

For grads, this big lesson comes after school

Experts emphasize the importance of having a budget after entering the working world.

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Until now, Rachel Rohrs hasn't had to worry too much about money. Rohrs, a recent graduate of Adelphi University, lived at home with her parents on Long Island, NY. Her tuition was covered by a scholarship and contributions from her parents. She paid her credit card bills with earnings from a part-time job. Soon, Rohrs will start a crash course in managing money. She is moving to Baltimore in August, after she marries Kyle Petrowski, a graduate student at Johns Hopkins University. There, she will look for a job in graphic design and furnish an apartment as she learns how to shoulder financial responsibility with her husband. They are determined to remain debt-free. "I hope I'm prepared to deal with the bills," said Rohrs, 22. "I'm a little concerned about how much everything will cost. I hope I'm not going to be shocked."

A weapon against debt

Managing money can come as a shock for many recent graduates. At first, their paychecks may seem like a lot of cash — until they have to pay the rent, utilities, groceries and student loans on top of the drinks, dinner and fun with friends.

"You really need to think in terms of balancing what's coming in and what's going out," said Virginia Morris, author of *Welcome to Your Financial Life: Guide to Personal Finance in Your 20s and 30s* (Light-bulb Press, \$15.95). "The key is not getting in over your head in the first six months." That's how long it may take to truly determine your cash flow. The simplest way to avoid racking up debt — or adding to the debt you racked up during college — is to create a budget, experts said. As tedious as it can be to do, it's the best way to get an overall idea of earnings and expenses, and, thus, what you can actually afford. Once you do that, you can start trimming unnecessary spending so you can pay down your credit card or student loan debts and, perhaps, have money left to save in the bank or a retirement account. This advice, of course, applies to not-so-recent graduates, as well.

Start by writing down everything earned in a month. When noting income, don't use the total salary. Make sure it's take-home pay, after taxes, health insurance premiums and any other deductions. Then keep track of all expenses, dividing them into two categories: fixed (rent, car payments, student loans) and discretionary (dining out, music, weekend entertainment). The size of some of these costs may prove surprising to those who are newly on their own. Many people just may not realize how much they spend on nonessential things, experts said.

Once you see how all the money comes and goes, it's time to set short-term and long-term goals. The short-term targets include categories like paying off debts, building savings and, if possible, stashing away money for a vacation. The long-term ambitions include saving for retirement, a down payment for a house, and your children's education.

Of course, achieving these goals can require some tough choices: You might have to live with roommates to keep your housing expenses lower than you anticipated. You might not be able to buy that big-screen

TV for your new pad. You might have to rent movies or make your own coffee every morning.

‘Comfort and reassurance’

Paul DiCocco, a 2006 St. John’s University graduate, carefully tracks all his earnings and spending. This allowed the Long Island resident, who lives at home, to sock away \$24,000 in the past 18 months, even though his income is limited to unemployment benefits of \$405 a week since November. He spends only \$80 a week on fun. He plans to use his savings to help get through a graduate program at St. John’s in forensic toxicology which he starts in the fall.

“It just feels good to have something there, even if it’s a little bit of money” said DiCocco, 23, a lifelong saver. “It gives a sense of comfort and reassurance.”

DiCocco is also carrying \$5,500 in student loans and \$2,300 in credit card debt; he doesn’t have to pay interest on the card until November and said he may use savings to pay it off before the interest comes due.

Many students graduate from college with heavy debt. The median student loan debt of bachelor’s degree recipients in 2004 was \$19,300, according to the College Board, the group that administers the SATs. The average senior carried \$2,864 in credit card bills in 2004, according to Nellie Mae, an education financing company. Those leaving school with these debt levels have to decide whether to put their extra funds — if they have any — toward paying down the bills or stashing away cash for the future. Most experts say it’s best to opt for paying the bills, and to pay the high- interest credit cards first, rather than putting money into a 401(k).

“It doesn’t make sense to have credit card debt at 18 percent, yet you are making contributions to a 401(k) that’s returning 8 to 10 percent,” said Ernest Fletcher Jr., who teaches personal finance at Baylor University.

Use your budget as a tool to avoid adding to your debt. It may be tempting to use plastic to furnish your new place or get a new wardrobe, but remember that if you wind up unable to pay the full balance, it could cost you hundreds or thousands of dollars more as you make monthly payments for years. Young people are turning to credit cards in the first few years for all the things they can’t pay for out of pocket,” said Tamara Draut, director of the economic opportunity program at Demos, a public policy research group in Manhattan. Still, even while you are handling your current finances, it’s important to start thinking about saving for retirement experts say. The easiest way is to sign up for your 401(k) at work if your employer offers one. Remember, some employers match part of the contribution, and the sooner the contributions start, the more time there is for the earnings to grow. If all this is too much of a stretch for your paycheck, be sure to do one thing: Put some money aside in a savings account for an emergency. This way you can handle unexpected expenses without turning to your credit card.

“A lot of people out there, if they get hit with a \$1,000 expense, they can’t handle it,” said Becky Stiehi, president of Incharge Education Foundation, a nonprofit group in Orlando that specializes in teaching personal finance. “So it’s important to get into a savings mode.”

Resources

If you want to keep track of your money, there are more good ways than ever. If anything, there’s too much information out there. Here are some helpful offerings about handling finances.

Books

- *The Complete Idiot’s Guide to Personal Finance in your 20s & 30s* (**Alpha**, \$18.95)
- *We/come to Your Financial Life: A Guide to Personal Finance in Your 20s and 30s* (Lightbulb Press, \$15.95)
- *Personal Finance for Dummies* (Wiley, \$21.99)

Software

Quicken (quicken.com, \$29.99 for Basic program) and Microsoft Money (www.microsoft.com/money, \$19.99 for Essentials program) are the leaders in the field. They both perform basic financial management with ease, downloading information from most of your accounts and presenting you with a mind-boggling array of reports.

Free on the Web

Three new free Web applications provide an easy way to review your spending habits. But they also harness the power of social networking and user-generated content to give you tailored financial advice. All the sites have room for improvement but hold a lot of promise. They all allow you to enter expenses manually or upload a file containing all the expenses. You label your expenses — “food:” “groceries:” “rent” — and then the sites add up the totals for you. All three sites also generate pie charts and graphs that group your spending by category and over time.

What makes them different:

www.Wesabe.com: The best of the bunch, it uses your spending history and favorite merchants to generate money-saving tips from other users — “Wesabeans” — who have similar habits. One drawback is that there aren’t enough tips *for* individual cities. Wesabe’s chief executive said he plans to expand local offerings. Wesabe also lets *you* join online support groups to help you *achieve* your financial goals.

www.Expensr.com: The site lets you compare your spending habits with those of people in your age group, city or profession. It has a smooth design that works well if you just want a simple way to analyze your finances.

www.Buxfer.com: This one is the best for tracking shared expenses such as rent, utilities or spending on a road trip. Buxfer users can also get their account balances and report transactions by text message.