FPA FINANCIAL PLANNING PERSPECTIVES

How New College Grads Can Get a Jump on Financial Planning For a Lifetime

The average college graduate with a four-year degree now takes about five years to put on a cap and gown, and her average debt is growing too. According to 2006 figures from the Project on Student Debt, the average college I.O.U. was approaching $21,000.

With all that student loan debt, it's genuinely tough to focus on saving and planning for retirement. But there's really no better time for a young person to be better positioned for good money habits that will last for a lifetime. Here are some of the best moves to make coming out of school, even if you haven't gotten a job yet:

Talk to a financial planner: Ask your parents for the graduation present of financial advice. A meeting with a financial planner can set a spending plan that will accommodate what your future income needs will be to extinguish that debt and how you'll be able to save in the future.

Sign up for the company 401(k) the minute you're eligible: A 401(k) plan accomplishes more than retirement savings. It teaches a new worker the value of "out of sight, out of mind" savings – when money goes to savings before you have a chance to spend it. In addition, having deductions taken to go directly into your 401(k) will mean less federal and state taxes from your paycheck. That's why new grads should sign up for their 401(k) retirement savings the moment they become eligible. But it's important to stress that even if it takes a year before you can join the company plan, start putting money away in a traditional or Roth IRA. You'll be capturing funds from the start, which experts say is the absolute best way to build a financial future.

Always aim for the maximum: It's a tremendous challenge to put away the most you can save in any retirement plan once you get out of school – you have a household to set up, school loans to pay off and you need to have a little fun, too. But even if you can't set aside the maximum in your various retirement options at the start, make it a goal to get there as soon as your income rises and your debt falls. Have the payroll department calculate a sample of what your net pay will be with and without money deducted for your 401(k) savings. You'll be surprised how similar your net pay could be.

Check your investment balance each year: Studies show that many people will pick a handful of mutual funds for their 401(k) s at the very start and not change them. That's one of the great reasons to have access to a financial planner because you can examine whether your investment choices and style fit your age and goals.

Hold off on buying a new car: Mass transit is best, but if you need a car, think about buying a quality used car that you can pay off quickly. A new car with a low down payment means you'll be doubling your debt if you owe the maximum in school loans. Do you really want to owe $40,000 or more? That's a tremendous burden for a new professional.

Don't forget about insurance: If you're single, it's not time for life insurance, but you must have auto, rental apartment and yes, disability insurance. Even if your employer does not offer you health insurance right away, you must find another insurance resource since you probably won't be able to piggyback on your parents' health plan for awhile. If you're driving a used car, you may not need to keep as much collision on your car. Don't forget to insure the contents of your apartment – one break-in can cost you thousands of dollars you don't have. And if you

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think about "old folks" being the only folks who can become disabled and cut off from a paycheck until they can work again, guess again. Think of how losing a paycheck for six months would hurt your finances.

Start laying away an emergency fund: Even if all you have is the proceeds from two missed lattes a week, start putting money in a special account you will not touch unless you are out of work and need to find some way to pay the rent. Make the trigger something as serious as that, or you'll never have a serious reserve for emergencies.

Figure out taxes: New workers tend to do one of two things when it comes to taxes – they either withhold too much or too little. It makes sense to sit down with a planner or a tax professional to make sure your annual tax set-aside is correct, because withholding too much means Uncle Sam gets to hold the money that could go to your retirement or your emergency fund.

Don't forget about health insurance: Health insurance gets more expensive by the day, and finding a good employer that provides good options for this benefit is particularly important. Given that younger people are generally healthier, get some advice on whether you should investigate a high-deductible plan that's paired with something called a health savings account (HSA). Such accounts allow you to stash money that can cover that big deductible – for individuals, the minimum deductible in 2008 is $1,100 – but the accounts can be invested just like IRAs. Over the course of time, you can develop a nice little nest egg that can alleviate a lot of future worries about how you'll pay for health care.

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