Tips for College Graduates

By Patricia A. Konetzny, CFP® EA

For many of our "kids," this summer is their first after graduating from college. They have either started their first real job or are still looking. Our family reached this major milestone when our daughter Mary graduated in May 2004. She asked for my help in getting her financial house in order, so we started by setting up a file system to organize her bills and important papers. Next, we talked about how to divvy up the money she had received for graduation -- how much to put toward bills, how much to save, and how much to keep for an emergency fund. Before our talk, she had planned to "just spend" the graduation money. **But after only one discussion about her financial goals and how she wants to achieve them, she is already making better financial decisions.** We encourage you to spend some time discussing these types of issues with your graduates as well. Here are a few other ideas to discuss:

- **Pay Yourself First** – The best way to start on your path to financial independence is to always pay yourself first by saving at least 10% of your income.
- **Create an Emergency Fund** - Prepare for the inevitable things that happen in life, like car repairs or a possible job layoff.
- **Track Your Daily Spending** - Write down what you spend money on for 30 days. After that, you'll have a good idea where your money goes. The little things like daily coffee, fast-food lunches, and soda can add up fast. Think about what's really important to you and then choose to spend your money on the things you value. Make a decision to live within your means and avoid impulse spending.
- **Make Savings Automatic** - Start automatic transfers from your checking account to a savings account.
- **Start a Christmas Club** - This is an "oldie but goodie." Planning how much you will spend on Christmas and saving for the holidays will help you avoid using credit cards and spending more that you can afford.
- **Open a "Big Bill" Account** - Some bills, like car insurance and excise tax, come annually or semi-annually. Calculate how much you need to save from each paycheck and have that amount automatically deposited into your "Big Bill" account. When the bill arrives, the money will be there.
- **Consolidate Student Loans** - Rates for student loans are at their lowest. Consolidate loans to fixed payments while interest rates are still low. Act now because Congress is considering changing the rules and not allowing fixed rates in the future.
- **Understand the Power of Compounding** - Albert Einstein once said that compound interest is the "the greatest mathematical discovery of all time." Time is the best friend of a prudent investor. Money saved at an earlier age has the advantage of compounding longer. This will give the early saver a much larger nest egg than someone who delays saving until later in life.
- **Get a Copy of your Credit Report** - Many students are leaving college with high credit card debt and a history of late payments for utility bills and cell phones. It's important to understand your FICO score and how it affects borrowing rates. Your FICO score measures your credit worthiness. Bad

credit means you pay higher interest rates for auto and mortgage loans, as well as higher insurance premiums; bad credit could also affect your employment options.

- **Start Your Nest Egg ASAP**- Sign up for your 401k during the new employee orientation! Waiting until you can afford to contribute is one of the most expensive mistakes you can make. You won't miss money you never had, and if your employer contributes a matching percentage, you may be passing up free money. Increase your contribution with each pay increase.
- **Discuss Finances with a Grandparent** – Many of your grandparents are living a nice retirement now because they squirreled money away for their future. Your future may seem like a lifetime away, but it's not. Ask them how quickly tomorrow became today.

Reviewing and employing these strategies will help recent graduates avoid a lot of the financial pitfalls that can hamstring their financial progress. Most college graduates leave school well versed in their fields but woefully lacking in basic financial skills. Good habits, started early, will help them to create a more secure and comfortable future.

Patricia A. Konetzny, CFP® EA provides unbiased, life-centered financial planning to people from all walks of life, through all the stages and ever-changing circumstances of their lives. As a small business owner and mother, she is uniquely aware of the demands families have on their finances. She is a Certified Financial Planner and Enrolled Agent and has been quoted for articles in the *Wall Street Journal, Wall Street Journal Online, Kiplinger's Personal Finance, Fidelity Investment's Stages* magazine and *E-News*, and *Investment Advisor* magazine. Most recently she was a source for the April 2005 *Parents* magazine article, "Can You Afford to Quit Work?" If you are interested in learning more, please visit her website at www.practicalplanner.com. She can be reached at 978-461-4932 or pat@practicalplanner.com.