

## New college graduates must be realistic about their finances

They need to save for a rainy day, advisers say

By **Liz Skinner**

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The stock market is down, prices are rising, the dollar is losing value, and the United States may be headed into a recession, which isn't exactly a promising outlook for the 1.5 million young adults who will graduate from college next month.

Despite the economic gloom, most financial professionals recommend that graduates stick to the basics of saving and budgeting as they embark on their careers.

What usually surprises young people in their first years of their careers is how little they actually have to spend, said Joyce Cantrell, an instructor of personal financial planning at Kansas State University in Manhattan, Kan.

New graduates need to be realistic about how much they will have to spend on necessities, they have to be careful not to want too much too soon, and many may still need to have roommates, she said. They also should contribute to corporate retirement plans that offer a match, Ms. Cantrell said.

Similar to older adults, young professionals need to set specific goals of where they see themselves a year, two years and five years out, she said. Some new graduates are looking to pay off as much of their student loans as quickly as possible, but they should be careful not to take on too large a monthly payment, Ms. Cantrell said.

### ELIMINATING DEBT

"You don't want to have to use the credit card for your necessities" and get behind on those payments, she said. Instead, Ms. Cantrell recommends that young adults consider taking on extra jobs at night or over the weekend if they want to get debts paid off sooner.

Financial advisers also counsel young professionals to focus on paying down debt.

If a new graduate has a savings account or inheritance, they should consider using a portion of it to lower their total debt, said Robert Kargenian, founder of Orange, Calif.-based TABR Capital Management LLC, which manages about \$155 million in client assets.

The interest on loans is typically at 6.5% or a lot higher these days, he said. "This isn't the 1980s and 1990s, when you could expect to get double-digit growth on investments," Mr. Kargenian said.

Additionally, even as people are starting their first jobs, they should plan to save at least 10% of what they earn, he said. Spending also should be kept in check, which is something that is recommended at all ages, Mr. Kargenian said.

"The biggest problem in our country is debt and people living beyond their means," he said. "They don't have a great example at the state or federal level."

Adviser Alan Koloen, president of Willamette Financial Group LLC, also recommends that young adults immediately start a consistent savings program and consider funding a Roth individual retirement account. The Salem, Ore., firm has about \$600 million in assets under management.

The contributions grow tax-free, and a new graduate isn't likely to have income beyond the federal limits. Funds from a Roth IRA can be used for further education for themselves, for a first-time homebuyer or, of course, for retirement, Mr. Koloen said.

An individual can pull out their contributions anytime tax-free.

It isn't uncommon for young adults to make financial blunders, advisers said, and some can be costly. One of the financial mistakes that Mr. Koloen witnessed was especially painful to watch because it involved his own son.

Instead of getting a college degree after high school, his son used the funds his family had saved with higher education in mind to start a small business on his own.

"He didn't have enough business training and education, and was too stubborn to take advice," Mr. Koloen said. "He didn't understand that just because you're being paid, that doesn't mean you're making money."

The business failed after four years, and it took another four years for Mr. Koloen's son to get out from under the business debt. Now — at 30 — his son "is just starting to dig out," Mr. Koloen said.

Young adults often get into trouble because they live paycheck to paycheck and don't set aside money for emergencies, Ms. Cantrell said. "Some are spending all that they have each month, not thinking about what is really important," she said.

Given the gloomy economic outlook, graduates who know that they will get an advanced degree want to consider continuing their education now, Ms. Cantrell said.

Because of the tough market, graduates should consider whether an additional degree or certificate, or other training program, could make them more marketable, she said.

Mr. Koloen, however, warns that graduate school should be pursued only if it is relative to the planned career. "Graduate school is an expensive way to stall," he said.