

Financially Speaking

With Trisha Arndt

Three Financial Guidelines to Live By

If you could start your financial life over again is there anything that you would do differently? Any mistakes you would avoid or opportunities you wished you had taken advantage of?

Sure, sure I know – you would have sunk your whole life savings into Microsoft in the late 1980's and today you'd be sipping mai tai's on your private Caribbean island...

But seriously, if you could go back in time and pass just a few simple guidelines on to your younger self what would they be?

I contemplate this question every year at this time. Almost inevitably around graduation I get a call from a client looking for some tips to pass on to their newly independent loved one. What, they ask, should I tell the young person in my life contemplating adulthood and their first “real” job?

While volumes could, and have been, written on the topic I do think there are three basic guidelines that can make a big difference in the life of a fledgling adult, both immediately and years in the future. Sure, there are lots of other things that I could include and I could literally write a book about just these three but I figure if you have the basics you're ahead of most.

Protect yourself from financial catastrophe. There is nothing worse than contemplating financial ruin before you even have a chance to get started. While many young people believe they are invincible the fact is that they're not – an unexpected car accident or medical emergency can happen to any of us. Having lived their whole life under the protective care of their parents, a lot of young people have never seen a medical bill or have even a vague notion of what “liability” really means.

Make sure that they have appropriate property and casualty insurance (auto, homeowner's, renter's, etc) and, perhaps more importantly, make absolutely sure that your loved one has health insurance.

Many young people cite the, “I don't go to the doctor” excuse and decline health coverage even when offered by their employer because they don't want to share in the premium. When left to their own devices very few young people even think of obtaining an individual policy. Consequently, the U.S. Census Bureau's 2004 Population Survey showed that by far the highest number of uninsured Americans fall in the early stages of adult life – 31.4% of 18 to 24 year olds and 25.9% of 25 to 34 year olds.

Encourage your young person to give preference to employers that offer health coverage as a benefit and for those that are unable to obtain such group coverage put them in touch

with a qualified insurance agent who can assist them with obtaining an individual policy – even if it has a high deductible to keep the cost down. Not having health coverage during a time of need can impact the care options available and devastate a person's financial future. It's a risk not worth taking.

Live within your means. It seems like such a common sense aspiration but in today's instant gratification world many people habitually spend more than they can afford.

Here are a few rules of thumb to help:

Avoid carrying a credit card balance.

Don't allow debt to exceed 36% of income. If you have an annual income of \$30,000 your total payments (including car loans or leases, mortgage principal and interest, student loans, credit card payments, etc) should not exceed \$900 per month. If you want to buy something that will put you over that limit you can't afford it.

Pay yourself first by following a disciplined savings strategy (as outlined below).

Save, save, save. I remember thinking as a young adult in my first full-time, post college job that I was making a fortune. Looking back I'm amazed that I could even survive on such a paltry sum. Everything is relative and to a young person anything they make in that first job is likely going to seem significant. The best time to start a savings plan is immediately – when you're not used to having it you're not going to miss it.

Here are the areas to focus on saving first:

Accumulate an adequate cash reserve. Industry experts typically recommend having between three and six months worth of expenses available in a cash reserve. It may take awhile to accumulate that but start working towards it right away.

Take advantage of employer sponsored retirement plans. Start contributing as soon as you are eligible and make sure you contribute enough to receive 100% of any offered employer match. That employer contribution can give your retirement savings a boost that you can't get on your own.

Most importantly, start saving for retirement and other long-term goals now. I recommend to my young clients targeting a minimum of 10% of their income going into some type of long term savings but anything that they can get put away while young could potentially have a big impact on their financial future. The power of time and return is an amazing thing – but that's a topic for another column.

If you have a question that you would like answered or a suggestion for a topic that you would like to see in a future issue, please e-mail me at trisha@wealthstrategies.biz.

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