debt.** People often fall into one of two categories. Some are too lax about debt and allow their high-interest credit card balances to grow bigger and bigger. Others are too afraid of debt and put their extra money towards paying down low-interest student loans when they could be saving for emergencies or a home or investing for retirement.

A good rule of thumb is to aggressively pay down any debt with interest rates above 4-6% like most credit cards. If your interest rate is between 4-6%, you can go either way depending on how you feel about investing vs. debt. If the rate is below 4%, you're almost always better off investing any extra savings instead.

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