



BUDGETING

I have a pay check! I can buy whatever I want, right?!

Before you start spending, create a budget and establish an emergency savings account of at least \$1000. Then create a line in your budget for the “toys” you’ve been dreaming of owning., and do not buy them on credit. Strongly consider cutting up your credit cards and throwing them away (That means Mom and Dad’s cards too!) If you have at least \$1000 in an emergency savings account, you won’t need the credit card for emergencies.

I can’t afford to save \$1000!

Get a second job. Scoop ice cream, wait tables, work retail, etc. Sell stuff that you don’t need. If you establish your emergency savings account and then start saving for retirement, you will be well on your way to success.

For example, one guy puts \$2000 into a savings program with a 12% interest rate from the age of 19 to 26. If he never contributes another cent and never touches it, he will have \$2,288,996 at 65. If another guy starts saving at 27, contributing \$2000 every year at the same interest rate and never stops until he is 65, he will only have \$1,532,166. So...start saving today!

What goes into a budget anyway?

The first task to setting a budget is to determine where you spend money and the second is telling every single dollar where to go so you aren’t left at the end of the month wondering where it went.

To the right is an example of a budget.

DO I BUY A HOUSE OR RENT?

According to Dave Ramsey (www.daveramsey.com) you should buy a home. But you should only do so if the monthly payments will be no more than a fourth of your take home pay, if you plan to own it for at least five years and if you can either put down 100% cash or 20% down and get a 15-year fixed rate mortgage.

But renting is just throwing money down the drain!

While you don’t want to infinitely pay someone else when you could be gaining equity in a home, you do want to avoid some of the “fancy financing” options for new home owners. They often include hidden costs and the risk of the interest rate ballooning at any time, resulting in you not being able to afford the monthly payment.

Also, if you throw all of your savings into the down payment, you aren’t prepared for something to go wrong. If you are the homeowner, the Landlord doesn’t come to fix

SAMPLE BUDGET

| | |
|--------------------|--|
| Donations | |
| Savings | |
| Student Loan(s) | |
| Mortgage / Rent* | |
| Repairs | |
| Electricity | |
| Water/Trash | |
| Phones | |
| Cable | |
| Internet | |
| Newspaper | |
| Car Payment* | |
| Repairs | |
| Car/Home Insurance | |
| Life Insurance | |
| Childcare | |
| Gym | |
| Gas* | |
| Groceries | |
| Clothing* | |
| Dry Cleaning | |
| Cosmetics | |
| Entertainment | |
| Hair | |
| Gifts (Xmas/Bday) | |
| Vacation | |
| Medical | |
| Miscellaneous | |
| Total | |
| Income | |
| Total | |

* You have to have food, housing, clothing and transportation...pay for these things first and then take care of the others. Really...does it make sense to pay off your credit card if you can’t eat dinner?

the busted pipes. You fix it or pay to have it fixed.

So, if you aren't prepared or don't know how long you will be living somewhere, etc. rent a cheap, yet safe, apartment and save like crazy for a down payment.

MY FRIENDS DON'T LIVE NEXT DOOR ANYMORE SO HOW DO I BUILD A SOCIAL NETWORK?

- Join professional organizations in your field.
- Find out if there is an alumni group for your alma mater in the area.
- See if the City or local Chamber of Commerce has a young leaders program.
- Join the Chamber of Commerce, service clubs and/or other organizations.
- Volunteer at a local food bank, Boys & Girls Club, Habitat for Humanity, etc.
- Visit and/or join a religious group.
- Join a gym or a club sport team.
- Take classes in an area of interest such as cooking, gardening, dance, golf, tennis, etc.

Be careful about building your social life around your co-workers as you want to maintain a professional relationship with those you are with during the work day. That does not mean you can't see them after hours. Dinner after hours can be a great way to build rapport...partying into the wee hours of the night is another story.

I'M EXHAUSTED AFTER WORKING ALL DAY. HOW DO I STAY HEALTHY?

Find a time of day that you can commit to exercise. Gyms don't tend to be as busy between 4:30 and 6:00 a.m. If you go during that time, classes won't likely be as full and you will have your pick of equipment. Find a park with a walk/jog trail where you can walk for free. If all else fails, take the stairs instead of the elevator and park farther away in the parking lot.

Take your lunch to work. It's cheaper, and you can control how healthy it is. Nutritionists suggest eating six small meals a day. Eat breakfast and take two small snacks (almonds, low fat yogurt, cottage cheese, veggies, fruit, etc.) for morning and afternoon. Cut out the carbonated drinks and drink more water. If you choose to drink alcohol, you should drink no more than two glasses of wine, beer or mixed drinks a day.

YOU MEAN I NEED NEW CLOTHES?

Not everyone will need a new wardrobe, but many young professionals struggle with adjusting their wardrobe for the "world of work." Your clubbing clothes are not business or business casual. Companies and organizations

define business and business casual very differently but please note the following:

- Iron your clothes. Winkled shirts, pants, skirts, etc. imply that you don't care about details or your own appearance and others may think you will approach work the same way.
- Shine your shoes and get rid of or repair shoes with worn soles.
- Don't overdo jewelry. One set of earrings and a piece on each hand is sufficient. Don't wear noisy jewelry that may cause a distraction in the work place.
- **Women:** Camisoles, though fashionable, are not appropriate for the world of work. Do not expose your cleavage. If a V-neck flatters your body type, invest in tank tops to go under sweaters or buy higher cut V-necks.
- **Men:** Socks should be dark and match your pants.

HOW DO I DECORATE MY OFFICE?

This will vary depending on your work environment. Some work environments will require that you leave all personal items at home. Some are more open to personal pictures, décor and plants. Observe your supervisor's office and those of other respected employees, and that is probably a safe illustration of expectations for your space.

In general, keep your work space neat. Do not leave old food or candy wrappers lying around. Organize a filing or organization system...we all organize our space differently, but create some sort of system that works for you. If personal items are allowed, make sure that they are appropriate for your work environment. For example, do not post Spring Break pictures of you in your smallest bikini holding a fish bowl drink.... Leave potentially offensive pieces at home as well. While you may find a sticker humorous, another may find it hurtful or offensive.

HOW DO I BUY A CAR?

Save money. Research. Buy used. Do not lease. ALWAYS have the power to walk-away.

Never underestimate the power of cash! If you walk in with \$4000 to buy a used car, you will get MORE car for your money that if you finance a \$4000 car. Cash makes us emotional, and if that car dealership knows they are getting cash money, you have more bargaining power. While you are saving your money, research the kind of car you need...not want. You can buy your "dream car" later...not with your first paycheck...other stuff will come up that you need to pay for and you do not want all of your income tied up in a car payment.

Buy a used car as it will depreciate 20-40% upon driving it off the lot. Do not lease. Leasing is attractive because the payments are lower. However, if you wait, you can save the money you would have been paying on a leased car to enable you to buy a car with cash, and you own it!

Salesmen want to close the deal immediately, and if they sense that you want to buy that day, they immediately have the upper hand. Beware of their tactics to get you to stay on the lot as research shows the longer you stay on the lot, the more likely you will buy a car. Beat them at their game. Get their best offer...and be able to walk away and tell them you will get back with them tomorrow after you have done some comparison shopping.

Another tactic to help with salesmen is to be quiet. When they make an offer simply say, "Let me think about that," or "Hmmm...I don't know," and stop talking! Most of us are uncomfortable with silence, and it is likely the salesman will come back with a lower offer...perhaps even lower than one you would have suggested. If the price doesn't come down, ask for something in addition to "close the deal." For example, say, "If you can add free oil changes for a year, it's a deal."

HOW DO I SET-UP INVESTMENTS?

Again, do your research. There are lots of ways to invest your money and plan for retirement. Dave Ramsey recommends using the "KISS Rule of Investing" which stands for "Keep it Simple, Stupid." He also offers the following rules of investing:

- Never invest purely for tax savings
- Never invest using borrowed money
- Diversify (spread around) your investments to lower risk. This is an example of a Standard Diversification:
 - Growth and Income (Large companies) are calm and stable
 - Growth (Midsize companies) and medium risk
 - International (foreign investments) and medium risk
 - Aggressive Growth (Tech, web and healthcare companies...emerging markets) and higher risk

Here are different types of investments:

Money Markets: (These should not be used for short term) **Money Market Mutual Funds:** Low risk money market accounts that you can write checks on and are great for housing your emergency fund (the \$1000 you should always have on hand before you start paying off debt or saving for large ticket items). **ACD:** Certificate of deposit, typically at a bank.

Single Stocks: Stocks are your piece of ownership in a company. You make money if and when the company

increases in value and you are paid dividends. The higher the risk, the higher the return, typically around 7%.

Bonds: This is when a company owes you money, and the return is based on the fluctuation of price and the interest rate paid. Single bond purchases do not tend to do well.

Mutual Funds: This is when investors pool their money together to invest in a portfolio of investments, and your return comes as the value of the fund is increased. This is a great investment if you stick with it for 5 or more years.

Rental Real Estate: Before investing in real estate, have a lot of cash. It is the least liquid investment, meaning that you can't access money quickly if you need it suddenly.

Annuities: These are savings accounts with an insurance company. Fixed annuities are at a low interest rate of around 5% and are a bad long-term investment. Variable annuities are mutual funds sheltered by the annuity covering allowing the mutual fund to grow tax deferred (you pay taxes on it when you take it out). Do NOT use annuities inside retirement options but go for mutual funds.

Commodities and Futures: Dave Ramsey strongly suggests that you NOT use either of these options as they are very, very high risk and he states that you have a better chance at making money in Las Vegas.

HOW DO I SET-UP RETIREMENT PLANS?

Here are the different types of retirement plans (always do your research on any updates on laws):

IRA (Individual Retirement Account): An IRA is a tax treatment to an investment. It keeps it tax free and is not the actual investment. Everyone with earned income is eligible for an IRA and starting in 2008 will be able to contribute up to \$5000 each year.

Roth IRA: This is an after-tax IRA that grows tax free. This is a good option because it provides more choices, a higher bracket at retirement, allows you to invest more and is more flexible than the traditional IRA.

SEPP (Simplified Employee Pension Plan): This is how a self-employed person deducts 15% of their net profit.

401K, 403B and 457: Most companies have done away with these traditional pension plans. However, if your employer will match a 401K, fund the amount to their match limit. Above that match, fund Roth IRA's.

If a 30-year-old couple fully funds a Roth IRA (\$500 per month) at 12% interest. At 70 years old they will have \$5,882,386.26 Tax Free!

I'M TRYING TO SAVE MONEY, DO I REALLY NEED INSURANCE?

Yes! Insurance is a way to transfer risk, and until you have lots of cash, you should have insurance as some losses could bankrupt you. Here are the types of insurance you should have:

- **Homeowners/Rent:** Raise your deductible to \$1000 (Your emergency fund will cover you up to that.)
- **Auto:** Carry at least half a million in liability and consider dropping collision on older cars
- **Health:** Increase your deductible to \$1000 and if you are planning on being self-employed, use a MSA (Medical Savings Account)
- **Disability:** This is designed to replace income lost due to a short-term or permanent disability. Buy occupational disability insurance to pay you if you cannot perform the job that you were educated/trained to do. Buy coverage to the age of 65 or life and for 65% of your take home pay.
- **Long-Term Care:** This is for nursing home or in-home care. Sixty percent of people over the age of 65 will require long-term care at some point in their lives.
- **Life Insurance:** This is not to be used as an investment, but it is to replace lost income due to death. The two types are *Term* (insurance for a specific period, cheaper and has no savings plan built into it) and *Cash Value* (insurance for life, more expensive and pushed as a savings plan). You don't need permanent life insurance because you don't need to have it when you are debt free, the kids are supporting themselves, and you are basically "self-insured."

Avoid the following types of insurance

- Credit life and credit disability
- Credit card protection
- Cancer and hospital indemnity
- Accidental death insurance
- Any insurance with cash value, investment or refund
- Pre-paid burial policies
- Mortgage life insurance
- Any kind of duplicate coverage

HOW DO I FILL OUT MY TAX FORMS?

1. You can download a W-4 at the IRS website, www.irs.gov/formspubs/. You will need to provide your name, address, and Social Security Number.
2. Check the box for married or single, depending on your marital status.

3. Calculate how many withholding allowances to claim. For most people, this is the same as the number of personal exemptions they claim on their tax return (see Line 6d on your 1040A or 1040).
4. If you have more than one job, if your spouse works, or if you itemize your deductions, use the worksheet on Form W-4 page 2. Use this worksheet to calculate the number of allowances to claim instead of relying on your personal exemptions.
5. You can also use the IRS Withholding Calculator located on the IRS website to calculate your withholding allowances more exactly.
6. If you have more than one job, make sure you claim zero allowances at your second job. Claiming "exempt" is NOT the same as claiming zero. By claiming zero, the highest amount of tax will withheld.
7. If you claim more than 9 allowances, your employer may be required to send your W-4 to the IRS for review. Don't be alarmed. People with incomes over \$100,000 and with substantial itemized deductions may need to claim over nine allowances.
8. You are exempt from income tax withholding only if your income for the year will be less than \$800. If you are exempt, skip lines 5 and 6, and write "EXEMPT" on line 7.
9. Print, sign, and date the form.
10. Give the W-4 to your employer. They will fill out lines 8, 9, and 10.

Resource: <http://taxes.about.com/od/preparingyourtaxes/ht/W4.htm>

WHO AM I? HOW CAN I GROW? I'M MORE THAN JUST A JOB.

You will grow by continuing to meet new people, have more experiences and challenge yourself intellectually, spiritually and emotionally. Now that you are out of school, your social circle will change, and you may not be "forced" to expand your mind much beyond day-to-day work. Be proactive in making friends, giving back to your community and expanding your mind.

Volunteer your time to serve others. Take classes on areas of interest or pursue another degree to exercise your mind. Challenge yourself to experience other cultures so you realize the world is bigger than you realized before.