Prof. Victor's Financial Tips for College Students

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"Why Do I Need Financial Advice? I Have No Money."

- The average college student graduates nearly $30,000 in debt.
- Modern employers provide less long-term financial security than they used to.
  - Health benefits are more expensive (less subsidized) than they used to be.
  - Employers today may help you save for retirement and contribute some, but will not provide your retirement like they used to (ask your grandparents about their pensions).
- It may be harder for you to develop financial independence than it was for your parents:
  - You'll change jobs/careers more than they did.
  - It's harder/more expensive for you to buy a house than it was for them.
  - Education is much more expensive than it used to be.

Three Rules for Financial Security*

1. Don’t Spend More than you Earn
2. Develop a Savings Plan and Stick to it
3. Don’t Take on Debt you Can’t Pay Off

* Real security will likely require more than these three things, but:
  - NOT following these rules will likely lead to financial *in*security.
  - It’s easy to remember three things.
  - This is a good place to start.

Rule 1:
Don’t Spend More than you Earn

- This isn’t complicated.
- Develop a simple self-budget.
    - Know what you spend and earn by tracking it.
    - Stick to it.
    - Don’t overspend.
    - Budget for occasional personal indulgences.
    - Resist temptations.

Rule 2: Develop a Savings Plan and Stick to it

- "Prof. Victor, how can I possibly save money now when I'm taking on loans just to get by?"
- I know it's hard, but it's worth it. Here's why:
  - Committing to saving just a small amount each month (say $20) can really add up over time.
  - It helps you to develop a good habit for saving.
  - Youth is an asset when saving for long-term goals, like retirement. It may be hard to think about retirement before you have a job, but it's worth it. For example…

Open a Roth-IRA

- A Roth-Individual Retirement Account (Roth-IRA) is specifically designed for young savers.
  - Put money in now, and don't touch it until you're old enough to retire.
  - It has two magic benefits:
    1. Unlike most other retirement savings vehicles, you won't have to pay taxes on the money you earn over time when you withdraw your money at retirement.
    2. Compound interest is like magic. Watch…

The Magic of Compound Interest

- Suppose you save **$20 a month** starting at **age 20** and invest it in a Roth-IRA.
- The Roth is invested in diverse mutual funds that, over its lifetime, earns…let's say… **8%** annually.
- If you don't touch this money for **42 years**, when you're 62 it will be worth

$78,859

- You will have put in $10,080, and earned $68,779!
- Remember, these earnings are TAX FREE!

Rule 3: Don't Take on Debt you Can't Pay Off

- Good Debt vs. Bad Debt
  - Good Debt = borrowing money that will likely help you earn more money in the long run (e.g., college degree, buying property that is likely to appreciate).
  - Bad Debt = borrowing money to purchase things that have no value, or lessening value, over time (e.g., beer, clothes, music downloads, latest phone/tablet/computer).

Have Credit, Don't Use it

- Having a credit card is good—
  - It gives you purchasing power and helps to establish a credit history.
- Using a credit card as a personal loan is bad
  - **PAY OFF YOUR ENTIRE CREDIT CARD BALANCE EVERY MONTH.**
  - Credit cards are an expensive way to finance a lifestyle (see Rule #1).
  - You don't need more than one card. Find a cheap or free card, use it wisely, and pay it off.

To Sum Up…

Rule 1: Don’t Spend More than you Earn

Rule 2: Develop a Savings Plan and Stick to it

- Open a Roth-IRA at your local bank and squirrel away a little each month.

Rule 3: Don’t Take on Debt you Can’t Pay Off

- Pay your entire credit card balance each month.