The Colony Group

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Financial Tips & Resources For College Grads

Great financial tips and resources for college grads to establish financial independence and begin building wealth.

It's the season for celebrating graduations and a good time to consider how we all might help freshly-minted graduates as they take on their first full-time jobs.

Today's college graduates are starting out with higher tuition debt, challenging labor markets at graduation and, may choose to stay unmarried well into their 30s. These circumstances impact their ability to establish financial independence and build a solid foundation for wealth creation throughout their adult lives.

So how can grads overcome these obstacles when they go from being a student to starting their fledgling careers? If your child is graduating, there are several ways you can support their transition into financial independence. Beyond providing actual funds, we suggest you encourage them to take these steps:

Budgeting: What living expenses can your grad afford?

Grads will be transitioning from living off of scholarship or loan money and having their parents pay for tuition and living expenses to the reality of paying their own bills. One of the first reality checks is getting that first paycheck and realizing it yields much less cash to cover living expenses due to taxes and other deductions.

Establishing a budget has never been easier thanks to online resources like Mint.com, but the task of laying out monthly income and expenses is one most people avoid (including middle-age adults)! One of the most important lessons you can teach them is to live in a way where their spending falls below their net pay. To get started, you might suggest your graduate follow a simple process of determining their known expenses such as rent, cell phone, car payment, and utilities then track their spending on incidentals like entertainment and clothing. Once this analysis is complete, they can begin to think about longer range goals or whether they need to change spending habits in order to have a sustainable and balanced budget. Your encouragement and occasional checking in on how they're doing with cash flow can help build confidence in their ability to independently meet their daily needs while still having something left for discretionary spending.

Create a plan to repay college debt

When creating the initial budget, remind your grad to include the repayment of their college loans. A 2022 high school graduate could expect to borrow $39,500 for their bachelor's degree, according to a May 2022 NerdWallet analysis of National Center for Education Statistics data. Since students are required to begin repaying college loans within six months of graduation, they need to be sure their spending includes this debt repayment requirement. Graduates with higher incomes can work to pay off college debt at a faster rate, especially given their relatively high interest rates compared to money market earnings rates and the cost of other types of debt such as car loans.

Michelle Singletary, columnist for the Washington Post wrote a fantastic column College grads face next hurdle: Paying back student loans that I encourage parents and grads to read. She points out that many grads are under the misconception that all loans must be paid back within 10 years. Actually, there are four options for repayment programs based on a grad's income which helps with their ability to handle other living expenses while repaying these loans.

Teach them to pay for themselves first

The next important lesson for those entering the workforce is the power of tax-favored savings through company retirement savings plans. In most families today, at least one parent will have participated in some type of 401k or other retirement savings plan. Your experience and knowledge can come in handy when your grad receives that stack of participant information from their employer. We suggest you review the investment options with them and make sure they are clear on whether the employer has a contribution-matching program. We encourage all participants, including early career employees, to save as much as possible in these plans and to prioritize contributing at least the amount required to receive the "free money" that comes in the form of the employer contribution. We cannot overemphasize the benefit of compound returns which come from ongoing investment over a long-time horizon.

For more savings strategies, read Smart Savings Strategies for Millennials and Gen Z.

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If there's enough income left

Another option for many younger investors is the ability to contribute to a Roth IRA. Roth IRAs do have income limits so they will need to confirm that their annual income falls below IRS maximums (in 2023 for singles, the contribution phase-out income limit starts at $153,000). Like company retirement plans, these are tax-favored savings plans making them a great wealth building tool when utilized over a lifetime. Roth IRAs also have provisions allowing access to funds for education spending. This may be a better way to build up savings for graduate education instead of through a traditional 529 plan which is more restrictive than a Roth. We often suggest that parents consider gifting funds or supplementing investment into a Roth to take advantage of the annual maximum contribution limit of $6,500 in 2023.

Establishing credit the smart way

Many students are able to establish their own credit history while still in college. This can be accomplished with lower risk by obtaining a credit card with both a low total credit limit and a direct link to a bank account. Many banks offer automatic monthly payment as a way to ensure the monthly bill is paid in full and on time to establish a positive credit history. If your college grad has yet to manage a credit card on their own, get them started now. Having a positive credit rating will help them save money on car loans, home mortgages and on future life insurance.

Another way to establish credit for the purpose of securing a lease is to pay college rent directly from your student's bank account. Even if you are supporting the rental costs, it's helpful to establish a history of on-time rent payment by having funds come directly out of an account in your young adult's name.

Knowledge is the best gift of all

We believe that educating graduates about managing their financial lives can go a long way to establishing their knowledge of the basics of wealth building. Most of us have never had a class to teach us about the fundamentals required for responsible money management. Topics like establishing credit, managing cash flow, being disciplined about delaying gratification and building an investment portfolio simply aren't covered, even in the best universities. For a good book aimed at closing this education gap, we recommend Why Didn't They Teach Me This in School?: 99 Personal Money Management Principles to Live By by Cari Siegel.

For young women, encourage them to build personal financial strength as a way to ensure flexibility and life choice equal to their male counterparts. Here's where the gift of the book You're So Money: Live Rich, Even When You're Not by Farnoosh Torabi can play a role. Torabi is well-known for her role in empowering young women financially and this book is highly rated for its entertaining yet practical advice on personal finance.

With your guidance and these financial tips, your grad can get off to a positive financial start with the tools to establish healthy lifelong financial habits.

Disclosures

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Dawn's experience spans more that 25 years providing wealth management, financial planning and corporate finance solutions for clients. As an MBA, CPA, Certified Financial Planner (CFP®), and a Certified Divorce Financial Analyst (CDFA®), she is uniquely qualified to understand the challenges and financial needs of clients from executives to entrepreneurs, as well as single breadwinner parents.