

Blueprint for Financial Prosperity's College Grad Money Guide

a simple 5-step guide for your money after college
(Or, here's what to do so you don't make the mistakes I did!)

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With special thanks to [PaidTwice](#), [Cap](#), and my lovely wife.

Let's Get Going!

Congratulations on graduating from the odyssey that is the college experience and welcome to the odyssey that is the rest of your life! If you thought the last few years were difficult, you have no idea what is in store for you. Just kidding.

In all seriousness, you are about to embark on one of the most exciting segments of your life. The five-, ten-, and fifteen-year period after you graduate college will be one of the most exciting times of your life. It will also be one of the first times in your life when you truly experience the freedom of living life the way you've always wanted to. In college, you had to go to classes, take exams, and write papers. While you did get a taste of freedom, there was still the rigid structure of academia keeping you in line. After you get that diploma, the shackles come off and you're armed with the knowledge you need to take on the world.

Well, *almost* all the knowledge.

One big chapter that very few schools ever teach you is the one titled **personal finance**. Life after college is equal parts excitement and fear. For many, it'll be the first time you'll have received a steady five-figure-plus annual paycheck and it will seem like a tremendous amount of money (it is!). It may be the first time you'll have to pay taxes (lucky you!). It'll be the first time you'll have to save for things that cost more than a case of beer (think house). It will feel overwhelming when you read your new company's benefits package and having to decipher what a 401(k) is, what medical benefits to select, designating your beneficiary, retirement, etc.

I'm here to help.

Five years ago I graduated and I started working full time for the first time (summer internships don't count). I felt like I had just been thrown from one of the fishing ships on *The Deadliest Catch*. If you feel that way too, let this book be your life preserver because it will contain all the basic information you'll need to get you in the right direction. This book is organized into five major sections that can be read in any order. It's probably most logical to read them in order, but you can jump and skip however you please.

I also invite you to become a regular reader of my blog, [Blueprint for Financial Prosperity](#). I write on a daily basis about personal finance and am always looking to meet new people to discuss money matters.

Lastly, please feel free to share this book with whomever you please, all I ask is that you do not edit it and let people know where you got it. Thanks!

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Chapter One: Establishing a Foundation

In this section, we'll discuss all the steps you'll need to take to establish a solid financial system you can tailor to your own specific needs. It will contain a basic framework that can be extended to fit nearly any financial scenario. If it doesn't fit, I'm sure a bright college grad can tweak it to make it work.

Overview

Overall, the key is to establish a series of bank accounts and electronic linkages such that you can do as much as possible online and electronically. You'll want to set up a system where you direct deposit your paycheck and then use that account to pay all of your other bills such as your rent, cell phone, other utilities, and credit cards.

Part One: Setting Up Bank Accounts

When I open a bank account, I'm looking for three things:

- **ATM access:** Never pay an ATM fee, so always look for a bank that has ATM the places you typically will be such as your work, home, or near businesses you go to. With ATM fees you never pay just one, you pay the bank whose ATM you're using and then you pay your own bank, though sometimes those are waived. Why pay money to access your money? Be smarter than that.
- **Branch access:** Sometimes you'll need to go in to deposit a check or do some other transaction, pick a bank with branches near you.
- **Online banking features:** Since you'll be doing most of your banking online, it's crucial that you select a bank with solid online banking features. You don't need all the flashy stuff, but you'll want some features, like being able to see your cancelled checks, so you can more efficiently bank online.

If you keep your eyes peeled, you can often get a cash bonus for opening a checking or savings account and setting up direct deposit. Citibank and Bank of America routinely offer these bonus promotions. If they fit the above three criteria for you, use Google to search for 'Citibank bank promotions' or 'Bank of America promotions' for the latest information.

Part One-A: High Yield Savings Accounts

You will also want to open a [high yield savings account](#) at an online bank like [ING Direct](#) or [E*Trade](#) in order to take advantage of their **much** higher interest rates. E*Trade routinely boasts savings rates of **6x the national average** and ING isn't that far behind.

Part Two: Opening a Credit Card

You might already have a credit card from college, if so you can skip this section. If you don't have a credit card, you will want to get one so that you can begin building your credit history as soon as possible. There are other ways to build your credit history but credit cards are by far the easiest way and a strong credit history will be crucial when you need to borrow money to buy a car or house.

Before we begin, remember rule #1 about credit cards – **never carry a balance**. Never. If you are in credit card debt right now, work as hard as you can to get out as quickly as possible. Credit card interest rates are ridiculously high, sometimes over 20% a year, and so you never want to carry a balance unless your life would otherwise be put into jeopardy. Imagine walking to class but having to take one step back for every five steps you walked forward, that's what having credit card debt is like.

When I look at a new card I look at two features:

- **Cash Back:** When you buy something, the credit card charges the store a small percentage to process the transaction. The credit card then turns around and gives you a small percentage back on the sale, known as **cash back**. Credit card companies will often offer promotional cash back bonuses on certain categories to entice you to sign up, like 5% cash back on gasoline purchases. Try to get a card that has a cash back promotion for the things you're likely to buy (gas is one of them). You can always get a cash back card that gives you 1% on everything, so never settle for anything less.
- **Annual Fee:** Never pay an annual fee. There are hundreds of credit cards, you will **never** need to pay an annual fee.

Credit cards will also offer promotional offers to entice you to sign up for their card. I've compiled a [list of credit card offers](#) from major issuers that I keep up to date. Analyze the benefits, fees, terms and conditions of each card before applying. Don't apply simply because of a great promotion offer – let the offer be icing on the cake.

And always remember rule #1, never carry a balance.

Part Three: Setting Up Online Bill-Pay

Every major credit card company will accept scheduled online bill-payments and most major vendors will too, so it benefits you greatly to set up the electronic connections required to make those transactions. Online bill pay, at a minimum, will save you the cost of a stamp each month per vendor. In many cases, you can schedule payments so you can maximize the interest earned on your money. Finally, most importantly, it [saves you a tremendous amount of time](#).

To set up online bill pay, you will need two numbers from your checking account and both can be read off the check. The first is the bank's ABA routing number, which should be the first nine digit number on the bottom left corner of your check. The second is your account number, which should be immediately to the right of the ABA routing number.

It usually takes a few days for the verification process to complete so you'll want to set it up immediately. If you are linking accounts, often times one account will make small <\$1 deposits to confirm that the data you entered is correct. You'll need to remember those numbers and confirm their deposit with the originating account.

Once you set up bill pay, remember to pay your bills!

Chapter Two: Working, Paychecks & Retirement

When you wake up and go to work in the morning, you aren't going so you can get that paycheck in two weeks or at the end of the month, you're going so that you can make a better future for yourself. Whether that future is in ten or twenty years when you start having kids or in forty or fifty when you retire, the key to finding financial prosperity is through saving.

I'm not saying that you shouldn't enjoy life while you're living – far from it. I make sure I go on at least one vacation a year, those vacations will recharge you and allow you to continue to work hard in whatever it is you have chosen to do. I simply mean that you must take the steps to ensure that the future is secure for you and yours. That starts from the very beginning.

Overview

You work now so that you don't have to work forever. This section will talk all about 401(k)s, Roth IRAs, and other work related issues (such as medical insurance) so that you don't have to decipher the lawyer-speak. The general idea is that you should get your company match in your 401(k), maximize Roth IRA contributions, and let them do their work so you can retire happy, wealthy, and wise.

Part One: Setting Up a 401(k)

A 401(k) is a tax-deferred retirement investment account organized by your employer. If your employer does not offer a 401(k) plan, you can skip to the next step. Contributions to a 401(k) are deducted from your income, so you pay no taxes on them, but when you start taking payments from your 401(k) account when you retire, those payments are taxed then. If you earn \$40,000 a year and you contribute \$5,000 a year to a 401(k), the IRS will only tax \$35,000 of your income. You pay taxes on that \$5,000 and its appreciation whenever you begin withdrawing in retirement.

Company Match: Not every employer offers a company match on employee contributions to a 401(k), but if yours does you need to take advantage of it. Employers often entice employees to participate in the 401(k) plan by offering a company match. Usually the explanation is quite simple such as “a \$-for-\$ match up to 3% of the employee's salary.” So if you earn \$40,000 a year, the employer will match dollar for dollar up to \$1,200 a year. By contributing \$1,200, you automatically get the \$1,200 kicked in by your employer – think of it as an automatic 3% raise!

If your employer doesn't offer a matching contribution, it still pays to contribute to the 401(k) since it can grow tax deferred for decades. The 2008 annual contribution limit to a 401(k) is \$15,500.

What To Invest In: Now that you've contributed to a 401(k), what should you invest in? This is a really complicated question that I can't hope to answer but I will give you some ideas from successful investors and general rules of thumb.

The 120 Rule ([more](#)) is an asset allocation rule that states you should subtract your age from 120 and that should be your percentage in equities (stocks). If you're 20, the 120 Rule says you should be 100% invested in stocks, 0% in bonds. If you're 30, you should be 90% invested in stocks, 10% in bonds. Stocks are riskier than bonds, thus have a higher probability of large gains or losses, and the theory is that the younger you are, the longer you can wait out the swings.

John Bogle, founder of Vanguard, and Warren Buffett, of Berkshire Hathaway fame and one of the richest human beings ever, both espouse the virtues of **index funds**. Index funds are mutual funds, a collection of stocks, which match the holdings of a particular index, such as the S&P 500. Index funds will always give you comparable returns compared to the market, since they match the index, and will often have low expenses because they're low maintenance.

If you're interested in learning more about investing, I've written up a list of useful resources you can use to familiarize yourself with investing [\[LINK\]](#).

Part Two: Setting Up a Roth IRA

A Roth IRA is a tax-free retirement investment account and is a type of IRA, Individual Retirement Arrangement. A Roth IRA is not related to your employer though I put it in this category because it's a retirement account and depends on your adjusted gross income. Unlike the 401(k), the contributions to a Roth IRA are not tax deductible. However, the appreciation is tax free and you don't pay taxes on payments during retirement. It's essentially the "opposite" of a 401(k) in that the taxes are on the front end. Best of all, it [takes only 15 minutes to open](#).

If you've received the maximum company match, i.e. you've contributed enough to get as much as possible from your employer; it may be worth it to consider a Roth IRA instead of continued contributions to a 401(k). The tax-free nature of the Roth IRA is extremely enticing, though not as enticing as free money from your employer, and can act as a way to diversify your retirement asset's tax profile.

The 2008 annual contribution limit to a Roth IRA is \$4,000 and you should try to maximize your contributions to this account each year you are eligible.

Part Three: Medical Insurance

Those benefits packages can be a little daunting right? I know I had my head swimming in acronyms when I was reading about HMOs, PPOs, FSAs, and all whole set of alphabet soup terms. Luckily for you, the basics are fairly simple and most companies have good HR departments that will take the time to explain it to you if you ask. Here's a *very* brief primer on what it all means:

HMO: It stands for Health Management Organization is often cheaper than the PPO option because everything runs through a central hub. If you want to visit a specialist, you have to get a referral though your specified primary care physician (PCP), someone you often select on your own.

PPO: It stands for Preferred Provider Option and is a little pricier than the HMO because you have the choice of where you're going. If you want to see a specialist, you don't necessarily have to get a referral through your PCP.

FSA: It stands for Flexible Spending Account and it's a way to pay for qualified medical expenses **income tax free**. At the beginning of each plan year, you specify how much you want to contribute towards an FSA and a twelfth of it is deducted, before taxes, from your paycheck each month. Throughout the year, as you pay out medical expenses, you are reimbursed from the FSA with those pre-tax dollars. One of the great benefits of the FSA is that over the counter medicines, such as painkillers, allergy medicine, etc., are included!

There are a bunch of other plans such as HSAs (Health Saving Accounts) and HRAs (Health Reimbursement Accounts), if you want to learn more I discuss the [differences between HSAs, HRAs, and FSAs](#).

Part Four: Education Reimbursement

Many companies offer some type of education reimbursement should you decide to go back to school. If your company does, take advantage of it as it's essentially the equivalent of giving yourself a raise! There are a [lot of reasons to go back](#) but one huge benefit of pursuing additional education is that once you earn another degree, you may be able to command a higher salary. If you graduated with a B.S., consider pursuing the M.S. If you graduated with an M.S., try to get another M.S. or pursue an M.B.A.

There are two things you need be aware of:

- **Annual Limit:** My first employer offered to pay for everything with no annual limit. My second employer offered to pay up to \$5,000 a year. Check with your HR department to see what your company offers.
- **Obligation:** Many companies will require that you remain with the company for a period of time after each reimbursement. My first employer had no such obligation, which led many to obtain higher degrees and seek higher paying salaries elsewhere. My second employer had a one and a half year requirement. If you left within a year of reimbursement, you'd have to repay the company. If you left within a year and a half but after one year, you'd have to repay 50%. Each company is different, check with HR to be certain.

You might be tired of school at the moment so don't push yourself to go back. From here on out, there will be few opportunities for you to get anything for free so don't delay too long!

Chapter Three: Expenses & Day-to-Day Affairs

What's nice about a 401(k) is that you can set it and forget it and feel confident you'll be in good shape (though you'll want to revisit it every year). The same can't be said about the items in this chapter. These are things you'll have to keep an eye on every single day, until they become habitual, and even then you still need to remain diligent if you want to get ahead.

Overview

There isn't much different about day to day life before and after graduation, though the importance of budgeting and managing your finances has increased along with your paycheck. A bigger paycheck, left unchecked, can more easily be squandered.

Part One: Budgeting

Your budget should be the cornerstone of your entire personal finance plan. It's where the adage "spend less than you earn" is kept in check and will contain the information you need to make important financial decisions later down the road.

I've written about [five budget systems](#) in the past but all first time budgeters must use the Tracking to the Penny or Dollar Method for at least three months. By tracking to the penny or dollar, you get a very good sense of how much you're spending each month, where you're spending it on, and where you can improve. **The point isn't to spend as little as possible, the point is to spend as little as possible on the things that you need and the things that you enjoy.**

After three months, you can experiment with using other methods. Once you have a solid handle on your budget, you can switch to another, less time intensive, method.

Part Two: Emergency Fund

Once you have a budget, you can begin allocating your excess savings. Your number one priority should be to establish an emergency fund of [at least 3 months](#) of expenses. Your emergency fund is your first line of defense against any major surprise expenses you may encounter such as a major car repair or job loss. The fund allows you to meet those financial obligations without digging yourself into a deeper hole.

You might be tempted to forgo the emergency fund and use the credit card as an emergency fund: **don't**. Credit cards can get you in deep trouble if you use them to cover a large expense and then can't pay it off within that month (remember rule #1!). Once you stop paying it off in full, the credit company starts charging you interest and a once manageable \$500 car repair becomes a \$5000 gorilla that stays with you for years. [A credit card should never replace your emergency fund.](#)

Put your emergency fund into a [high yield savings account](#) and then leave it alone.

Part Three: Student Loans

If you graduated without any student loans, consider yourself blessed and skip to the next section. For the rest of us, managing your student loan debt can be a little scary depending on how much of it you have but it's a very simple process. A few reasons why you would want to consolidate are that you simplify your bills (only one bill to pay), you can turn variable interest rate loans into fixed, and you can lower your monthly payment by lengthening the terms of the loan (longer payback period means more total interest paid, but a smaller payment per month)

Consolidating Your Debt

After you graduate, expect to be inundated with college loan consolidation letters. Many of them offer the same exact service with some minor differences but [here's what to look for](#). You will want to compare what discounts they offer for *automatic monthly debits* and *history of on-time payment*. Many are willing to shave fractions of a percent off for automatic monthly debits and 36 continuous months of on-time payments.

Defer Your Debt

Here's another reason why going back to school can be beneficial. If you are taking classes part-time or more, as defined by the college you're attending, then you can request a **deferment**. You do **not** want a **forbearance**, that's for when you can't pay and ask for some time (during that time, interest still accrues – that's bad).

Student Loan Interest Tax Deduction

This will become important at tax time next April but you can deduct qualified student loan interest payments if your modified adjusted gross income is less than \$65,000. If you do your taxes with a software package like TurboTax, you won't need to remember this because the software will remember for you.

Chapter Four: Housing

If you lived in off-campus housing during college, this little section probably won't be of much use for you; feel free to skip ahead. As for everyone else, housing will be the bulk of your monthly expenses and represents the greatest area for savings. My personal strategy has always been to minimize my monthly rent while maximizing my enjoyment. Rent isn't like throwing money down the drain but its pretty close. Buying a home may not be on everyone's list, but paying someone else's mortgage should definitely **not** be on it. There's no sense underpaying for a closet and there's no sense overpaying for a studio.

Overview

The tenets of renting are simple – pay as little as possible for what you need. Take the savings and put them towards something you will enjoy more (like a house or car!).

Part One: Picking a Place

I find that using resources like [Craigslist.org](https://www.craigslist.org) and [Rent.com](https://www.rent.com) have been especially effective for determining the general prices for an area. After you get a general sense, put the address into [Rentometer](https://www.rentometer.com) for a gut check. Every dollar you spend on rent is a dollar you can't save for something else.

Also consider getting a roommate to help defray the costs of renting. When I was renting, I saw that 1-bedroom apartments were going for only \$100 less than a 2-bedroom apartment. By getting a roommate, I was able to cut my rental expenses by nearly half. Using sites like Craigslist.org to find a roommate can be dicey, consider calling your new employer's HR department to find out if other future employees are looking for roommates. While it won't be a guarantee you two will be compatible, it's certainly safer than going blind with Craigslist.

Part Two: Security Deposits

Some places will require a month's rent as a security deposit; others will be more forgiving with only a few hundred dollars. The deposit is there in the event you're a deadbeat, disgustingly messy, or simply prone to damaging property. To ensure that you get the security deposit back, scour your new place and point out every last potential issue. Are there nail holes in the walls? Is there a coffee stain in the carpet? Every pre-existing issue that you fail to mention or mark on the check-in is one pre-existing issue the landlord may try to get you to pay for when you move out.

Part Three: Rental Insurance

Some places require rental insurance, other don't. Rental insurance protects your personal belongings in the property you're renting. If you're renting a house and it burns to the ground, the landlord's homeowner's insurance will protect the structure but it won't protect anything you own. Rental insurance is quite cheap, often less than \$10 a month, and something you should consider.

Chapter Five: Plan & Prepare for the Future

Since life now has no rules and only a basic framework, the responsibility of planning for the future falls squarely on your shoulders. The thirty years after college (from 25 years old to 55 years old) are your income and asset accumulations years. In those thirty years, the bulk of your income will come from your labor as opposed to interest, appreciation, or dividends from your investments. In those thirty years, you'll be buying a house, paying for your kid's education, and other large dollar expenses.

So with that framework in mind, we should be adequately preparing for the future. With respect to the income accumulation and investment, I leave that up to you. The base has been set up in Chapter Two with the 401(k) and Roth IRAs, by reviewing some of the investment resources listed in Step 2 you can take investing to the next level by introducing taxable brokerage accounts.

Part Zero: House, Marriage, Car

Sometime in the next five or ten years, you will probably want to do one of the following: Buy a house, buy a car, or get married. Regardless of what it is you're looking forward to, the bottom line is that your future will require money and you will have to pay for it. So, how can you plan for those future expenses now so that you can use the power of time and compound interest to get you there?

Establish a Goal and Timeline: First, you have to pick one goal and a timeline for that goal. The easiest example would be **buying a house in the next five years**.

How Much? Next, ask how much that goal will cost. Let's say my home is going to be \$200,000 and I plan on having 20% for a down-payment. You can figure out how much your goal will cost by researching online. If it's a home, look at the listings and see what homes are listed at. You won't need an exact figure, a ballpark will do.

How much do I need to save each month? Here's the tricky part and it will require that you get a calculator. If you want to save up \$40,000 in 5 years and your savings appreciate at a conservative 5% a year, you will need to save \$558 a month.

Given your budget, is saving \$558 a feasible goal? If not, you will have to adjust either your goal, your timeline, or both. If you increase your deadline to 6 years out, you only need to save \$477. Ten years? A mere \$218 a month. Or, if you don't want to adjust your goal, the only other way is to either increase your income or decrease your expenses.

Either way, planning will give you direction in what you will do next.

That's It?

That's it. See how simple it is to establish a solid foundation? Five years ago I started working full time and I had no idea what to do. Five years ago there were no blogs to read, hardly any financial websites for young professionals, and everyone else at my company was either clueless (like me) or five minutes away from retirement. Now, you have resources like this wonderfully insightful e-book, hundreds of personal finance blogs, and me at your beck and call!

If you ever want to ask me a question, give me feedback about this book, send me a cool story, or just say hello, you can reach me easily through [my contact form](#).

Remember, this is merely a guide to the start of the rest of your life and not an all encompassing map for the rest of your financial life. Hopefully it has pointed you in the right the direction, the rest is up to you.

Thanks for reading!

Jim
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<http://www.bargaineering.com/articles>