FINANCIAL REALITIES FOR COLLEGE GRADS

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The joy of graduating can quickly disappear when you realize you're on your own financially.

From getting a job to creating a budget to student loans to insurance, life after graduation can come with harsh realities.

The good news is that there are resources to help recent grads succeed, and you don't have to enter the world of personal finance alone.

Still, there are a few facts about post-graduation life that you need to consider before you take on any new adventures.

According to CollegeBoard.org, the average cumulative debt for a four-year degree from a public institution is $29,000, and the average cumulative debt for a four-year degree from a private institution is $32,600.

Sallie Mae (the largest private student loan provider in the United States) reveals that college graduates carry an average credit card balance of $2,351.

Besides debt, there are other "eye-openers" for recent college grads to consider. Getting a job, creating a new budget, paying taxes, and other issues arise after you finish your education. Here, we offer tips for completing these milestones and avoiding common financial landmines.

Getting a Job

Getting hired can be difficult right out of school, but internships and part-time jobs can give you a competitive edge in an ever-changing world of hiring. Preparation and practice are key when applying for any position post-graduation.

Where to look

Colleges and universities usually supply graduates with ample resources for career development and career advancement. From personality assessments to mock interviews and resumé reviews, **college career centers** should be your first stop on the journey to employment.

Additionally, technology has become essential in most job-hiring processes. According to LinkedIn, 75% of hiring managers use LinkedIn to learn about a candidate's background.

You should make a LinkedIn account to showcase your skills and qualifications and use other job search engines while job-hunting. Popular job search websites include Monster, CareerBuilder, Indeed, and Glassdoor.

Having your own website can also make a good first impression on hiring managers. If you want to show off your portfolio and increase your visibility as a candidate, consider investing in a personal website. Website builders such as Wix and WordPress can help you build a professional website without needing to know programming.

Benefits

When searching for a job, it's best not to forget what makes a dream job truly attractive: the benefits.

Competitive salaries for jobs depend on experience, location, and the job market. Sites like Glassdoor and LinkedIn Pro can give you intel about salaries for the job you desire.

Ask prospective employers about benefits packages and about specifics like health insurance, including the cost of premiums, copays, deductibles, and out-of-pocket expenses. Before accepting any job offer, consider what you can afford given your expected salary.

Disability insurance, dental insurance, 401(k) contributions and tuition reimbursement for ongoing education and training should also be considered when job-hunting or fielding job offers.

Bills & Budgeting

Recent graduates get starry-eyed when they see salary offers and they forget that they likely owe a lot of money and would do well to live frugally.

Insurance and taxes eat away at paychecks before they're even cashed. To create a life that's financially stable, you need to work with your take-home pay, create a budget, and stick to it!

Cost of living

Post-graduation life can look a lot like life prior to graduation. You may use public transportation, have roommates or communal living may once again be a part of everyday life – at least for a while.

Before accepting a job in a new city, be sure to use online calculators and government databases to calculate a cost of living if you plan to move.

Moving supplies and moving companies are expensive. To save money on moving costs, comparison shop and get quotes from several moving services. Use Craigslist and other online marketplaces to get supplies. Free boxes are easy to come by at retail and grocery stores and they often make the best moving boxes.

Example budget

Below is an example of how you can organize your budget.

Before you set the budgeted amounts, track your spending for a month so you can get a better idea of what you actually spend. By doing this you can then set more reasonable expectations for yourself – and see where you're overspending.

Expenses	Budgeted	Actual
Rent	$	$
Utilities	$	$
Food (including dining out)	$	$
Transportation	$	$
Clothes & personal care	$	$
Recreation	$	$
Streaming services/ cable	$	$
Student loan payments	$	$
Savings	$	$
Other debts	$	$
Other	$	$

Saving money

While it may be tempting to spend money exploring a new city or buying creature comforts, new grads should keep in mind the importance of saving.

Shop for a savings account that pays its new customers to open accounts. Look for a high-yield savings account and **put away around five percent of your income each month**. Also start creating your emergency savings fund. Your first goal should be to save up $1,000. Then, work toward larger and larger amounts until you have enough to cover three to six months of expenses.

Money Market Account Accounts

A great way to plan for an upcoming milestone is to open a Money Market Account (MMA) or other investment option that can be cashed out in a few years, such as a Certificate of Deposit (CD). Grads who want to move on from communal living would do best to contribute to these types of accounts, since they often offer faster growth than traditional savings accounts.

Just make sure you understand these products before you invest, since they typically have special requirements and limitations that you don't have with a basic savings account.

Student Loans

Most grads have a grace period of six months from graduation to start paying back their federal student loans. During this time, loans that have accrued interest will continue to do so unless they are paid. If you can afford to pay this uncapitalized interest, you should. After this grace period ends, any unpaid, uncapitalized interest is added to the total loan amount, meaning your balances will be higher once the repayment period starts.

All grads should know their loan type(s) and amount(s) by the time of their graduation.

Studentaid.gov provides federal loan borrowers with a repayment estimator to calculate a monthly cost (depending on the repayment program), the total balance and interest that will be paid over the lifetime of the loan(s), and the potential forgiven loan balances depending on the actual loan balance.

Repayment Plans

If you’re having trouble making your monthly payments on your federal student loans, there are repayment plans that can make it more manageable. Here are some relief options to consider:

- **Income-Based Repayment**: Recent grads pay 15% of their discretionary annual income in 12 monthly payments for up to 25 years. (Grads with less than $20k in income generally pay $0 a month while accruing interest.)
- **Pay As You Earn (PAYE)**: Recent grads pay 10% of their income in 12 monthly payments for up to 20 years. (This plan is only available to borrowers that did not have federal loans before Oct. 1, 2007, and had a new loan disbursed after Oct. 1, 2010.)
- **Revised Pay As You Earn (REPAYE)**: Recent grads pay 10% of their income in 12 monthly payments.

TIP: After 20 or 25 years, any remaining balance on a Pay As You Earn plan (20 years) or an Income Based Repayment Plan (25 years) are forgiven.

Deferment

Borrowers who go back to school, participate in the Peace Corps, or are unable to find employment can defer their loan payments.

- When unemployed, borrowers can defer their student loan payments for up to three years. If a borrower has subsidized loans, the government will pay the interest during this period.
- When unemployed, borrowers with unsubsidized loans must pay interest during deferral.

Forbearance

Borrowers who don’t qualify for deferment but still have trouble finding work or making monthly payments can apply for forbearance.

This arrangement generally doesn't last longer than 12 months, and borrowers are still responsible for any interest that accrues.

Loan forgiveness

Depending on your career and employment after you graduate, there are several programs that may forgive the remaining balances on your loans. You typically must meet certain requirements before you can qualify. These programs are common for public servants, such as teachers. Researching these programs can be highly beneficial to get out of student loan debt faster. More information can be found at studentaid.gov.

Private loans

Private lenders tend to offer fewer support programs compared to the federal loan program.

Grads struggling to pay back their private student loans should contact their lender and ask about forbearance programs or payment plans. If you have multiple private student loans, you may be able to consolidate them into a single loan payment at a lower interest rate.

Warning! While you can also consolidate your federal loans with the private ones, be aware that doing so will make you ineligible for any federal relief options.

Insurance

Health insurance

Health insurance benefits are part of a true "dream job." But if it's an option and will save you money, you should stay on your parents' health insurance plan.

When the opportunity for healthcare through an employer does arise, examine your options for coverage carefully. Consider your healthcare needs when choosing a plan and contact someone in your benefits department if you have any questions.

If you're unable to find work with benefits, consider applying for Medicaid, if you qualify.

Many grads may find themselves working part-time and lacking sufficient income, and a free or low-cost insurance plan from the government is better than no coverage at all. You can apply for Medicaid at any time, and you should apply even if you don't think you'll qualify.

If you don't qualify for Medicaid, shop for health insurance through the Health Insurance Marketplace® during the Open Enrollment Period. College grads who move to new cities or drop off their parents' health insurance plans can enroll for individual insurance plans during a Special Enrollment Period. What you pay for your insurance depends on your expected annual household income. You can apply through the Marketplace online, by phone, through an agent, or with a paper application. You can also visit HealthCare.gov or call the Marketplace Call Center at **1-800-318-2596** for information about healthcare coverage specific to your state.

Medical debt

Accidents do happen, and without adequate medical coverage, medical debt can easily overwhelm anyone. If you find yourself in medical debt, you should first call the hospital or providers to review what you're being billed for. Many times, bills are miscalculated and people are charged for services and medications they did not receive. Call the hospital or doctor's office to go over every line item and be sure you are being charged correctly. Once you confirm that all the changes are correct, then set up a repayment plan.

If a medical debt in collections can't be repaid with the original provider, you can work with a collector to pay the debt in full and may be able to have them re-age the account to remove negative items from a credit report.

If medical debts in collections have severely damaged your credit score, consider settling by agreeing to repay only a portion of the debt you owe. This will leave a negative mark on your credit report for 7 years, but it discharges the remaining debt balance.

Medical debt can also be rolled in with high-interest credit card debt in a debt management program. If you're in a situation where you have both types of debt, you should contact a credit counseling agency.

Renter's Insurance

The majority of college grads rent an apartment or a house but forget to obtain renter's insurance. The landlord may have insurance but it is usually for the structure and does not protect any personal belongings. Thich means the new TV, stereo system, computers and furniture – not to mention all the other objects – will not be replaced if damaged.

In some states, if a number of people rent an apartment together, they can't get a policy together, and some items such as high-end electronic equipment and computers might be difficult to insure. Also, college grads should be aware that most renter's insurance policies cover what an item is worth today, not replacement cost. The reality is, what's a 3- or 4-year-old computer worth if it is destroyed? Grads should do the research and see if renter's insurance is right for them.

Car Insurance

The days of mom and dad paying for car insurance are just a memory for most college grads. Even if students are paying for their own car insurance while they're in college, they may be benefiting from the family's multicar and multi-policy discounts. Since many graduates relocate, car insurance rates may come as a major shock. And keep in mind that expensive cars are expensive to insure. Where you live and the amount of student loan debt you carry can also affect premiums amounts.

The internet is a great place to find car insurance. When shopping for car insurance, check out your state's insurance department and the National Association of Insurance Commissioners for complaints. Once you find a decent company that offers low rates, call for a quote.

Although saving money should be a priority, purchasing a sizeable amount of liability insurance is a good idea. Also, make sure your per-person coverage limit is the same as the per-incident limit.

Don't forget to ask insurance companies about bundling auto, renter's or other types of insurance to get discounts.

Taxes

Most college students have filled out a simple tax form before but now that they have joined the “real world,” tax forms become much more complicated. College grads who file their own tax returns may be able to deduct the interest they pay on their student loans. Up to $2,500 a year can be deducted, depending on your income.

A few of the activities that can be identified as tax-savings for new graduates include job-hunting expenses such as resumé services, mailing costs, travel to interviews (if you drive, keep track of the mileage), professional association dues, subscriptions to journals, moving expenses related to starting a new job, charitable contributions, and setting up a home office.

If you relocate for work, you can also deduct moving expenses.

Building and Using Credit

Credit reports are like a report card for financial activity and they are often reviewed when you rent an apartment, buy a car, apply for a loan/credit card, and apply for a job. Career opportunities can be lost if your credit score is low. Employers check credit reports to see if a person is, or was, financially responsible. Many employers will not hire a recent grad who displays the inability to show restraint and accountability with credit cards and finances.

Many people may want to buy a house, condo or car, and these big-ticket items require good credit to get good interest rates (APR), but good credit can take time to build. It’s also easy to damage good credit with poor financial choices.

Credit card companies want your business and really don’t care if you charge more than you should. Credit card applications with appealing offers are sent to people daily. Many people know very little about interest rates, late fees, missed payments and the damaging string of events that can keep you in debt when only the minimum amount due is paid each month. It's very easy to get into trouble and to negatively affect credit scores.

Building credit from the ground up can seem daunting, but there are tried and true ways to get good credit. Student loans are listed on your credit report. They contribute to the report's credit mix, and when paid on time, they leave positive marks on credit reports for payment history.

Responsible use of a credit card can further help you build credit. An onslaught of credit card applications with appealing offers to sign up will confront you every day, but the truth is most people only need one to two credit cards from a major credit card company.

Tips for credit success:

- Shop around for a credit card that has the best interest rates and low fees.
- Don't apply for too many credit cards at once. This negatively impacts credit reports.
- Be a good borrower. Pay credit card bills on time and in full each month.
- Don't max out credit cards. It will damage your credit score.
- Don't apply for store or specialty cards unless you can't get a major credit card. They come with stricter terms and high interest rates but can be used to establish credit if needed.
- Bad credit can hurt your job opportunities. Employers often check your credit during the hiring process.
- Order a credit report at least once a year and check it for inaccuracies.

Dealing with credit card debt:

Credit card debt can quickly crush your hopes of establishing a secure future.

You know credit card debt has become a problem when you can't afford your monthly payments or are getting behind on bills.

Recent grads who find themselves in credit card debt have several options for relief:

- A credit card balance transfer can help borrowers pay off debt interest-free for a certain period of time.
- High-interest credit card debt over $5,000 should often be consolidated. This lowers interest rates and monthly payments using a personal loan to pay off credit card balances.
- A credit counseling agency can help borrowers overwhelmed with credit card debt by enrolling them in a debt management program.

For grads who find themselves unable to pay off credit card debt using the options above, they may need to consider debt settlement or bankruptcy.

When a borrower settles credit card debt for less than they owe, their credit score takes a hit. When they declare bankruptcy it remains on their credit report for ten years (Chapter 7) or seven years (Chapter 13).

The Future Is Now

Retirement

Recent college grads should take advantage of what their employer offers them toward their retirement.

If an employer offers retirement plans (like a 401(k)) and matches employee contributions, recent grads should take this free money!

If possible, they should contribute at least the amount matched. A common match structure is that an employer will contribute 50 cents for every dollar that an employee contributes, up to six percent of their annual salary.

Those who can't afford to contribute the maximum match amount should still contribute, even if it is only one or two percent. Some employers may enroll you automatically in their 401(k) program, but with others, you may need to contact your HR department to enroll.

Of course, the last thing on the minds of recent grads is retirement, but this life event – like many others – comes fast!

Newly employed grads should utilize the human resource departments of their new employer and contact the helpline of the 401(k) plans their employer uses. You can set up a free consultation with your company's plan advisor to learn about your plan and get recommendations on how to invest the money you save.

By taking advantage of this free assistance, you will be on your way to a more financially secure future.

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