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Financial Preparedness for Graduates

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Graduates entering the workforce this year represent the last of the Millennials (those born 1980-1995), a group some 80 million strong and a number that eclipses every other generation in America.[1] A lack of financial preparedness coupled with an increasingly strained safety net is one reason to encourage new grads to get started saving sooner than later. Another reason is because work itself is changing. According to one estimate, the so-called gig economy makes up 34% of the workforce and will increase to 43% by 2020.[2] As the 1099 continues to outpace the W-2, future generations will likely need to be even more proactive about carving out their own financial stability. Graduation offers a timely opportunity to communicate to your children and grandchildren the importance of building a solid financial foundation and good savings and investing habits that can last a lifetime. Below are some recommendations to discuss with your grads to help them find a stronger financial footing.

- **Create a Monthly Budget** - It is important to know what your take home pay is and the cost of essential expenses (i.e., rent, groceries, utilities, student loan payments, transportation). What's left is the amount for discretionary spending. A budgeting tool using a phone app may be helpful (Mint.com or Personal Capital).

- **Automatic Payments for Recurring Bills** - Having a paycheck directly deposited into a bank account and setting up automatic payments for regular monthly bills can help with avoiding late fees.

- **Credit Cards** - Using a card helps build credit, as long as the credit card can be paid off each month. Having a single card may be easier to manage. When choosing a credit card, CreditCards.com is a helpful website offering credit card comparisons.

- **Emergency Fund** - It's recommended to set aside enough cash to cover essential expenses (non-discretionary) for three to six months. A savings account keeps the money easily accessible.

- **Student Loan Payments** - Fees and penalties can add up. Consider repayment options and always paying at least the minimum due each month. Studentaid.gov is a good resource for more information on how to repay student loans as well as loan forgiveness programs for certain types of work.

- **Employer 401(k) Accounts** - An employer 401(k) plan should be taken advantage of, if possible. Consider contributing at least enough to get the full company match, if offered. It is recommended to save at least 15% of your pre-tax income each year.

- **Comprehensive Health Insurance** - Employer-sponsored health insurance should be taken advantage of, if possible. If that’s not available, consider a low-cost, high-deductible policy. Maintaining a health savings account (HSA) offers an additional benefit of setting aside pre-tax funds for health care expenses.

Here are four gift ideas to help new grads become future investors:

1) Match savings contributions. Opening a savings account can open the door to developing a savings habit. You can make the initial deposit and match a portion of the graduate's contributions. (Note: In 2019, you can give up to $15,000 per recipient without incurring the gift tax, $30,000 if you’re giving as a couple).

2) Fund (or match contributions to) an IRA. Opening a tax-advantaged Individual Retirement Account (IRA) could be the right move if the graduate is freelancing or ineligible for a 401(k) through their employer. Roth IRAs, funded with after-tax dollars, offer tax-deferred growth and tax-free withdrawals, and are a practical option for those with smaller incomes.

3) Give stocks with youth appeal. Gifting stocks that appeal to young graduates is an effective way to pique their interest in investing. Be sure to include the grads in making the decision.

4) Consider gifting appreciated stocks. Gifting appreciated stocks helps build the graduate's assets while reducing your capital gains. This could also be a good time to start a conversation about generational tax planning.

We are always open to have conversations with your children one-on-one or in a family meeting. We also offer low cost, globally diversified investment portfolios built on the same philosophy as the firm’s custom asset allocation models available to our institutional clients by using an automated investment engine for rebalancing called Wealth Accumulator.

If you don’t have a child/grandchild graduating but want to start early for saving for future education expenses, then consider a 529 plan. Anyone can contribute to a 529 plan. Earnings accumulate deferred from taxes and withdrawals are tax-free when used to pay for qualified higher education expenses, including K-12 tuition expenses, of your beneficiary.

We want to help the younger generation find a stronger financial footing. If you are interested in setting a family meeting, opening an account for your child/grandchild, gifting stock, or just to discuss any of these recommendations, please contact us.

1. Anthony Cilluffo and D'Vera Cohn, "10 Demographic Trends Shaping the U.S. and the World in 2017," Pew Research Center, April 27, 2017, http://www.pewresearch.org/fact-tank/2017/04/27/10-demographic-trends-shaping-the-u-s-and-the-world-in-2017.

2. Patrick Gillespie, "Intuit: Gig Economy Is 34% of US Workforce," CNN Money, May 24, 2017, http://money.cnn.com/2017/05/24/news/economy/gig-economy-intuit/index.html.

Source: Excerpts taken from Charles Schwab "Help families guide their new grads to financial success".