The Wealth Report

PANDEMIC GRADUATES: HELP THEM MANAGE FINANCES

Here we are again: The economy is in a freefall while a new crop of college graduates tries to find work amid record-high jobless claims and ongoing layoffs. Here's a guide to help them get a head start with their finances.

Overview

It is never easy trying to secure your first "real job" right out of college. There's the age-old Catch-22: How do you get a job with no experience; how do you get experience when no one will give you a job? In the past, young adults could bide their time by taking temp or seasonal work, including retail and restaurant jobs. Some might luck into a low- or no-pay internship to help gain experience. But during today's pandemic, even those opportunities are unavailable.

In the first five weeks of the coronavirus lockdown, more than 26 million Americans filed for unemployment benefits.[1] Employers are on a hiring freeze. Small businesses have applied for federal loans to help stay afloat, but many are likely to go under by the time it's all said and done. Recent college graduates can't even apply for unemployment insurance benefits if they were not previously employed.

As the U.S. struggles to respond to COVID-19, new college graduates are faced with an uncertain future for the second time in less than a dozen years. Instead of entering the robust job market that launched 2020, they must now find a way to manage their finances — many loaded down with student debt — while the country is on the brink of a recession.

For some, the only option is the last resort: Mom and Dad, who also may be struggling and were getting ready to retire. Those are the lucky ones. Many college students who apply for loans do so because they don't have any parental help, which means they may not have a parent to move back in with and must find a way to pay for rent and utilities with no income and no more distributions from student loans.

What can a young graduate do to manage money during a pandemic?

Student Loans

Fortunately, federal student loan borrowers already receive a six-month forbearance after graduation before they have to begin payments; note that this may not apply to private loans. For those already making payments, there is now a temporary reprieve on monthly payments until Sept. 30, 2020, during which time the interest rate on student loans is zero percent.[2]

spectrum advisors

Prioritize Financial Goals

One of the good things about just starting out in adult life is that many people haven't adopted expensive habits yet. This is not the time to become fixated on gourmet coffee or designer clothes. It's a time to establish priorities and sources of income. These prudent budgeting skills can last a lifetime for disciplined savers.

The first step is to differentiate between essential and discretionary expenses. Paying for rent, utilities and food are essential; new clothes and electronics are not. Young adults do need a smartphone, computer and internet access to help look for and apply for jobs. Recognize that in the future, the traditional job may look different — and generate less expense. For example, if a young worker can make the case to work at home, he or she can save money on professional clothing, dry cleaning, dining out for lunch and commuting expenses. Depending on what the employer agrees to reimburse or if the worker is classified as an independent contractor, some of his or her home office expenses may be tax deductible.

If there are no career positions to be had in the near term, young graduates should consider other ways to generate income, such as delivery jobs. They should look to share living expenses with roommates and just try to cover essential expenses first, saving as much as they can.

As a general rule, young adults should prioritize the following goals:

1. Cover essential expenses.
2. Save for an emergency fund (three to six months' worth of living expenses).
3. Pay off debt.
4. Save for short-term goals, such as a car or home.
5. Save for long-term expenses, such as children's education and retirement.

In the beginning, college graduates should focus on the first three goals. Once they are settled with a reliable job, they can use discretionary income to pursue the next two goals.

Credit Score Is Everything

One of the best lessons to learn early on is that good credit is everything. More than your GPA or alma mater, your credit score is used to measure personal credibility on matters ranging from hireability, insurability and rent reliability to financial management skills. It's basically your lifeline to a better life, so protect it with all your worth — because it will determine that, too.

This means a young adult should get a credit card and use it responsibly. He or she should make it a habit to pay off the balance every month, with the only exception being for an unavoidable large expense such as a car repair. In that situation, he or she should reduce any and all extraneous expenses until that debt is paid off. Credit card payments, along with the ability to pay rent and utilities, medical bills and student loans, will determine each person's credit score. The important lesson here isn't just to live within your means — it's to live below your means.

When people learn to do that, they are more likely to avoid financial troubles throughout their lifetime.

"Think of a budget as a spending plan to guide your spending and saving so you can have the things you really want and that really matter to you. Don't get sucked into trying to afford a certain lifestyle." [3]

Money Management: Establish a Budget

Dreary as it sounds, creating a budget is a must for young adults with limited income. Fortunately, if they've already accomplished the task of prioritizing expenses, the rest is easy. It's also helpful that this demographic is comfortable using smartphone apps, so finding a budget app that works for them, and actively referencing it at the point of impulse purchases, can make budgeting easier than it has been in the past.

Unfortunately, more than half of young adults (58%) do not create a spending budget, which is a primary reason why they get into debt trouble.[4] It's easy to think that charges to a credit card fall outside the budget, but if they schedule a fixed amount for credit card spending each month, that too can be curbed.

Throughout the economic decline, and until a college graduate has secured a job and actually has the ability to indulge in discretionary spending, it is critical to reduce expenses and stick to a budget. To do this, they must comb through their expenses and see where they can cut back on housing, food, auto and credit card expenses. In other words, if they can bike to the store, they should. That also will cut down on how much they can buy and ensure regular exercise rather than joining a gym.

Once a reliable income is secured, that's no time to go hog wild with spending. Look back at those initial five goals, and work toward paying off debt and developing an emergency fund. If their employer offers a retirement account, it's a good idea to get used to automatically contributing from each paycheck. It's always easier to live on a reduced paycheck than to receive the extra income and then have the discipline to invest that money on your own.

Diversify: Multiple Income Streams

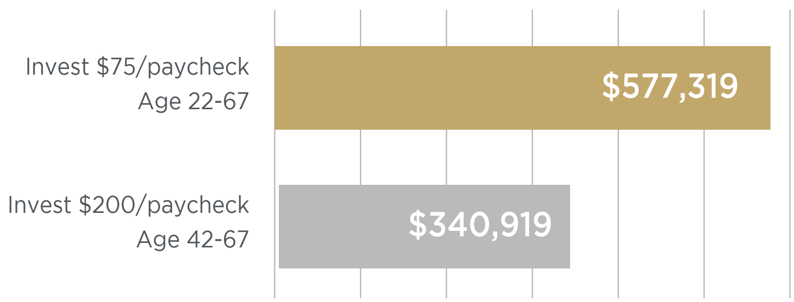
One of the perks of young adults trying to make ends meet is that they learn to scramble to earn money. This means if they had to deliver pizza for six months before getting a career position, they have an opportunity to create multiple income streams. In other words, keep that side job. If they don't earn enough salary for discretionary income, DoorDash or Uber can provide it. If they have a specific goal, such as buying a new car or doubling down on student loan payments, they can earmark earnings from their side job toward that goal.

If there's one thing many of today's young adults have learned during their coming of age from seeing their parents suffer through two economic declines, it's that you take a job to pay the bills. It may not always be your dream job, but it can help lead to your dream lifestyle — if only by keeping you out of debt.

Investing: Start Small, Start Now

It's important to quash the myth that you need to make a lot of money in order to start investing. In fact, one of the best times to open an investment account is when you receive a windfall — like college graduation money. The ideal time to invest money is when stock prices have dropped — like during a market decline. For grads who can spare the cash, now is a good time to learn the investing game.

Once they have a job and secure income, it's important that young adults stash away savings in a retirement plan. Small amounts sustained over a long period can actually contribute more to wealth building than waiting until mid-career and investing larger amounts, as the chart below demonstrates.



Hypothetical illustration assumes a 7% annual rate of return before taxes and inflation. This is a hypothetical example provided for illustrative purposes only; it does not represent a real-life scenario or any specific product or service, and should not be construed as advice designed to meet the particular needs of an individual's situation.

The lesson here is to start early and remain disciplined, even if the amount invested remains small. However, most investors become motivated when they see their savings grow and increase their contributions as their income rises over time.

Final Thoughts

The real final exam is how your young graduate will be able to adapt to today's new circumstances. Given how quickly this economic crisis followed the Great Recession, it's entirely possible these periodic adjustments will become the new normal — and the only normal today's young adults will ever know.

As they look at jobs in the future, today's college graduates should be flexible about exploring industries that have managed to thrive during this health and economic crisis — two pretty strong levers in gauging career sustainability. Jobs in technology, health care and online platforms have been touted for quite some time as growth industries. This recent test has proven those recommendations to be valid and, to whatever extent is possible, recession proof.

In addition to their primary jobs, young adults and couples should consider their knowledge and skill sets in an effort to create multiple income streams. This can help protect their financial security during challenging times that lie ahead and give them additional discretionary income for specific savings goals.

All things considered, it's better to be young and just starting out during a recession than just about to retire. While helping the new college graduate in your life get a foothold in his or her financial situation, please make sure you don't sacrifice your own. The young have plenty of time to build wealth; now is the time to secure yours.

Speak with an experienced financial professional if you'd like advice tailored specifically to your portfolio or that of your young graduate.

---

[1] Charisse Jones. USA Today. April 23, 2020. "Record 26 million Americans filed for jobless benefits over 5 weeks as layoffs wind on." https://www.usatoday.com/story/money/2020/04/23/unemployment-benefits-millions-more-file-jobless-claims-amid-pandemic/3007667001/. Accessed April 28, 2020.
[2] Hannah Pollock. The Slate. April 28, 2020. "PSECU, SU Financial Aid Office offer tips for graduates." https://www.theslateonline.com/article/2020/04/psecu-su-financial-aid-office-offer-tips-for-graduates. Accessed April 28, 2020.
[3] Deborah Fowles. The Balance. Jan. 27, 2020. "The Best Financial Advice for New College Graduates." https://www.thebalance.com/the-best-financial-advice-for-new-college-graduates-1289592. Accessed April 28, 2020.
[4] Ibid.
[5] Bankrate.com. 2020. "Calculate your investment earnings." https://www.bankrate.com/calculators/retirement/investment-goal-calculator.aspx. Accessed April 28, 2020.