CHAPTER 4 PLANNING

Planning for Tomorrow

When you graduate from college, you most likely will feel a huge sense of relief. You also may feel pride in accomplishing your goals and a tremendous freedom and personal strength. Good for you! These common emotions stem from creating and then following through on a solid plan.

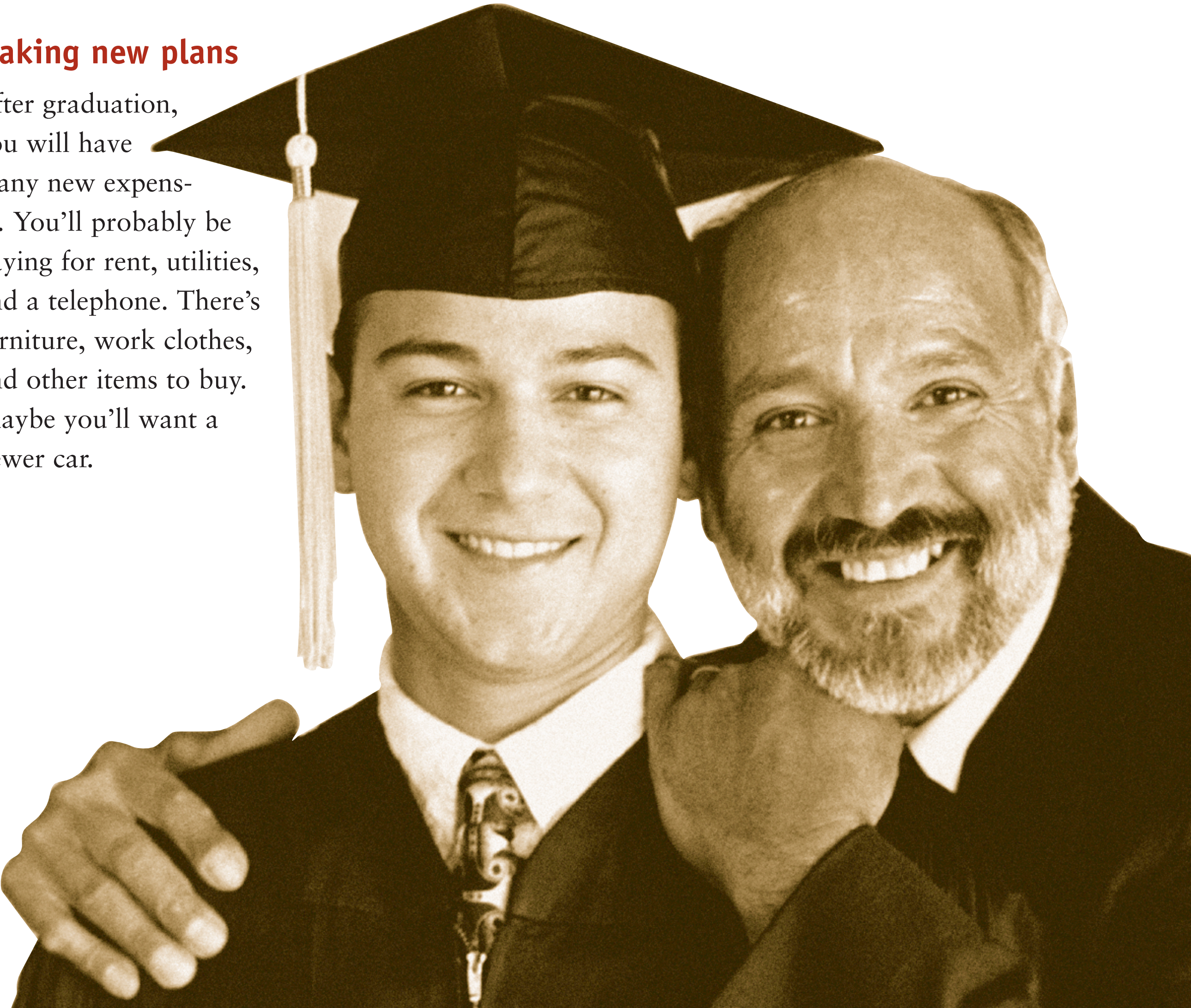
Your future also depends on the decisions you make early in your career. Your daily decisions about money are important to your financial health.

Making new plans

After graduation, you will have many new expenses. You'll probably be paying for rent, utilities, and a telephone. There's furniture, work clothes, and other items to buy. Maybe you'll want a newer car.

You also need to think about paying back any student loans you have. To keep your money on track, you will need to update your spending plan.

Getting a clear picture of your upcoming expenses will help you know how much you need to earn on a yearly basis. That knowledge will make you better equipped to negotiate a salary that works for you.



Overspending risks

It can be tempting to spend wildly when you get your first job. After all, you've been living on limited funds during your college years. However, it's always a better idea to live within your financial means, rather than using credit cards and other loans.

Decisions you make at this stage can have a critical impact on your future financial power. For example, if you rack up too much debt and get behind on your bills, you can ruin your credit record. (See page 50.)

It may not seem important now, but bad credit can lessen your chances of getting a good job, paying low insurance rates, and qualifying to purchase a car or home.

You'll want to pay special attention to your student loans. Defaulting (failing to repay) on student loans that are federally guaranteed can be a big mistake. People who default on these loans are disqualified from getting a Small Business Administration loan. These types of loans often are used to start a business. So, if you dream of being your own boss one day, be sure to pay off your student loans promptly.

Looking at more than salary

When job hunting, you will want to look at more than just salary. Sometimes newer companies pay well but scrimp on employee benefits. To see how much you really earn, it is important to include the value of benefits. These "fringe benefits" often are equal to 25 percent to 50 percent of a worker's pay before taxes.

You will want to look at the relative value of these benefits:

- health, dental, or vision insurance
- vacation, holidays, and other types of leave
- disability and life insurance
- retirement or profit sharing plans
- educational benefits

Before accepting a job offer, carefully review the company's employee benefits. Ask if there is paperwork outlining the benefits that you can take with you while you consider the job offer. This step will give you or your family time to review the benefits yourself or seek the advice of a knowledgeable friend or professional.

Filling in the gaps

Of course, no benefits package is going to provide you with a complete financial safety net. For example, employers typically don't pay for your vehicle insurance. So, some financial matters, such as different types of insurance, will be necessary for you to consider and pay for on your own. Evaluate your potential need for the following:

- **Health coverage.** If your employer doesn't offer a health-care plan, you will need to get health coverage on your own, and it will be costly. Still, a health-care plan is too important to go without. One good option may be to limit your job search to employers who do offer a comprehensive health-care plan.

- **Disability insurance.** Disability insurance replaces a portion of your wages if you become sick or hurt and are unable to work. You are more likely to be disabled for 90 days than you are to die before age 65. Some employers offer disability insurance. If your employer does, take advantage of this valuable benefit even if you have to pay for part of its cost. If disability insurance isn't offered, consider getting this insurance on your own.

- **Life insurance.** Many companies offer life insurance at no cost to their employees. This is a helpful benefit, but, over time, you may need more insurance than is offered by your employer. As your life changes, reexamine your life insurance needs.

- **Vehicle insurance.** Car insurance can help protect you against a major financial loss if your vehicle is involved in an accident. This type of insurance is so important that in most states it's illegal to drive without insurance. When looking for insurance, compare prices among companies—but make sure you have enough insurance.

- **Renter's or homeowner's insurance.** This type of insurance protects your property and possessions in cases of fire, theft, and other events. It also can protect you if someone gets hurt in your home. As your life changes and your possessions become more valuable, make sure you have sufficient insurance to replace them if they are lost, stolen, or destroyed.

Knowing your credit history

"Good credit" means that you pay your bills and loans on time. A good credit record gives you the financial clout to take out a larger loan later. For example, you may need a loan to buy a car or home or start a business.

Credit reporting agencies track how well you repay your loans. They also track how much debt you have and how often you apply for credit. Businesses and landlords can look at your credit report. Some employers also check the credit records of job applicants.

You may want to get a copy of your credit report once a year. If the report contains wrong information, you have the right to have it corrected. You can order credit reports from the agencies listed below. Each agency keeps its own records, so it's a good idea to get a report from all three.

Equifax	1-800-685-1111
Experian	1-888-397-3742
Trans Union	1-800-916-8800

Depending on the state in which you live, the credit report will be free or cost around $10.

Building good credit

You can build good credit by taking the following steps:

- paying basic expenses, such as rent and utilities, on time
- making loan payments on time
- paying loans before you spend money on other purchases
- only applying for the credit you need (if you apply too often, lenders may be concerned that you are using too much credit.)
- not bouncing checks
- using a credit card to establish good credit by paying off your balance every month or keeping the balance low

The National Foundation for Consumer Credit and Consumer Credit Counseling Services provide help to people with serious debt and credit problems. For more information, call 1-800-388-2227 or visit www.nfcc.org.

Planning for the long term

Another part of your life after college is to financially plan for the long term. Your life will grow and change, and it pays to be prepared. This means you need to both save and invest part of your income.

What's the difference? The money in savings usually is for short-term goals or to pay for an emergency. This is money you don't want to risk. However, with little risk comes little return. In other words, your savings will grow slowly. When you invest, you need to think long term—like five or 10 years (or even longer) from now. The good side of investing is that you may earn much more in interest. The bad side is that your money is at much greater risk.

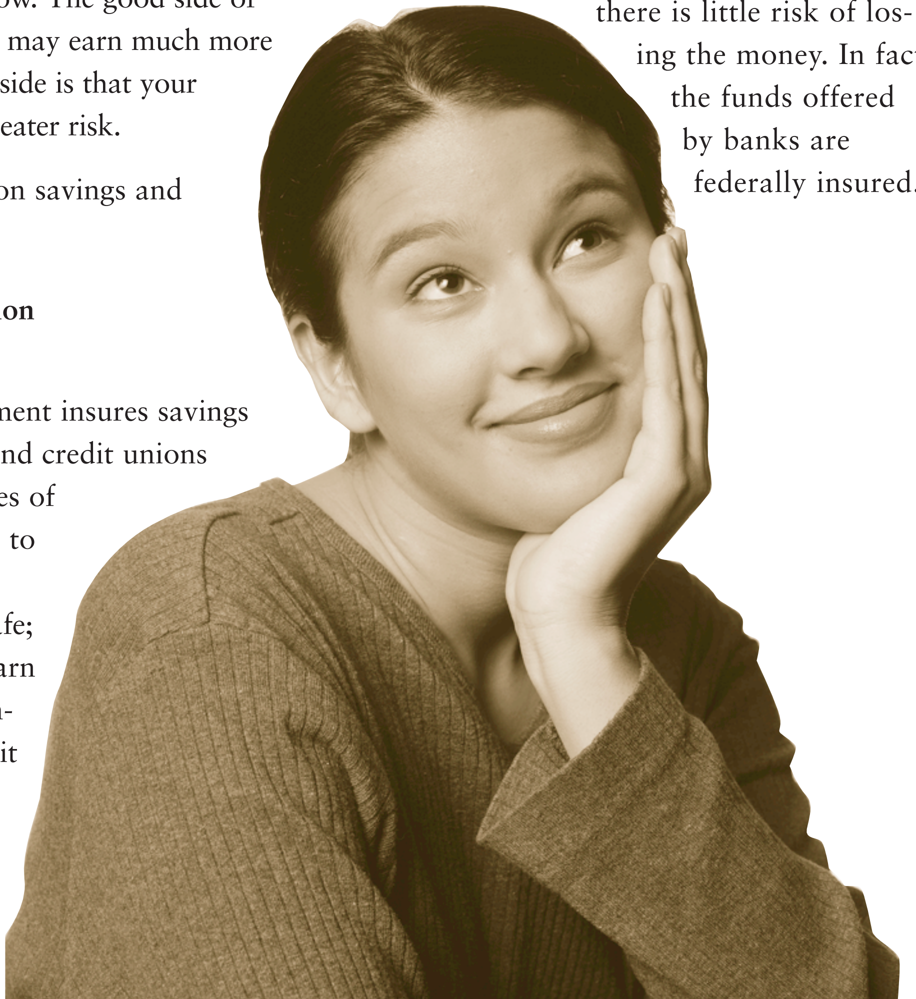
Let's look at common savings and investment vehicles.

Bank and credit union savings accounts

The federal government insures savings accounts at banks and credit unions (including certificates of deposit, or CDs) up to $100,000. These accounts are very safe; however, you will earn little interest. In general, a bank or credit union savings account is a good place to put your emergency fund. This type of account also works well for a short-term goal, such as a vacation or a down payment on a car. As the name implies, these accounts are savings (not investment) vehicles.

Money market funds

A money market fund is another way to save—not invest—-money. Most banks and investment firms offer money market funds. The advantages of a money market fund are that you can still get to your money rather quickly and there is little risk of losing the money. In fact, the funds offered by banks are federally insured.



The main drawback of a money market fund is that the interest you will earn is small—probably only a little bit more than a savings account.

Mutual funds

When you invest money in a mutual fund, you are pooling your money with many other investors. The manager of the fund then invests this pooled money in stocks, bonds, and other areas.

There are two main advantages to a mutual fund. First, the fund will be professionally managed. You won't have to pick your own stocks or bonds; someone with more knowledge will do that. Second, your money is divided—or diversified—across a large number of companies. This lowers some of the risk that comes with investments. The federal government does not insure mutual funds.

Individual stocks

When you own stock in a company, you become a part owner—albeit a small part—of that company. Because the value of the stock depends on how well both the company and the economy perform, stocks can be risky.

Over time (and the "time" part is important), many stocks do increase in value. You may be able to earn much more with stocks than with CDs or money market funds. Still it's always a good idea not to have more than 10 percent of your total investments in a single company's stock. That's why mutual funds that invest in stocks are a good choice for your long-term investments.

Bonds

When you buy a bond, you are loaning your money to a company or government. The company or government agrees to pay back your money plus interest at a set time—usually several years down the road. Because the interest rate usually is much higher than bank accounts, bonds are a form of investment.

The amount of interest to be paid depends on the credit rating of the bond. The higher the credit rating, the lower the rate of interest. The lower the credit rating, the higher the rate of interest that will be paid. Of course, the higher interest rates mean there is a greater chance that the company won't have the money to repay the loan when it comes due.

Savings vs. Investing: A Comparison

	Interest Rate	1-Year Total	10-Year Total	20-Year Total	30-Year Total
Savings Account	1.5%	$101.50	$116.05	$134.69	$156.31
Money Market	2.5%	$102.50	$128.01	$163.86	$209.76
CD	3.75%	$103.75	$144.50	$208.82	$301.75
Mutual Funds	8.0%	$108.00	$215.89	$466.10	$1,006.27
Stocks	11.0%	$111.00	$283.93	$806.23	$2,289.23

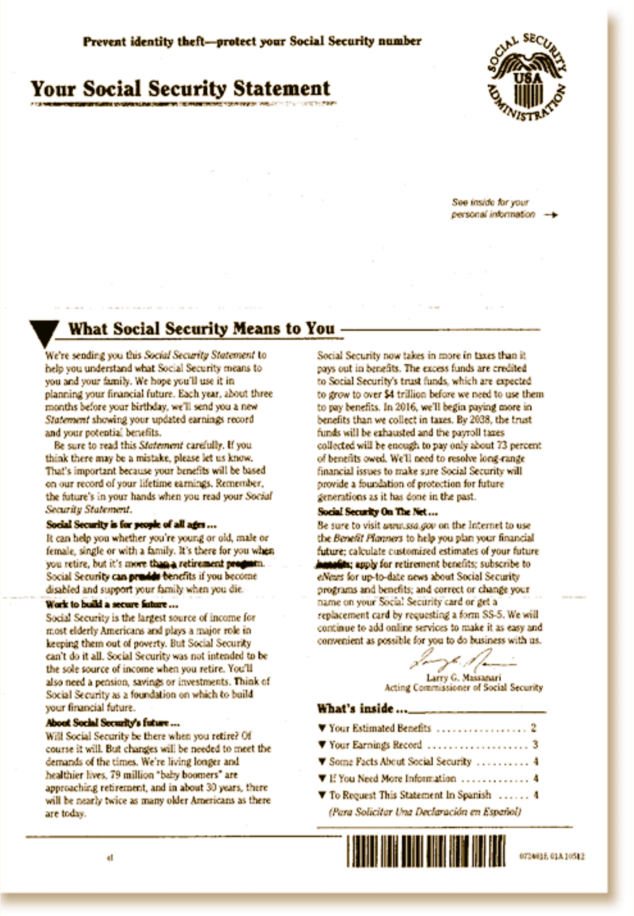
The chart above shows the power of compound interest on a single investment of $100, compounded annually.

Company-provided retirement plans

One favorite way for many employees to save for the long term is in an employer-provided retirement program. Often this means joining a 401(k) plan. If your job offers a retirement plan, take advantage of it. It's one of the best ways to save for retirement. Sometimes, employers match part of your contributions. That's like free money! You also get special tax breaks for saving in a retirement plan.

Check Social Security records

When you work, you earn credits that count toward qualifying for Social Security when you retire. That's why it's a good idea to check your Social Security work records and make sure you get credit for your full work history. Social Security computers sometimes have trouble with names. For example, names like de la Rosa may confuse the computers.



Prevent identity theft—protect your Social Security number

Your Social Security Statement

See inside for your personal information →

What Social Security Means to You

We're sending you this *Social Security Statement* to help you understand what Social Security means to you and your family. We hope you'll use it in planning your financial future. Each year, about three months before your birthday, we'll send you a new *Statement* showing your updated earnings record and your potential benefits.

Be sure to read this *Statement* carefully. If you think there may be a mistake, please let us know. That's important because your benefits will be based on our record of your lifetime earnings. Remember, the future's in your hands when you read your *Social Security Statement*.

Social Security is for people of all ages ...
It can help you whether you're young or old, male or female, single or with a family. It's there for you when you retire, but it's more than a retirement program. Social Security can provide benefits if you become disabled and support your family when you die.

Work to build a secure future ...
Social Security is the largest source of income for most elderly Americans and plays a major role in keeping them out of poverty. But Social Security can't do it all. Social Security was not intended to be the sole source of income when you retire. You'll also need a pension, savings or investments. Think of Social Security as a foundation on which to build your financial future.

About Social Security's future ...
Will Social Security be there when you retire? Of course it will. But changes will be needed to meet the demands of the times. We're living longer and healthier lives, 79 million "baby boomers" are approaching retirement, and in about 30 years, there will be nearly twice as many older Americans as there are today.

Social Security now takes in more in taxes than it pays out in benefits. The excess funds are credited to Social Security's trust funds, which are expected to grow to over $4 trillion before we need to use them to pay benefits. In 2016, we'll begin paying more in benefits than we collect in taxes. By 2038, the trust funds will be exhausted and the payroll taxes collected will be enough to pay only about 73 percent of benefits owed. We'll need to resolve long-range financial issues to make sure Social Security will provide a foundation of protection for future generations as it has done in the past.

Social Security On The Net ...
Be sure to visit *www.ssa.gov* on the Internet to use the *Benefit Planners* to help you plan your financial future; calculate customized estimates of your future benefits; apply for retirement benefits; subscribe to *eNews* for up-to-date news about Social Security programs and benefits; and correct or change your name on your Social Security card or get a replacement card by requesting a form SS-5. We will continue to add online services to make it as easy and convenient as possible for you to do business with us.

Larry G. Massanari
Acting Commissioner of Social Security

What's inside ...

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The Social Security Administration sends reports each year to the following people:

- those who have worked in Social Security-covered employment or self-employment
- those who are not yet receiving benefits
- those who have a current mailing address listed with the Social Security Administration

Statements go to workers older than age 25. You will see an updated statement about three months before your birthday each year. To learn more, visit www.ssa.gov/mystatement/.

Tony Robles, Rocket Propulsion Engineer

PROFILE

Tony Robles, 30, dreamed of being a space engineer in high school after seeing space shuttle launches on TV.

Starting at a junior college, Tony took courses in philosophy, geology, history, ecology, music and others. “I liked just about everything,” he says. “I really excelled in science and engineering classes. It reinforced my dream.”

Tony initially saved money on tuition because junior college is less expensive than bigger universities. Unfortunately, he learned a tough lesson when many of his course credits did not transfer to San Jose State University in California. “I lost about a year’s worth of classes,” he says. “That hit the pocketbook really hard.” Plus, living expenses in the Silicon Valley were outrageous.

Because he was under age 24, Tony didn’t qualify for grants or subsidized loans on his own. His parent’s income was still considered in the calculation. He was stuck, with one more year to go.

Tony took a year off from school to work full time and save money. Then, he was old enough to apply for financial aid on his own. Between the money he’d saved and invested, as well as financial aid, Tony only had to take out one student loan for $2,500.

“I took the path of trying to take no loans and get into the industry a little later,” Tony explains. “I had friends do the opposite. There are pros and cons either way.”

Conclusion

The value of a college education cannot be underestimated—neither can the value of money skills. This manual has presented many financial concepts and ideas. It's a lot to absorb. We hope that you will keep this manual with you during your college years and beyond, and refer to it from time to time.

The Hispanic Scholarship Fund and the National Endowment for Financial Education congratulate you on your commitment to pursue a college degree.

Resource Review

Financial aid

- Free Application for Federal Student Aid (www.fafsa.ed.gov), provides information in English and Spanish
- Hispanic Scholarship Fund (www.hsf.net)
- College Board (www.collegeboard.com)
- FastWEB (www.fastweb.com)
- Scholarship Resource Network Express (www.srnexpress.com)
- National Association of Student Financial Aid Administrators (www.finaid.org)
- Sallie Mae, scholarship service (www.salliemae.com/planning/scholarships.html)
- U.S. Department of Education, Office of Postsecondary Education (www.ed.gov/offices/OPE)

Financial planning

- National Endowment for Financial Education (www.nefe.org)

Credit reports

Equifax:	1-800-685-1111
Experian:	1-888-397-3742
Trans Union:	1-800-916-8800

Debt help

- National Foundation for Consumer Credit and Consumer Credit Counseling Service (CCCS) 1-800-388-2227 or www.nfcc.org