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FINANCIAL BASICS

BUILDING A FINANCIAL FOUNDATION FOR THE NEXT GENERATION

By the numbers

$33,000: Average student loan debt[1]

$2,682: Average credit card debt for the 19 to 29 age bracket[2]

19: States that require high school students to take a personal finance class[3]

60%: Gen Y and Gen X investors concerned they will not be able to retire when they want[4]

$1.2 trillion: The amount of outstanding debt from student loans held in the United States[5]
$15 billion: Australia[6]
$85.5 billion: United Kingdom[7]
$6 billion: Japan[7]

[1] Students & Debt, 2014, debt.org.
[2] The Institute for College Access & Success, December 2013.
[3] Survey of the States, 2014.
[4] MFS Investing Sentiment Insights, 2013 (additional information on page 3).
[5] Consumer Financial Protection Bureau, July 17, 2013.
[6] "Dollars and Sense: A Global Look at Student Debt," 2013, collegestats.org.
[7] The High Cost of Higher Education, January 2015, www.salve.edu/.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

According to the National Center for Education Statistics (NCES), 1,855,000 students are projected to graduate from bachelor's degree programs in 2015. Unfortunately, many of them will be saddled with thousands of dollars in credit card debt on top of school loans when they are handed their diplomas. Here are a few tips to help graduates pay down their debt and attain solid financial footing as they enter the working world. Grads may even want to work with the family financial advisor to try to accomplish some of these goals.

1. Get a financial education

Many new graduates know very little about money management when they leave college. The good news is that it will not take more money to learn about personal finance. There are dozens of free articles and advice sites on the Web. Mint.com is one of the more popular that specifically targets the needs of young people, offering free advice and online tools for everything from creating household budgets to finding the best banking services.

There are also a number of financial planning books written for young earners, and they do not have to come with a price tag. The local library likely stocks quite a few of them, so check those stacks before shopping retail.

In time, new grads may be in a position to invest in the markets — and it seems the younger generation is open to the experience. According to the MFS 2013 Investing Sentiment Insights (ISI), 71% of Gen Y investors (age <34) said they enjoyed investing, and 66% reported they had consulted with a financial advisor regarding investment decisions. So parents might consider including young adults in a financial planning session with their advisor as a graduation present.

2. Consider following the 50/30/20 budget rule

Many financial advisors suggest that newly minted college grads begin to budget with this simple formula: 50% of income goes to necessities, 30% goes to discretionary purchases and 20% is used to build savings and/or pay down debt.

Key points

Learning does not stop after college. After graduation, make sure to

- get educated about finances
- create and follow a budget
- steer clear of unnecessary expenses
- avoid high-interest credit card debt
- establish a good credit history

This is a tough rule to live by, but it can serve to keep virtually any adult — even one well into his or her career — from seriously stumbling if unforeseen circumstances (a layoff or medical expense, for instance) should suddenly strain personal finances.

Of course, saving money, especially toward long-term goals, may be an afterthought for those with student loan debt. According to the 2013 ISI, 46% of Gen Y investors said they would never feel comfortable investing in the stock market. Such sentiments could put their long-term financial goals at risk. In the United States, this is where employer-sponsored 401(k) retirement plans can be a real boon to young workers. Under these plans, many employers match up to a certain percentage of employee contributions to the plan, potentially doubling that portion of your savings.

It's also easy for recently employed grads to set up automatic contributions to a 401(k) through their company's payroll system so that money is saved for retirement before it can even hit a bank account. A 401(k) may help a young investor get comfortable with the stock market's long-term potential, despite its perceived risks.

3. Shop around for a bank account

Banks typically offer several types of checking and savings accounts. People who write lots of checks may need a bank that offers low or no checking account fees. Savers or those who prefer to do most bill paying online may prefer a bank with a high-yield savings account.

Also look for a bank that has convenient retail locations and provides services at competitive fees. Fees that can vary from bank to bank include ATM fees, balance inquiries, flat monthly fees, per-check fees, overdraft protection fees, fees for going below the minimum balance, bounced check fees, stop payment fees and account closing fees. It is a long list, so make sure to read the fine print on the account application.

4. Keep an eye on expenses

The 2013 ISI discovered Gen Y investors were more likely than older investors to increase spending on discretionary purchases. Clearly, new grads need guidance on how to cut unnecessary costs.

One of the best ways to keep an eye on spending is to save receipts. Total them up at the end of the week, and make note of where the money is going. If a lot of receipts are for nice but not necessary purchases — such as coffee or lunch — consider making coffee at home or packing a lunch in the morning before leaving for work.

Because buying coffee and lunch out can easily top $10 a day, little habits like these can add up to a hundred dollars or more per month in unnecessary spending. Consider putting those hard-earned dollars to better use by paying down debt, either school loans or credit card balances. Keep in mind that the debt carrying the highest interest rates should be paid off first to keep your expenses in line with your income.

5. Use credit cards wisely

According to a 2014 study by moneymattersoncampus.org, nearly 30% of undergraduates surveyed — primarily first-year students — had at least one credit card. Credit cards may seem like easy money, but the interest rates they charge can be high. Whenever possible, pay for purchases with cash or a debit card to keep credit card debt low.

Shop around for the lowest rates and fees before signing up for a card. If you can afford to, consider paying more than the minimum due to pay down the debt as quickly as possible. Try to keep any balances below 30% of the card's credit limit. Most of all, remember to pay the bill on time. A history of paying your bills on time helps build a good credit history, which is necessary for big purchases down the road. In fact, without a good credit history, it can be difficult to get a loan, which nearly everyone needs when it's time for a new car or first home.

Keep in mind that all investments carry a certain amount of risk including the possible loss of the principal amount invested.

METHODOLOGY MFS®, through Research Collaborative, an independent research firm, sponsored an online survey from July 21 to July 31, 2014, of 951 individual US investors with $100,000 or more in household investable assets and 623 licensed US financial advisors who have been licensed for at least three years with $500,000 or more in annual mutual fund sales. All investor respondents make or share in making financial decisions for their households. MFS was not identified as the sponsor of the survey. Gen Y investors are those under the age of 35; Gen X investors are those between the ages of 35 and 49; Baby Boomer investors are those between the ages of 50 and 68; Mature investors are those age 69 or older.

Resources

The following websites offer free financial education and planning tools.

National Endowment for Financial Education
nefe.org

Financial Planning Association
fpanet.org

Federal Deposit Insurance Corporation
fdic.gov

See next page for a sample monthly budget worksheet.

Sample monthly budget worksheet

I. Income	
Monthly earnings	
Minus taxes (approx. 28%)	
Adjusted income	
Other income	
Total	
II. Expenses	
Rent or mortgage	
Combined utilities	
Groceries	
Auto expenses	
Student loan(s)	
Credit card	
Insurance	
Medical expenses	
Retirement contributions	
Miscellaneous	
Total	
III. Discretionary allowance	
Total monthly income	
(minus)	
Total monthly expenses	
Total	

Contact your financial advisor for more information or visit mfs.com.

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