personal finance
Miami Herald

Recent grads should make a budget, start saving

Even those with student loans and credit card debt can create a path to savings. It will require some discipline and trade-offs.

REBECCA SAVRANSKY - SPECIAL TO THE MIAMI HERALD
04/21/2015 7:46 PM | Updted: 04/21/2015 9:16 PM

http://www.miamiherald.com/news/business/personal-finance/article19182474.html

Wesley Ulloa could be the millennial face of savvy money management.

At 29, she shares the Coral Gables home she owns with a roommate, eats at home more than in restaurants and puts 50 percent of her annual earnings aside to pay income taxes and invest in rental real estate.

“I’m definitely not the norm,” she admits. “I live very frugally on an everyday basis. I have parties at my house instead of going out. I use lots of coupons. I try to make money go as far as I can.”

Ulloa’s thrifty habits were born from a family financial crunch, when her father lost his business and her mother’s salary was the family’s only income. While the family finances have recovered, Ulloa’s penny-pinching habits continue to pay off, putting her well ahead of her generation. According to a November 2014 study by Moody’s Analytics, adults under age 35 have a savings rate of negative 2 percent — meaning they are spending more than they make. (In contrast, Americans age 35 to 44 have an annual savings rate of about 3 percent, with 6 percent for ages 45 to 54 and 13 percent for those 55-plus.)

The recession, student debt — now at an average of $30,000 — and low financial literacy, according to studies, say that millennials are more likely to miss paying bills and have lower credit ratings than other age groups.

But millennials can position themselves to limit debt and set aside money for investing, say experts. The key is starting good habits when they’re young, said Philip Herzberg, director of programs and symposium at Lubitz Financial and president of the Financial Planning Association of Florida.

What defines “good habits” varies from person to person. Some people make a strict budget. Others, like Ulloa, pay off bills monthly, stash savings and then use what’s left as “play” money. As in dieting, what’s most important is finding a plan each individual can stick with, say experts.

Here are their tips:

▪ **Make a plan — and stick with it.** “Start with the end in mind,” said Jonathan Cameron, a certified financial planner with Miami’s CameronDowning. “What is your goal?”

That can include financial independence at age 50. Or it could include something more tangible and immediate: a house, a new car, a trip. Some experts advise posting photos related to your goal in a place where you see them regularly, to remind you of why you’re saving. Don’t allow yourself to get sidetracked.

“Don’t revisit the plan. Don’t even think of trying to change it,” Cameron said. “Just put it in a box at the top of the closet. Stick with a plan and just be disciplined about it.”

Caroline Lamarre, 33, a Miami construction financial risk manager, has maxed out her 401(k) to take advantage of her employers’ match program and has been building savings and investment accounts since graduation, putting away 10 percent each year. The key: direct paycheck withdrawals. “If you have to move it yourself,” she said, “that’s harder to do.”

“It’s hard to make your daily expenses and also save at the same time,” she said. “So you kind of have to budget and really look at things going forward and from a future perspective. … Our generation is foolish to think we can depend on Social Security, pensions or other forms of retirement income. We have to become financially literate and savvy to save for our own futures.”

▪ **Be realistic about your budget:** Make a list of all regular expenditures: student loans, housing, utilities, cellphone, cable service, gas, car payment, car and home insurance, savings, Friday night cocktails with the work gang, savings.

That can be especially difficult in relatively expensive city like Miami, said Lamarre. Don't fall into the trap of renting an apartment that is more than you can afford just because your friends are doing so, she advised.

As for Miami's notorious flashy car syndrome, ask yourself whether you need a showpiece or reliable transportation. When it comes to a monthly lease or car payment, don't forget to add in taxes, insurance, maintenance and repairs. The more expensive the car, the more expensive those add-ons can be.

▪ **Start saving early.** The multiplier effect of compound interest means that starting savings early can be as important as how much you save. Putting aside $15 to $20 a month will build up over time, Herzberg said.

As a general rule, experts advise having six months worth of monthly expenses in an emergency or "safety net" fund. In the case of a young person, that fund can help cushion a job loss, Herzberg said.

▪ **Factor in fun.** Being financially responsible doesn't mean you can't have fun. You just have to be smart about it.

Look for freebies like New World Symphony Wallcasts. Scan Groupon, Dealsaver and Local Dines for discounts.

Set aside money for a vacation or splurges.

"I wouldn't recommend anyone not take a vacation until their debts are paid because that would just be cruel and unusual," Cameron said. "We have to take time off for ourselves from time to time. … We want to be able to live life and live it well."

▪ **Be smart about debt.** Credit cards are convenient — and seriously expensive, usually carrying a higher interest rate than a mortgage or student loan. The best practice is to pay off credit cards every month. If that's not immediately possible, experts advise setting a time frame for getting them paid off, and resist the urge to pile on new charges.

If you’ve got student loans, you do need to pay them back. If you don’t, your wages could be garnished, warns Herzberg. But if your student loans exceed 10 percent of your take-home pay, you may qualify for a program that allows you to pay that loan back slowly, in smaller increments, so it’s worth a conversation with the loan agency.

After she graduated from college, Lamarre said she was able to save money and pay off student loans at the same time. She paid a set amount each month, separating the payments into weeks so they didn’t seem so daunting. When she was close to paying off her loans, she increased the amount she paid each month.

Ulloa managed her college expenses through a combination of scholarships, loans and by living at home. She paid off the last of her student loans last year.

As Ulloa proves, even those with student loans may be able to handle a mortgage, provided they plan to stay in the same city for several years.

A good test: Start saving regularly for a mortgage down payment, which can be as much as 20 percent of the purchase price, or as little as 3.5 percent if both you and the property qualify for an FHA loan. Add in the amount you’ll need to pay in closing costs, mortgage insurance, homeowners insurance and hurricane insurance. If you’re able to put away enough each month to make your full PITI (principal, interest, taxes and insurance) payment, you’re in good shape.

- **Diversify your investments:** Once you do have a nest egg, nearly all financial advisors suggest spreading your money between stocks, bonds and real estate funds. Going for a variety will reduce risk in your portfolio.

Most beginning investors start with mutual funds. Most major personal finance websites and magazines produce an annual guide to the best-performing funds.

Many companies also offer bond funds and ETFs, or exchange traded funds. If your company has a 401(k) plan, a variety of such funds are usually offered. If you don’t have a financial advisor — and most young investors don’t — take the time to research investment advice through websites such as financialsamurai.com, cnn.money.com and401khelpcenter.com.