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## Financial lessons go on for grads, young adults

Roughly 4 million people are expected to graduate from college this year, including this spring. For many, their financial education starts now.

It's one thing to pay attention to book knowledge about financial topics, assuming you received any such instruction in school. It's another ballgame when you have personal decisions to make with real money – and your future – on the line.

Lily Styrmoie recalls thinking, after graduating from Northern Arizona University in 2015, "I'm broke. I need to pay rent. How do I set up utility payments? I'm not making enough to save anyway. I'll worry about this later."

Styrmoie actually had a solid financial background and was studying to become a certified financial planner but hadn't applied much of this to her own situation.

"I knew how to calculate internal rate of return and when wash sale (tax) rules apply," she said in an email.

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"But when it came to my own finances, I was easily overwhelmed."

She wasn't alone. New graduates must grapple with a range of challenges – finding a job, learning about workplace benefits, understanding how to budget, using debt wisely and even gaining familiarity with tax rules.

Here are some key suggestions:

### Keep income, expenses in balance

Graduation means entering the real world more fully. From a financial standpoint, a key goal is to spend less than you earn and keep debt under control.

One component involves monitoring income, and especially expenses, with a budget. "Start by tracking your expenses for a month to learn your spending habits," said Mike Sullivan, a personal financial consultant at [Take Charge America](#), a nonprofit credit counseling agency. "Then, make neces-

sary adjustments to accommodate your habits and goals."

The objective here is to generate savings – an accumulation of income that exceeds your costs. Savings give you the freedom and flexibility to pursue other goals, such as buying a home with a down payment. Savings also can prepare you for surprises such as an unanticipated auto repair bill. Sullivan suggests saving an amount equal to three to six months of living expenses in an emergency fund.

Budgeting shouldn't be intimidating, said Styrmoie, who is a certified financial planner at TCI Wealth Advisors in Tucson, Arizona. "It should empower you."

### Learn about credit and scores

Another post-graduation lesson is to avoid relying too heavily on debt, such as taking on more credit cards than you need. One card is sufficient to build a credit history, Sullivan noted. It's a good idea to use the card regularly but pay off the balance in full each month to avoid fees and interest expenses, he added.

As you start charging purchases and making payments, you will build a credit history. In so doing, you will compile a credit score that will help lenders determine whether they can rely on you. A good score can help you secure a mortgage or other loans at attractive interest rates. It also can enhance your ability to obtain auto insurance, utilities and other services on reasonable terms.

Many factors go into credit scores. But if you pay your bills on time, and consistently over time, you will earn a high mark.

### Start thinking about retirement now

For most new graduates, retirement probably seems like a distant concern, especially if they have debts to deal with. But getting an early jump on retirement will pay off later, as your initial investments start to earn returns of their own that continue to multiply – the idea behind compounding.

"You might not be able to save a lot



now, but every little bit matters, especially with time on your side,” said Styrmoie, who considers Roth individual retirement accounts to be fantastic vehicles for long-term investing.

One strategy is to take advantage of workplace 401(k)-style retirement plans first, as your employer will likely offer matching funds.

Health and other workplace benefits also are important. When starting a new job, “really read through your options,” said Styrmoie.

Health Savings Accounts and Flexible Spending Accounts are two types of workplace benefits that help you save for medical costs. The former can be an especially good choice for building up tax-sheltered savings over time.

### **Don't neglect student loans**

Many people enter the workforce with tens of thousands of dollars in student debts, if not more. New grads enjoy a six-month grace period before they must start to repay federal student loans, Sullivan noted. But even with that temporary reprieve, “you still must select a repayment plan,” he said.

If you don't make a selection, you will be enrolled in the standard plan, which requires fixed payments over 10 years, though that might not be your best option, Sullivan noted. Contact a student loan counselor if you can't decide what to do. Federal student loan forgiveness might also be a possibility, Styrmoie said.

If you have student loans, take the time to understand your options.

### **Prepare to pay taxes**

Graduation typically means entering the full-time workforce, and that brings income taxes more fully into focus. For example, graduates might move from dependents on their parents' tax returns to filing their own return, noted Mark Luscombe, principal federal tax analyst at Wolters Kluwer Tax & Accounting. When starting a job, new workers might need to deal with withholding, estimated payments and other issues.

New graduates should coordinate with their parents, who likely have claimed them as dependents. Once people enter the work force, that usually must change, Luscombe said. Filing their own return might qualify new grads for a recovery rebate credit for 2021, even if their parents received a stimulus payment on their behalf previously, he added.

Another tip from Luscombe: New grads should check to see if they qualify for the earned income tax credit, which was temporarily enhanced for 2021. This could benefit those with a modest income who work only part of the year.

Financial novices should start a filing system to keep track of expense receipts and other tax documents. When it comes time to file a tax return next year, and in future years, you will be glad you did.