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Authors: Quinn, Jane Bryant
Ehrenfeld, Temma

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Abstract: The article presents advice for recent college graduates on managing their money efficiently. Several philosophies can prepare former students for managing their money in the real world, including respecting money, managing spending, paying off credit card debt, and investing long term for retirement.

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MONEY GUIDE

GETTING INTO THE GAME

It takes real dollars to set up on your own. You might have to move to find a job. You'll need a deposit for an apartment.

Every May, the voice of the commencement speaker rings in the land. What's the meaning of life? Go forth! Play to win! But even though graduates may be prepared to take up jobs and careers, they're often not ready to handle money. Young adults haven't had much life experience in consumer finance, despite all the credit cards and ATM cards in their wallets. As their elders did, they'll probably learn by doing, and make a lot of mistakes along the way.

That doesn't have to happen. With the right start, you can make money management easy--in your 20s and for years to come. So here's my own "commencement" speech, about the meaning of financial life.

Respect cash. It takes real live dollars to set up on your own. You might have to move to find a job. You'll need a deposit for an apartment. Parents sometimes help with setup expenses (as many as 64 percent of upperclassmen expect some sort of help, according to an online survey by Citigroup's Citi Credit-ED). But even when you're over this hurdle, you'll need cash in the bank while you stabilize your new life. Open a savings account and keep at least two months' rent on hand.

Manage your spending. Independent life is far more expensive than you think. Add up the bills and compare them to your take-home pay. If there's more outgo than income, well ... you know what to do. (Stop eating out every night with better-paid friends? Take those electronics sites off your "bookmarks" list?) If you need a car, buy it used, not new, to hold the payments and insurance premiums down.

You'll also save money by shopping with a debit card (that's your ATM card) rather than a credit card. Paying by debit is the same as paying cash, because the money comes directly out of your checking account. Consumers always spend less when they shop with cash, and they don't get stuck with interest payments.

Throw off credit-card debt. Many young consumers think of credit-card debt as "normal"--just like having a mortgage or auto loan. In fact, it's a total waste of money that you could be using for savings or having fun. If you're carrying debt, add up the amount (most people underestimate), check the interest rates (if you paid late a couple of times, your rate might be up to 24 percent or more) and lay out a plan for paying it off. Two Web sites that can help you chart a repayment plan: choosetosave.org and dinkytown.net.

Teach yourself to save. At all income levels, some people save and others don't--it's usually a matter of lifestyle choice. That makes it important to get in the habit, even if you start small, says planner Martin Shenkman of Teaneck, N.J. The simplest way is to save automatically, with money deducted regularly from your paycheck or bank account. You think you can't do that, because of all your bills? As an experiment, put away $50 a month to see if it wrecks your life (it won't). Then go to $75 or $100. You'll find that your savings start building up, while your spending drops imperceptibly to the level of cash you retain in your checking account. (The funny thing is, you'll never miss whatever it is you decide not to buy.)

Where to save depends on what you're saving for. Cash reserves belong in a federally insured bank account (online, ING Direct currently offers 4.15 percent, and Capital One Direct Banking, 4.55 percent, with no fees or minimums). Money you're saving for a specific near-term purpose--a car, a down payment on a house--should be kept safe, too.

Retirement savings, which will stay put for years, call for investments in stock-owning mutual funds. You might think you're too young, too ill paid or too bothered with other bills to join your company's 401(k)--but do it anyway. These are the best years of your investment life, when your money has 40 years or more to grow. Four tips on long-term investing:

• You could put as much as 80 percent of your money into well-diversified stock-owning mutual funds. Surveys by the Employee Benefit Research Institute find that people in their 20s hold an average of 52 percent of their 401(k) money in stock funds, 20 percent in fixed-income investments, 15 percent in balanced stock-and-bond funds and 13 percent in company stock. That's too much company stock. Just 5 percent is a better number. Betting too much of your future on a single stock isn't worth the risk. At companies that match your contribution with stock, sell it and diversify into funds, if you can.

• A fine investment choice, if your plan offers it, would be a "target retirement fund." These funds are labeled by year, such as 2030, 2035 and 2040. Just pick the one named for the year when you'll be closest to 65, make regular contributions and forget about it. You'll get whatever mix of stocks and bonds is appropriate for your age. If there's no target fund, look for index funds--one for large stocks, one for smaller stocks, one for international funds and one for fixed-income.

• When you leave your company and take a lump-sum payout from your 401(k), don't spend it--even if it's a small amount. Instead, roll it into an IRA or your new employer's plan. That's the only way to preserve your tax deferral and keep your money at work. If you cash out, you'll owe income taxes plus a 10 percent penalty on the earnings. Even worse, you'll have to start on retirement savings all over again.

• If you don't have a company plan, consider a Roth IRA. You can save up to $4,000 a year, after tax. All the earnings come entirely tax-free, as long as you take them after age 59 1/2. Roths have another big advantage: you can withdraw your own contribution whenever you want, tax-free and penalty-free. For example, say you invest $3,000 over three years, and earn $400. If you suddenly need money, you can withdraw up to $3,000 at any time, no strings attached. So your savings aren't locked up. You can get a Roth IRA through mutual-fund groups, such as Fidelity, T. Rowe Price and Vanguard. As investments, you can use target retirement funds and index mutual funds, among others.

• Make smart insurance choices. Don't waste your money on life insurance if you have no dependents to support. If you do, buy low-cost term insurance (check quotes at insure.com and term4sale.com). Finding health insurance is harder. If you can't get coverage through your employer, look into policies with large upfront deductibles, such as $5,000 a year. Costs vary from state to state. A 25-year-old in good health might pay $40 to $60 (or more) a month for a policy with a $5,000 deductible plus some co-pays on higher bills. This might not seem worth it, because you cover all your routine costs yourself. But if anything goes really wrong, the uninsured often find themselves doomed to poor medical care.

Remember Terri Schiavo. She was struck down at just 26. You need a living will, a health-care representative (to see that your wishes are carried out), a durable power of attorney (so someone can manage your financial affairs, if you can't) and a will (you may think you have nothing to leave but if, God forbid, you die in an accident, there may be a financial settlement). Also, write a live-together agreement, if you have a roommate, and share expenses or purchase property jointly. Do-it-yourselfers can try legaldocs.com or nolo.com.

• Your battle order. You can't fix everything at once, but here's a step-by-step approach. (1) Sign up for an automatic savings plan--even just 2 percent of pay, if that's all you can afford. (2) Bring your spending under control. (3) Get rid of consumer debt. (4) With your debt gone, increase your automatic savings, both for ready cash and other goals, such as a down payment on a house. (5) Raise the amount you're adding to your retirement plan. Generally, 6 percent of pay will capture the full employer match, if there is one. By your 30s, you should be saving at least 10 percent.

• Avoid financial planners, for now. Young workers' first contact with planners is often through friends who are brokers or insurance agents, or whose cards read "financial adviser." They may be newly in business, too. To keep their jobs, they have to sell high-commission products, such as variable annuities, cash-value life insurance and high-fee mutual funds. They've been taught that there's no better choice, but those products will make them rich, not you. Stick with low-cost simple things, such as IRAs and target funds. At this stage in your life, there's nothing that you can't do better yourself.

What percentage of young people own their homes? For those in their early 20s, about 25 percent; in their later 20s, it's 40 percent.

How much debt are college students carrying on credit cards? In 2004, 21 percent carried zero. Seniors owed $2,864 on average--less than in 2001.

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By Jane Bryant Quinn

Reporter Associate: Temma Ehrenfeld
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