Reader's digest

15 Money Management Tips Every Recent Grad Should Memorize

To help the newest crop of graduates have a brighter financial future, money management experts offer their best advice.

BY LAUREN CAHN

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Virtually every money manager agrees: Don't wait another moment to start thinking about your finances. "It's never too soon for young people to start thinking about managing their finances—no matter how difficult that is to contemplate when they've just graduated," says Krista Neeley, a regional vice president of Appreciation Financial a financial services company.

Live on less

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Of course, starting to save may be easier said than done. "After four or five years of delayed gratification [during college], there is great temptation to pursue a lifestyle," says Vic Patel, founder of Forex Training Group. "The problem is, when you have no real purpose for your money other than chasing a lifestyle, you end up using every extra dollar you earn in the pursuit of more." Patel suggests, instead, a policy of consciously "living beneath your means. Allow some of the frugality you learned in college to spill over in real life...It's a habit that will serve you well."

Learn to budget

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To begin the process, new graduates might consider what wealth manager, Ron Kloth of Wealth Manager at Dynamic Wealth Advisors refers to as "Dynamic Programming." Dynamic Programming is a system of "budgeting in reverse" by totaling up all "fixed" expenses like rent, insurance, phone, etc. and deducting it from the dollar amount of the next anticipated paycheck. What remains is a hard and fast number to be divided between discretionary spending and savings.

Eat in

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Don't underestimate the expense of eating out, suggests Larry Kallevig, CEO of Haven Financial Group. Even if you're eating fast food, it can add up. Bringing your lunch and eating in a few times a week will make a big difference. "In fact, if you pack your lunch three times a week and invest your savings, you can save more than $9,000 in seven years."

Shop smart

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"It's easier than ever to shop for used or consigned goods; Facebook even has a garage sale community page," Kallevig says. Also, don't automatically pay full price for everything; use the Internet to save money on everything, advises consumer savings expert, Andrea Woroch. "For clothing, check out sites like Tradesy, Thredup.com, and eBay. For home goods, check OfferUp or a local consignment shop. There are so many options. Get in the habit of comparing prices and shopping sales racks. Learn to love generics! There are so many options to save when it comes to buying necessary items like home goods, clothing for work and so on."

Don't pay too much in rent

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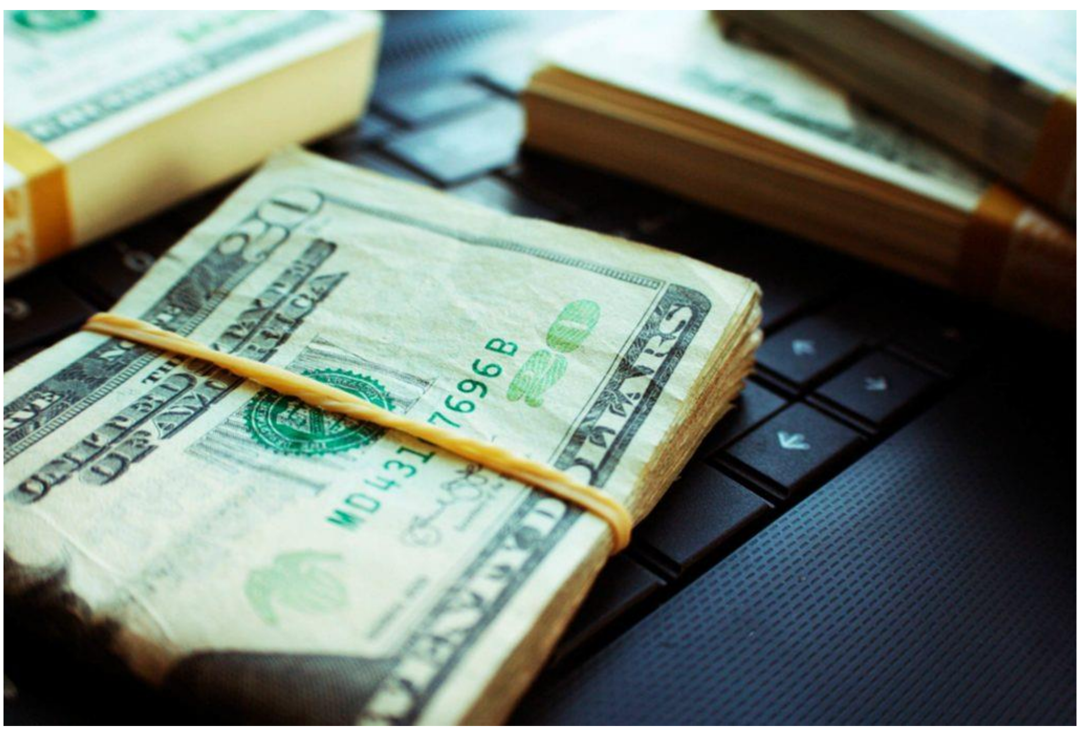
"The cost of rent is skyrocketing. Keep in mind that your rent shouldn't be more than 30 percent of your monthly income," Kallevig says. Consider taking on a roommate to split the cost or think about moving closer to work to cut down on extra expenses like gas. Or ask mom and dad if you can move home for a while—at least until you get some of your student debt paid off.

Pay yourself



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In creating a budget, new grads should consider earmarking as much as 10 percent of their take-home pay as savings as a fixed expense. Neeley suggests looking at it as a way of "paying yourself. It's money you earned, and money you deserve to have." If this seems difficult, Neeley suggests thinking of it as "strategic money placement," instead of as a "loss."

Create an emergency fund

LOOKER_STUDIO/SHUTTERSTOCK

Yes, it's more money out of "disposable income," but new grads need to start now building a savings cushion. "Building an emergency fund should be a high priority," Dearing advises. "Unexpected expenses happen all the time, but if you have a cushion of savings, unexpected expenses won't derail you. Instead of draining your long-term savings account or falling into debt, you can simply use your cushion to stay on track, then rebuild your cushion for next time." As for how much to set aside, Dearing suggests aiming for enough cash in reserve to cover six months' worth of expenses.

Insure yourself

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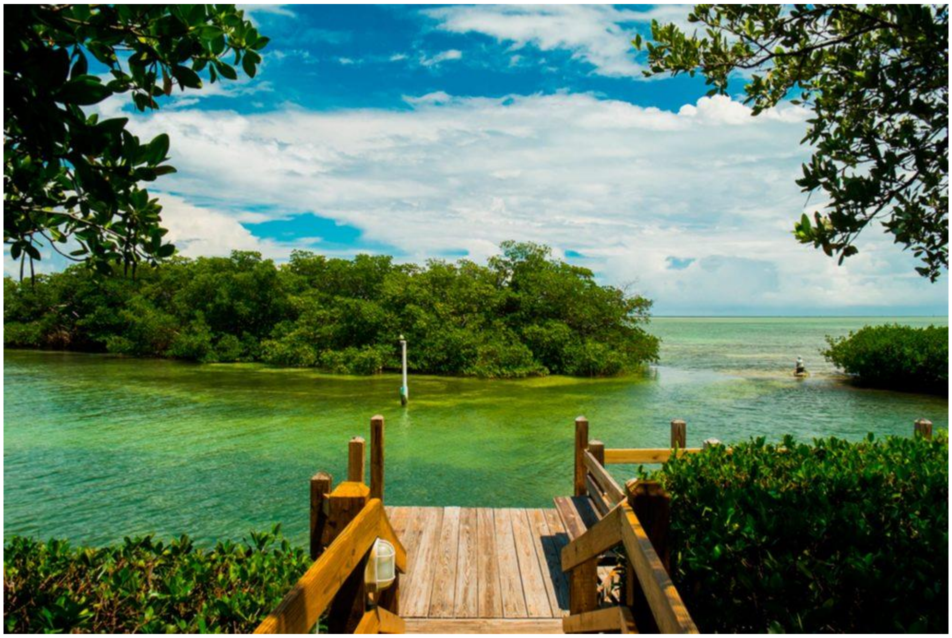
It's not enough to simply have health insurance, you should also consider disability insurance, according to financial advisor Steven Crawford. "Disability insurance guarantees a steady stream of income should an unexpected illness or accident prevent you from being able to bring home a paycheck." Some employers offer disability insurance in their benefits plans, but Crawford recommends purchasing disability insurance even if it is not specifically part of an employee benefits plan.

Start saving for retirement (yes, now)



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Speaking of employee benefits, if your company offers a 401K plan, start contributing to it now. The money is typically automatically deducted from your pre-tax paycheck and is a simple and virtually foolproof way to ensure that you're saving. "They allow you to save for the future without even seeing the money leave your bank account," Neeley points out. Even better if the employer makes matching contributions, points out Cheryl Nash, president of Investment Services for Fiserv, who sees matching contributions as "free money" to start building a nest egg for the future and reach your long-term goals.

Get a credit card

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Though it may sound counter-intuitive, it's better to have *some* credit card debt than none at all, advises Dearing. "Open a credit card with a modest credit limit and use it regularly, then—and this is key—be sure to make all your monthly credit card payments on time and in full. Doing this will help you build a solid credit history." This may help you when you need to qualify for a loan someday, like when the time comes to buy a car or house. Building a credit score does *not* mean spending wildly with credit cards, emphasizes Barbara Delaney, principal of Stone Street Advisors. "You want to spend just enough to be able to quickly pay them down." Delaney also advises fully understanding the fees involved when getting a card that offers points or other perks. "You don't want the fees you're paying to be more expensive than the perks the card is providing."

Consider options on your student loan on time

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Of course you want to pay your student loan on time, each and every month. On the other hand, financial advisor, Zach Wellborn of Manske Wealth Management points out that there are some cases where paying down a student loan on a steady, monthly basis is *not* the best option. "For some young people, paying down student debt as soon as possible and getting out from under the monthly payments can relieve a lot of stress and give them piece of mind." Wellborn suggests, as a rule of thumb, "if you're paying more than 4 percent in interest, you should pay down as soon as possible." However, that won't necessarily be the right option "if the money that you would otherwise use to pay down the debt could be invested somewhere like a company retirement plan." The right decision will take into account both emotional factors, interest rates and other uses to which the money could be put. Still another option is to refinance your student loans. "When you refinance your student loans, you'll have one consolidated loan with a single monthly payment and a lower interest rate, which is important as more of each payment goes toward paying down the balanced owed," Dearing says.

Rethink that graduate degree

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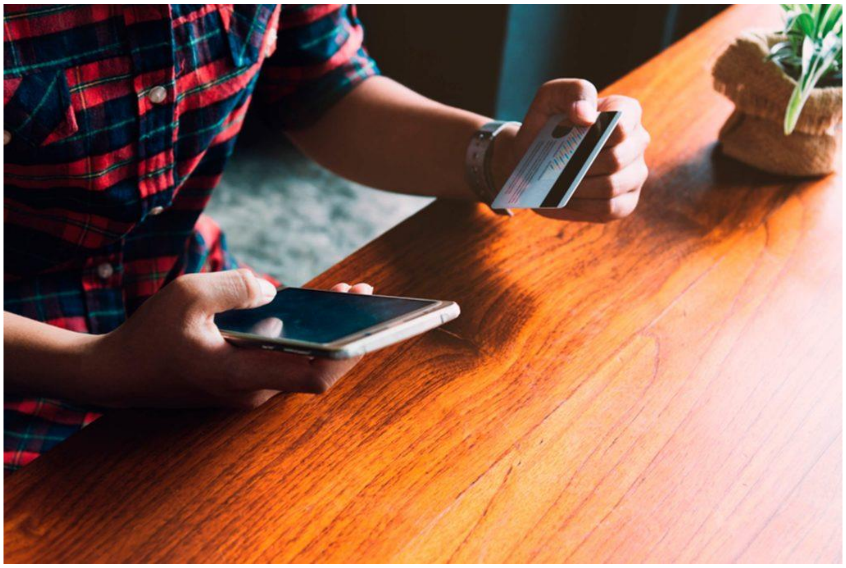
Speaking of student loans, new graduates should think carefully before rushing to obtain a graduate degree. "A graduate degree is not only an investment in time, it's also expensive," Kallevig says. "Ask yourself how many years it will take and what kind of salary you would need to pay it off. The class of 2016 is the most indebted ever... so far. The average student will have to pay back more than $35,000. Even adjusted for inflation, that's still more than twice the amount borrowers had to pay 20 years ago. So before you rush to get a graduate degree, make sure it will pay to do so!"

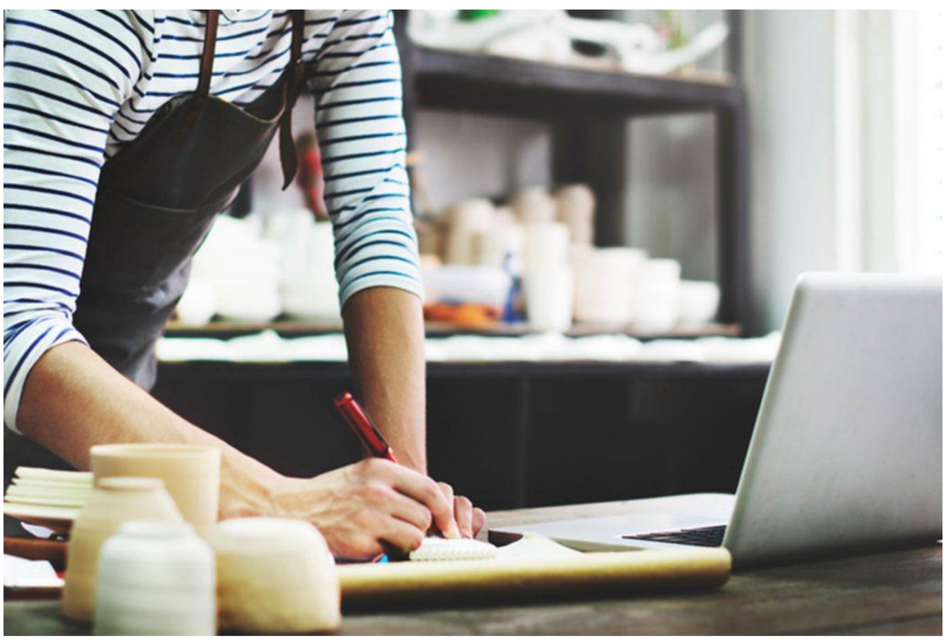
Use technology to your advantage



SRIJAROEN/SHUTTERSTOCK

It's so easy to balance your checkbook thanks to programs and apps like Quicken, Mint, says Dearing. Many banks and credit cards will also send notifications straight to your smartphone when your account is under a preset dollar amount or you have a bill due. Another useful app is Digit, which strives to make saving money "as passive as possible," according to Neeley. To do this, Digit analyzes your income and spending patterns, and then automatically dips into your checking account and puts a few dollars into a savings account. It's a "great tool when saving for a trip or something fun that's a few months out, you will surprise yourself with how much you can save in small increments. You can still go out to dinner and enjoy life, maybe just remind yourself that the ten dollar movie popcorn or eight dollar dessert at dinner would feel better in your bank account instead of in your belly."

Consider a "side hustle"



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In the old days, it was known as "moonlighting." No matter what you call it, it's a great way to cultivate additional income and keep other skills sharp. "For example a grad working in the finance industry, but who also loves to write can find freelance writing opportunities like content creation for websites through eLance," says Woroch. A side hustle is especially helpful if the first job isn't exactly what the grad had in mind when entering the work force. It will create the balance he or she needs to pursue what a passion while making money to pay rent, student loans and other expenses.