WELLS FARGO Advisors

Money matters for the college graduate

Graduating into the real world of money

It's never too early to start saving for your future. Even a very small amount saved each month can begin to add up (see table on page 2).

College graduation is a milestone to celebrate and feel good about. It's also a jumping-off point for a number of new life experiences as an adult. A permanent career is likely in your game plan, even if you're building up your resume initially through part-time work, an internship, or work outside of your desired field. You could find yourself making choices around marriage and starting a family too.

Whether you're living at home with parents or are already on your own, the bottom line is this: From this point forward, the choices you make around money could have longstanding — even lifelong — effects on your financial health down the road. It will serve you well to think about money with a view toward financial independence and the responsibilities that accompany it. In fact, it's already a good time to start planning for the future, especially in an age in which the former standard of financial security in retirement — the pension — has all but disappeared in favor of self-directed 401(k)s and personal retirement savings.

Those who start saving and investing early in life are likely to be better off — in many cases substantially better off — later in life than those who keep putting it off. At this important stage in your life, with your working years still ahead of you, you may thank yourself later if you begin now to create a budget to help you pay off debt and student loans, accumulate emergency savings, and begin investing for the future — as far away as retirement may seem today.

It's more than a paycheck

Starting a new job or increasing the number of hours you work at a current job may leave you with more spending cash than you've ever had before. A young adult can go from making little or no money during his or her college years to receiving a regular income every payday. As you look back later in your career, your first salary may not seem like a large amount; but right now, it's much more money than you're accustomed to having or managing. That increase in funds may tempt you to go on a spending binge because you may be eager to buy the things you've needed or wanted but, until now, couldn't afford.

Before you go on a shopping spree or buy a new car, carefully consider your financial future. How you choose to spend, save, and budget your money now can determine whether you struggle with money for the rest of your life or achieve financial freedom. Remember that accumulating "stuff" is different from building true wealth. Take the time to learn as much as you can about money and investing.

Spend money wisely

You could spend this year	Invest the same amount at 5% for the next 5 years	You could have
$800 on a sofa	**$1,000**	A decorated nursery
$300/mo for a larger apartment	**$20,400**	A down payment on first home
$400/mo for a sports car	**$27,300**	Ability to retire sooner than expected

This chart is hypothetical and for illustrative purposes only. The hypothetical 5% annual compounded rate of return utilized is for illustrative purposes and does not represent any particular investment or index. It is not intended to imply that an investment portfolio will be similar. The hypothetical 5% compounded annual rate of return is not guaranteed and is not an indication of the past or future performance of any investment. Investments fluctuate with changes in market and economic conditions due to numerous factors, some of which may be unpredictable. There can be no assurance any investment will increase in value.

As a young adult earning a regular salary, your options for building wealth are promising. You probably support only yourself for the time being, and this may be the only period in your life when that is the case. Invest and spend your money wisely while you can.

Budget now, opportunity to benefit later

Many college graduates enter the workforce burdened with considerable student-loan and credit-card debt. On top of that are all of the expenses of life. The best advice for living in the real world is to create a monthly budget and stick to it. Calculate how much you'd like to spend (your discretionary expenses), how much you need to spend (your essential expenses), and find a happy medium. Don't create a budget you won't follow. Be realistic. Consider creating a budgeting worksheet or use a budgeting app so that you can keep track and make adjustments. See example of budget items below. This is just a start — items will vary from person to person.

Personal budget

Income
Wages
Interest/dividends
Miscellaneous
Income totals

Expenses
Home
Mortgage/rent
Home/renters insurance
Electric and other utilities
Mobile phone
Cable/internet

If you have moved back home and are paying little or no rent, you may have extra money to pay off debt or put into savings. If you have already bought an expensive car, those high car payments may translate into cutbacks on clothing or entertainment.

Consider other ways to keep more of what you earn:

- Share expenses with a roommate, keep an older car longer, learn to cook at home, and take your lunch to work.
- Pay bills on time to avoid late charges.
- Begin making payments on your student loans now instead of waiting for the grace period to end. You may be able to save on interest if you can pay off the loan early.
- Avoid credit card debt. While credit cards can be a good financial tool if used properly, they can also get you into trouble financially if abused. If you can't pay off the credit card each month, you probably can't afford the things you are buying.
- Limit your ATM withdrawals, online purchases, and impulse buys.
- Maintain a strong credit record. Remember that the credit record you establish now will affect your credit history in the future — and the loans and interest rates you will pay, such as for a mortgage. If you don't know your credit score, find out. Request a copy of your credit report from all three major credit reporting agencies (Experian, TransUnion, and Equifax) annually. Free annual credit reports are available at annualcreditreport.com. Check reports for errors, omissions, and potential identity theft.

Build an emergency fund

It's wise to prepare for the unexpected. Start a savings account that will allow you easy access to funds that can be used when unexpected expenses arise instead of using a credit card. A general rule of thumb is to save enough to cover three to six months of living expenses; but this may vary depending on your own circumstances. Consider such things as your income, monthly bills, lifestyle, job stability, and family needs.

Although saving for this emergency fund can seem daunting, start by saving a small amount each week. Instruct your employer to deposit a portion of your paycheck directly into your account to start building your emergency fund right away. Start by saving $1 a day, then up the ante to $2 a day. Then push yourself to save $5 a day. Before you know it, you will be well on your way to a respectable emergency fund.

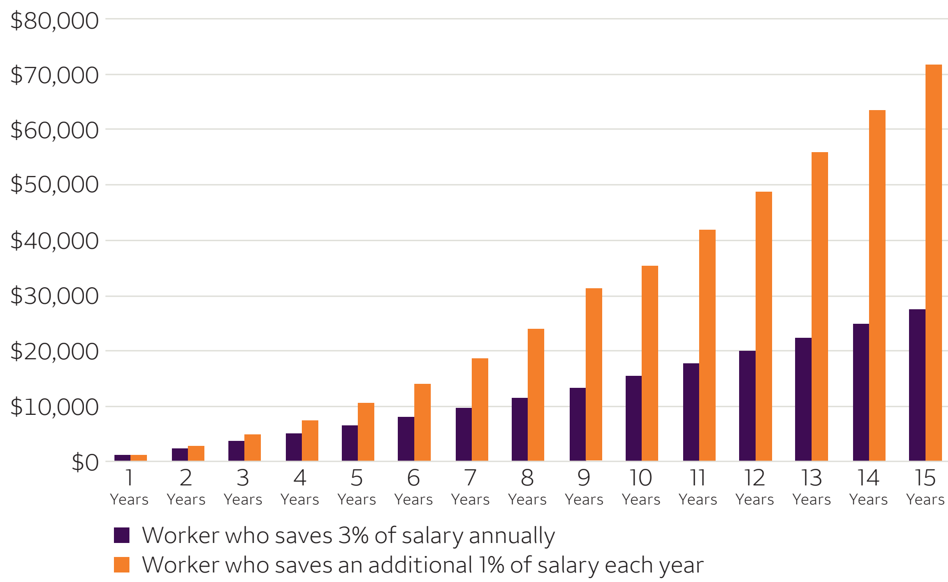
Why worry about retirement now?

It's never too early to start saving for your retirement. While it may be true that you have 40 or more years until retirement, don't wait to begin saving. Even a very small amount saved each month can add up over time. This can also prepare you for unexpected expenses from job layoffs or a hospital stay.

Check with your employer to see if you're eligible to participate in a retirement plan, such as a 401(k) plan. This type of savings plan allows you to set aside part of your paycheck each month before taxes. Sometimes your company will match a portion of your contributions. For example, the plan may state that if you put 3% of your salary into the retirement plan, your employer may add another 3% on your behalf. Some employers may even offer a Roth 401(k) option. You contribute after-tax dollars so there is no tax deduction. The funds then have the potential to grow tax-deferred and come out tax-free which is great for individuals with long time horizons. Each plan is different, so check with your company on eligibility rules such as age or years of service.

Consider a strategy to increase your contributions to your employer's retirement plan over the years. Some employers will offer an automatic adjustment feature by which your contribution will automatically increase by 1%, 2%, or an amount you select each year. Even if your employer's plan does not offer this automatic feature, increase your contribution yourself. When you receive a performance raise, for instance, automatically add a portion of it to your retirement plan contribution.

Gradually increasing retirement plan contributions may pay off



This chart is hypothetical and for illustrative purposes only. The hypothetical assumptions: Worker with a beginning $36,000 salary with 2% annual salary increases, and 5% compounded annual rate of return. The hypothetical 5% annual compounded rate of return utilized is for illustrative purposes and does not represent any particular investment or index. It is not intended to imply that an investment portfolio will be similar. The hypothetical 5% compounded annual rate of return is not guaranteed and is not an indication of the past or future performance of any investment. Investments fluctuate with changes in market and economic conditions due to numerous factors, some of which may be unpredictable. There can be no assurance any investment will increase in value.

The chart above is a hypothetical example that illustrates the difference in retirement plan balances between a worker who consistently contributes 3% of his or her wages for 15 years and a worker who begins contributing 3% to a retirement plan but adds 1% more each year until he or she reaches 10%. You can see that the worker who increased his or her retirement plan contribution up to 10% accumulated more than twice the amount in his or her retirement plan than the worker whose contribution remains at 3% of salary (even though the salary increases).

Read all of the information provided in your employer's benefits package to understand what your company offers. Also, consult your financial advisor for help navigating the choices available for saving for retirement and evaluating which investments to choose for your employer-sponsored retirement plan.

Traditional or Roth Individual Retirement Account (IRA)

Don't overlook your traditional or Roth IRA. A traditional IRA offers you the benefit of potentially growing investment earnings tax-deferred until you take a distribution, and your contributions might be tax-deductible. A Roth IRA not only offers the benefit of tax-deferred growth; it also offers tax-free distributions after age 59 ½, assuming the required five-year period has been met. With Roth IRA contributions, you do not create a current-year income-tax deduction to reduce your taxes, and there are income limits that may affect your ability to make Roth IRA contributions.

Assuming you're eligible to contribute to a Roth IRA, it may be a more appropriate choice at this point since you have a long time horizon for it to grow and potentially come out tax-free. In addition, if you have an emergency and need to tap the Roth IRA, you are able to take your contributions out tax and penalty free (this does not apply to earnings). Both the traditional and the Roth IRA may allow penalty-free distributions before age 59 ½ if the funds are used for certain medical expenses, qualified higher-education expenses, or the purchase of a first home. Discuss with your financial advisor the differences between the traditional and Roth IRAs and decide together which IRA is most appropriate for you.

An important step you can take now is to make your money work for you. Doing this may provide greater flexibility in the future, meaning that you may have more control over when you want to retire and the standard of living you enjoy during retirement. A small sacrifice today could have substantial payoffs in the future.

Review your insurance needs

Breaking away from your parents' financial support means that you are taking on new risks and expenses of your own. Two items many younger workers overlook are health-care costs and the risk of losing part or all of their income to costs related to injury or illness.

When it comes to your health-care needs, your employer's benefits plan may offer cost-effective access to medical, dental, and vision insurance coverage if you are not able to stay on your parents' plans. Good benefits can make a job with a lower starting salary appealing. If you're deciding among multiple job offers — or considering accepting a new position with a different employer — factor in the value of each employer's benefits programs along with the salary. You should research and review your company's benefits packages for specifics on the plans offered. Understanding your employer's benefits plans and what they can do for you is an important part of starting a new job.

Although a few companies will pay 100% of your medical coverage, most companies require you to contribute a certain amount or percentage toward your health benefits. Typically, your share of the premium is automatically deducted from your paycheck.

Take the first step today

Planning is critically important. Setting goals and creating a long-term financial plan can be essential to reaching your financial goals throughout your lifetime and retiring comfortably at the end of your prime working years. Your financial advisor can be an experienced resource as you take the necessary steps toward a bright, well-planned financial future.

If you're not covered by your parents' plan or your employer, it will be important to discuss your options with an insurance broker.

Your employer may also offer long-term disability insurance. Young adults may believe they are virtually invincible, and overlook the possibility of a disability affecting their future. However, a car accident or medical illness could cause a disability that affects your ability to work and earn income. It is important to consider how you might replace your income if you are unable to work. Long-term disability insurance provides a certain percentage of your pay while you are unable to work. If your employer offers this option, it's normally relatively inexpensive. There are also private companies that offer supplemental disability coverage in addition to what your employer may provide.

Make sure that you review all of the material regarding health and other benefits offered by your company. It is one more step that will contribute to your financial freedom in the long run.

Estate planning

Regardless of whether you are single or married, and regardless of how much "stuff" you own (or don't), you need and deserve an estate plan. "An estate plan? That's only for old people," you're probably thinking. But just as a serious auto accident, sports injury, or unexpected illness could leave you in need of disability insurance, it could also leave you unable to manage your finances and personal affairs for a period of months or years.

That's why you should consider executing some basic estate planning documents, such as:

- Durable power of attorney
- Health care power of attorney
- Living will
- Will

Your financial advisor, together with your local attorney, can help you build an estate plan that reflects your life, your values, and your unique personal goals.