Budgeting After College

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University of Richmond Alumni & Career Services

"You will either tell your money what to do, or the lack of it will always manage you."
– Dave Ramsey

First, make a plan. Developing a good plan includes setting realistic financial goals and determining the steps required.

- It's where you set your priorities for life
- A good plan will allow you to spend more on yourself as well as give to others
- Following the plan ensures money will be available to achieve your goals
- The earlier you begin the more you can achieve, but it is never too late to develop and follow a plan

Develop a budget. The plan tells you the destination, but the budget is the map.

The 10/20/70 model:

- Give 10%
- Save 20%
- Spend 70%

Since you can't predict the future, save for the unexpected first!

1. $1,000 emergency cash
2. 6 months living expenses

Save for the future. Make your money work for you.

- The unexpected – emergencies, temporary loss of income
- Short-term (<5 years) – vacations, new car, computer, tuition, etc.
- Medium-term (5-10 years) – wedding, down payment for a house
- Long-term (>10 years) – retirement, children's college

If you save $3,000 per year for 10 years, beginning at age 20, and earn a 6% annual rate of return you will have about $300,000 by age 65.

If you wait until age 30, you would have to save $3,000 for nearly 34 years (i.e., almost every year) to have $300,000 by age 65.

The concept of compounding interest means that the earlier you start the more you earn and the less you have to save.

Spend wisely. Be frugal, not foolish.

- Don't pay retail for anything
- Avoid impulse purchases; instead, hunt for bargains
- The price for large ticket items is often negotiable, so give it a try
- Pay attention to the small purchases – they add up quickly (e.g., coffee)
- Learn how to cook basic meals to avoid eating out excessively

Minimize debt. Debt problems are really spending problems in disguise.

- Think of debt as spending your future money now
- When financing a large purchase, borrow no more than 80% of its value (i.e., at least 20% should come from your savings)
- Pay off all credit cards in full and when due to avoid fees and excessive interest charges
- Keep a maximum of two credit cards
- Don't be lured by credit cards offering one-time discounts or zero-interest periods

Debt is like fat in your diet. Everyone needs a little, but too much will make you sick. Almost everyone will need to borrow money at some point, to pay for college or purchase a car or a home.

Did you know that you have been earning a grade for your creditworthiness? It is called a credit score, and lenders use it to approve loans and determine the interest rate charged. In general, lower scores result in higher interest rates.

Having no debt actually reduces your score, so you need to borrow some money. To improve your score, always pay bills and loans on time, borrow sparingly, and minimize credit cards.

The bottom line:

- Set realistic financial goals, create a budget and follow it
- Start saving early
- Think before you spend, and make sure purchases fit in your budget
- Control debt – don't let *it* control *you*

Check out www.mint.com, a free web-based personal financial management service.