COLLEGE GRADUATES: GET A HEAD START
ON THE ROAD TO FINANCIAL FREEDOM
Avoid These Top 10 Post-Grad Money Mistakes

ENGLEWOOD, COLORADO— As you leave your university, college or technical school permanently this spring, you know your life is about to be filled with changes. You probably will want to trade your jeans for a new wardrobe, your cramped apartment for an upscale loft and your old wheels for a nice car. Your chances of achieving these and other, longer-term goals in the next few years are good—if you don't fall victim to a number of money mistakes new grads have been known to make.

"Whether you are earning $70,000 a year or $20,000, the fiscal choices you make immediately after college can help or hinder your chances of building a strong financial base for the rest of your life," says William L. Anthes, Ph.D., president and CEO of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is a nonprofit foundation dedicated to helping Americans achieve financial well-being.

Anthes says, "If graduates avoid typical financial pitfalls during their first few years in the workforce, they're in an ideal position to secure their future. Making smart money choices today—such as saving $100 a month—can make an enormous difference 10, 20 or 30 years from now."

Below Anthes lists the top 10 financial mistakes graduates make, and he offers his advice on how to avoid them.

- **Not taking the time to learn about personal finance**—Maybe you were a finance major, and you know all about stocks, bonds, 401(k) plans, Individual Retirement Accounts and even annuities. Conversely, maybe these terms are completely foreign to you. If you don't understand the basics of personal finance, the time between graduation and your first job is a great opportunity to learn. Being financially savvy means understanding everything from personal banking to insurance. It means knowing how much money you have coming in and how much you have going out. It requires setting short- and long-term fiscal goals and establishing a plan to meet those goals. In sum, it means having a firm grasp on your total financial picture.

Anthes says, "If personal financial planning is new to you, start small. Commit to learning about one new money management topic each week. Research that topic on the Web or at

the library. You'll be a financial expert before you know it."

- **Not paying yourself first**—While your new salary may seem enormous compared to what you were living on in college, you might find yourself stretched to the limit after you pay your rent and monthly bills, buy groceries and spend a bit for entertainment. Add to that any student loan debt and perhaps a car payment, and saving money can seem like a pipe dream. However, if you can manage to save just a little from each paycheck by "paying yourself first," the benefits can be tremendous. "By putting away money each month, you'll begin to build an emergency fund. This fund will be invaluable if your car suddenly breaks down, you lose your job or you encounter another unforeseen problem," Anthes says.

In addition, you'll train yourself to think of saving money as one more monthly bill, and you'll be more likely to retain this habit throughout your lifetime. Anthes says, "Have a certain amount—whatever you can spare—automatically deducted from your paycheck and put into a savings account. This way you won't wait until the end of the month and simply 'save whatever is left'—which usually is nothing."

- **Overspending on credit cards**—"The overuse of credit is a grave problem in American society within every age group," Anthes says. "Recent grads should be particularly cautious of acquiring large amounts of credit card debt within their first few years out of school because it can follow them throughout their lifetime."

Anthes advises that young adults keep their credit card spending reigned in by adhering to the following credit guidelines:

1. Keep only one credit card.
2. Every time you pull your card out of your wallet, ask yourself if you would take out a loan to make the purchase, because that essentially is what you are doing.
3. Pay off the balance every month to avoid costly interest rate charges.
4. If you can't pay the entire balance, pay more than the minimum.
5. Pay the bill on time to avoid late fees.
6. If you find yourself tempted to use your credit card to purchase items you really can't afford, leave it home when you go shopping.

- **Acquiring too much debt by way of loans**—Suddenly paying for all of your expenses yourself—without the help of your parents or guardians—can be difficult enough. Don't cause yourself further financial stress by acquiring a lot of debt after graduation. "Too many graduates make the mistake of taking out loans, particularly car loans, immediately after they graduate," Anthes says. "Before you tie up a substantial amount of money in debt payments, take time to consider your financial situation. Try not to take out any loans for six months after you graduate." If, after that time, you aren't feeling financially strapped, you have been able to save money

and you feel secure in your job, then you may want to consider taking out a loan, if necessary.

- **Buying more house than you can afford**—You may be making enough at your first job to be able to make an investment in real estate. Or, perhaps you got married or moved in with a partner after college and, between two incomes, can afford to purchase a home. Buying a house can be a smart financial move if you are stable in your job, have substantial savings and plan to stay put for at least five years. However, Anthes advises that all potential homebuyers do their fiscal homework before making this major purchase.

The best way to know how much house you can afford is to track your spending for a month. Then complete a budget. Since you probably will qualify for a mortgage with monthly payments significantly higher than you actually can afford, evaluate how much money you have available to put toward housing each month. This should not exceed 30 percent of your income. Also, remember that when you own your own home, you'll have to handle repairs, at times, so you'll need money saved for this purpose.

To ensure that your house payments don't leave you financially strapped, consider qualifying for a mortgage based on only one partner's income if you are part of a two-income household. This way, you'll have some security in case one person loses his or her job.

- **Not understanding your employee benefits**—Learning a new job can be intimidating. To top it off, at some point within your first few days on the job, a supervisor or colleague at your new place of employment probably will hand you a stack of information regarding your employee benefits.

Anthes says, "Many graduates will take one look at employee benefit information, convince themselves they can't possibly comprehend it and set it aside. However, doing so is a big financial mistake. Your employee benefits are provided to you in exchange for your work. So, not taking advantage of them essentially is equivalent to giving up a portion of your salary."

If you're struggling to weed through employee benefit information, Anthes suggests you inquire as to whether your place of employment offers benefits classes. If not, talk to the human resources department. If you still aren't getting the help you need, ask a trusted friend or family member, perhaps one who has been through the process of starting a new job recently, to help you.

- **Not contributing to a 401(k) plan**—If you have the option of contributing to a 401(k) plan or similar retirement savings vehicle through your job, Anthes advises you take advantage of it. "Some graduates don't contribute to a retirement savings

plan at work because they feel they just can't spare the money. However, if you have a small amount, such as $30 or $50, deducted automatically from your paycheck every two weeks, you probably won't miss it," Anthes says.

While this may seem like a trivial sum of money to begin with, it can grow to be a measurable amount within a few years. This is especially true if your employer is matching your contribution. "If you don't take advantage of a matching program, you not only are putting your financial future in jeopardy, but also walking away from available funds," Anthes says.

As an added incentive, your contributions are deducted before taxes are taken out of your paycheck, thus reducing your annual tax liability, and your savings grow tax-free until you withdraw them in retirement.

If you don't have access to a retirement savings plan through your place of employment, consider an Individual Retirement Account (IRA) or Roth IRA. An IRA allows you to save pre-tax dollars toward retirement. Money you invest in a Roth IRA is taxed now, but you can withdraw it tax-free during your retirement. You can learn more about either option at your local financial institution.

"You have your whole career ahead of you," Anthes says, "so retirement probably sounds worlds away. But this is the main reason you need to start saving now, while time is on your side."

- **Not purchasing health insurance**—In most cases, recent college graduates are quite healthy. They don't foresee immediate health problems, so they may think paying anywhere from $100 to $400 a month in health insurance is a waste of their money, especially if they aren't making much to begin with. Anthes says, "Going without medical coverage is a huge financial mistake. No matter how healthy you happen to be, a medical emergency could strike at anytime. If you don't have health coverage, a one-night stay in the hospital could devastate your financial situation. You even may be forced to declare bankruptcy."

However, you might feel that your budget is stretched too tight to pay for conventional coverage. Maybe you haven't secured a job yet that offers health insurance as a benefit, and you don't feel you can afford an individual policy. In this case, Anthes suggests graduates research policies that cover extreme medical emergencies. These policies usually initiate after you already have paid up to a certain amount. "In some cases, you still may be left with a large medical bill. However, purchasing even limited coverage is better than going without health insurance," Anthes says.

- **Not purchasing disability insurance**—Should you become temporarily or permanently disabled and unable to work, how long would you be able to afford

your lifestyle without steady income?

Many college graduates overlook disability insurance. Anthes suggests that young adults seriously consider the consequences before passing up on this type of coverage. “If you recently have graduated from college, chances are you don’t have an emergency fund that will last you very long if you are unable to work. Disability coverage will provide this safety net.”

You may be eligible for disability insurance through your work. However, make sure the coverage is adequate. “You’ll want your disability plan to cover at least 60 percent to 70 percent of your income should you become disabled,” Anthes says.

- **Not planning for one’s own incapacity**—Appointing a durable power of attorney to make health-related decisions probably falls lower on the priority list of recent grads than any other financial task. Yet, while unlikely, young adults can become permanently incapacitated and unable to make decisions for themselves. Anthes says, “Completing this step isn’t complicated, and if the worst-case scenario does indeed come true, having a durable power of attorney in place can save your friends and family the burden of making heart- wrenching decisions without your guidance.”

Anthes recommends that graduates at least talk with their family members about their wishes. “Taking the time to complete the legal process of electing a durable power of attorney means that your wishes will be honored, but just talking with your loved ones is better than doing nothing.”

Surviving the transition from college student to young professional can be difficult, and facing the daunting task of learning to become a savvy money manager may seem overwhelming. However, remember that if you develop good fiscal habits one step at a time now, you’ll be on your way to achieving your lifelong goals.

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