Money Management Best Practices for Graduate Students

Rules of Thumb
Expected Salary
Managing Student Loan Debt
Taxes
Contact Information

Rebecca Smith, Ph.D.
Extension Center for Economic Education and Financial Literacy
Becky.smith@msstate.edu
QUESTIONS?
1. Rules of Thumb
2. Estimate Your Expected Salary
3. Managing Student Loan Repayment
4. Taxes
RULES OF THUMB
1. Get a Plan!

• What is your biggest financial worry now?

• Being poor is stressful
  – Research shows this can lead to poor decision-making

• Take time to money manage so that you minimize financial stress
  – Getting ahead or behind?
  – Goal
  – Prepared when “life happens”
  – Writing down helps us think clearly
  – [http://www.youtube.com/watch?v=rK6WLHNYjwM](http://www.youtube.com/watch?v=rK6WLHNYjwM)
Use A Spending Diary

- Date
- Item
- Amount

Look back to see what the most common categories were in your spending and how much you spent in each category.
Limit Spending

• Stop spending when you reach your budget limits
  – Groceries
  – Gasoline
  – Eating out
  – Personal allowance
  – Gifts or office contributions
Plugging Spending Leaks

- Leave your debit/credit card at home
- Attend free campus concerts and plays
- Use your bike or public transportation
- Carry a refillable water bottle instead of purchasing soft drinks or coffee drinks
- Limit the number of songs, ringtones, etc., you download
- Avoid buying sodas and snacks out of vending machines
- Kick a costly habit (cigarettes, lattes)
- Use the library
- Use the Internet for comparison shopping
Creating a Budget

A budget will let you tell your money where to go, instead of wondering where it went!

1. Identify your sources of income
2. Identify your expenses
3. Setting goals
4. Monitor
5. Make adjustments
Activity: What is your income? How much will you spend in each category?

- Housing: 30%
- Transportation: 18%
- Debt: 10%
- Food: 14%
- Household: 7%
- Savings: 10%
- Everything else: 11%

Source: Department of Labor, Bureau of Statistics
2. Emergency Savings Account

• 3-6 months living expenses
  – Begin with a goal of $500
  – Then at least $1,000
  – Then one month living expenses
  – One year living expenses for retirees
3. Pay yourself first

- Take advantage of interest while you are young!
- Save at least 10% of your gross income
- Use payroll deduction!
- Never touch retirement funds
- Set realistic goals
- Use self-discipline and delay gratification
- Increase your investment knowledge
## What a Difference a Few Years Make

<table>
<thead>
<tr>
<th></th>
<th>Jorge’s IRA</th>
<th>Olivia’s IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Years contributions were made</td>
<td>9 years (age 22 to age 31)</td>
<td>34 years (age 31-65)</td>
</tr>
<tr>
<td>Amount contributed</td>
<td>$1,000 per year&lt;br&gt;For 9 years = $9,000</td>
<td>$1,000 per year&lt;br&gt;For 34 years = $34,000</td>
</tr>
<tr>
<td>Value of IRA at age 65</td>
<td>$13,021 at age 31; this lump sum then compounds:&lt;br&gt;At age 65 equals: $243,863</td>
<td>At age 65 equals: $196,982</td>
</tr>
</tbody>
</table>
Can you retire?

• If you have **20 times** your annual income or needs saved, then you should be able to retire.

http://www.choosetosave.org/ballpark/
4. Consumer Debt Limit

Debt-to-Income Ratio

total monthly payments divided by monthly income

Example:

$1,000 / $5,000 = .20

20%
How much car can you afford?

• 1/3 annual income maximum

• Payment 15% of monthly take-home pay

Never get upside-down in a car!

20/4/10 rule of thumb for buying a car
- Pay at least 20% down
- Finance for no more than four years,
- Payment should be less than 10% income

The first part of this rule prevents you from owing more than the car is worth, and the last two parts prevent you from buying more car than you can afford
5. Take out the Minimum in Student Loan Debt

Don’t borrow more than you expect to make your first year out of school

- Total consumer debt payments should not exceed 10% of monthly income when you graduate

Take out the minimum!

- The less you borrow, the less you have to repay
- Use loans only for educational expenses, not food, clothes, gas
Question

• Which of the following is likely to benefit you more?
  – Your parents pay for part of your college
  OR
  – Your parents save for their retirement?

• Before parents take out loans
  – Consider the parent’s ability to borrow and repay vs. the child
  – Parents have less time to recover from lost savings than their children
6. Credit Card Strategies

- Limit use to one card
- Define “emergency use”
- Understand credit terms
- Pay more than the minimum

<table>
<thead>
<tr>
<th>Credit Card Balance</th>
<th>Interest Rate (%) Charged</th>
<th>Monthly Payment</th>
<th>Months to Pay Off Balance</th>
<th>Years to Pay Off Balance</th>
<th>Total Cost (Balance + Interest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td>18%</td>
<td>$40 minimum</td>
<td>90</td>
<td>7.5</td>
<td>$3,608</td>
</tr>
<tr>
<td>$2,000</td>
<td>18%</td>
<td>$50</td>
<td>60</td>
<td>5.0</td>
<td>$3,004</td>
</tr>
<tr>
<td>$2,000</td>
<td>18%</td>
<td>$150</td>
<td>15</td>
<td>1.3</td>
<td>$2,211</td>
</tr>
</tbody>
</table>
7. Insurance for College Students

- Health and Renter’s Insurance are a good ideas for college students
- Life Insurance is not recommended for most healthy young people
ESTIMATING YOUR EXPECTED SALARY
General Returns on Higher Education

- Higher job satisfaction
  - Ability to create and build
  - Better working conditions

- Healthier lifestyles
  - Better health insurance and pension plans
  - Less smoking, more exercise, less obesity

- Contribute more to society
  - greater civic involvement
  - Pay more in taxes and receive public assistance

- More prosperous children
  - Mothers spend more time with their children improving development
  - Increased access to resources
The bars in this graph show median earnings at each education level. The blue segments represent the estimated average federal, state, and local taxes paid at these income levels. The orange segments show after-tax earnings.

NOTE: The numbers in parentheses on the y-axis indicate the percentage of all full-time year-round workers with each education level in 2011. Taxes paid include federal income, Social Security, Medicare, state and local income, sales, and property taxes. Percentages may not sum to 100 because of rounding.

SOURCES: U.S. Census Bureau, 2012, Table PNC-03, Internal Revenue Service, 2010; Davis et al., 2013; calculations by the authors.
Financial Return on Higher Education (cont’d.)

- College graduates earn about 65% more than high school graduates
- Advanced degrees earn two-three times as much as a high school graduate
- Pay increases at a higher rate
- Lower unemployment rates and lower duration of unemployment

<table>
<thead>
<tr>
<th></th>
<th>2011 Medium income</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school grad</td>
<td>$35,400</td>
</tr>
<tr>
<td>Bachelor’s</td>
<td>$56,500</td>
</tr>
</tbody>
</table>
Activity: Maximize the Return on Investment in Your College Major

• Given your field of study, investigate your career options, use the Occupational Outlook Handbook published by the Bureau of Labor Statistics at http://www.bls.gov/ooh/ to research information on your top two career choices.
Activity: Using the average percentages for each category, calculate estimates:

- Housing: 30%
- Transportation: 18%
- Debt: 10%
- Food: 14%
- Household: 7%
- Savings: 10%
- Everything else: 11%

Source: Department of Labor, Bureau of Statistics
For Most, College is a Good Investment!

However, the cost of college has risen significantly

• More students and parents are taking out loans
• Delinquency rates are rising
SUCCESSFUL STUDENT LOAN DEBT MANAGEMENT
Big Picture on Student Loan Debt

Student debt tripled between 2004 and 2012

- 70% increase in the number of borrowers
- 70% increase in the average balance per person

National average student loan balance is $24,301

- MSU undergraduates owe $22,000 on average
- MSU graduate students owe $41,000 on average
Student Debt Loan Load is Rising

Source: http://www.newyorkfed.org/studentloandebt/
Big Picture on Student Loan Debt

Delinquency rates are rising

- Nearly 1/3 of borrowers in repayment are delinquent on student debt
- Delinquent student loan borrowers are very likely to be delinquent on other debt as well
- More parents are borrowing for their children which adversely affects their ability to retire and delinquency results in Social Security benefits being garnished

Student debt is the only kind of household debt that continued to rise through the last recession and is now second to mortgage debt
## Reality Check

### Monthly Net Income $4,000

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving</td>
<td>$400</td>
</tr>
<tr>
<td>Housing</td>
<td>$1,200</td>
</tr>
<tr>
<td>Transportation</td>
<td>$720</td>
</tr>
<tr>
<td>Debt</td>
<td>$400</td>
</tr>
<tr>
<td>Food</td>
<td>$560</td>
</tr>
<tr>
<td>Household</td>
<td>$280</td>
</tr>
<tr>
<td>Other</td>
<td>$440</td>
</tr>
</tbody>
</table>

### Monthly Net Income $2,500

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving</td>
<td>$250</td>
</tr>
<tr>
<td>Housing</td>
<td>$750</td>
</tr>
<tr>
<td>Transportation</td>
<td>$450</td>
</tr>
<tr>
<td>Debt</td>
<td>$250</td>
</tr>
<tr>
<td>Food</td>
<td>$350</td>
</tr>
<tr>
<td>Household</td>
<td>$175</td>
</tr>
<tr>
<td>Other</td>
<td>$275</td>
</tr>
</tbody>
</table>
What is the maximum loan?

**Monthly Net Income $4,000**
- Student Loan Debt Max
  - $4,000 * 12 = $48,000
- Total Annual Debt Max
  - $9,600
- Monthly Total Debt Repayment Max
  - $400

**Monthly Net Income $2,500**
- Student Loan Debt Max
  - $2,500 * 12 = $30,000
- Total Annual Debt Max
  - $6,000
- Monthly Total Debt Repayment Max
  - $250
How do I apply for aid?

• Federal student aid: fill out *Free Application for Federal Student Aid* (FAFSA) at www.fafsa.ed.gov
  • Apply on or after Jan.1 but as early as possible to meet all deadlines.—Must complete every year
  • Need help? Use “Live Help” icon or call 1-800-4-FED-AID.
  • MSU priority date---March 1\textsuperscript{st}
Important!

State Department of Student Financial Aid

Garner Hall
Office 203
662-325-2450
sfa.msstate.edu
Walk-ins Welcome!!!!

- Watch for e-mails or letters!
  - Financial Aid Checklist/Eligibility Requirements
  - Provide any additional paperwork as soon as possible
  - Meet all deadlines or you could miss out on aid!
Consequences from Defaulting

- No additional financial aid
- Reduced credit score
  - Takes years to repair
- Pay higher interest rates or inability to get credit in the future
- Wages, Social Security benefits garnished
- Tax refunds withheld
- Lottery winnings withheld
- Professional license withheld
- Legal action
  - Borrowers are liable for original balance, accrued interest, court fees, collection fees
- Virtually impossible to discharge student loans through bankruptcy
Consumer Finance Protection Bureau

http://www.consumerfinance.gov/

• Tools for pre-loan and loan repayment education
http://studentaid.ed.gov/
Other Resources for Student Financial Aid

- www.indeed.com/salary
- www.college.gov
- www.fafsa.ed.gov
- www.federalstudentaid.ed.gov
- www.studentloans.gov
Loan Forgiveness Programs

• Individuals employed full time in public service jobs may qualify for loan forgiveness
  – Certain federal student loans are eligible
  – After 120 months
  – Loans must not be in default
INCOME TAXES
Activity
Use a W2 to complete a 1040EZ

Benefits of Government

- National defense
- Cleaner environment
- Transportation infrastructure
- Supplemental income for retired (Social Security)
- Research and Development
- Education
- Hospitals
- Police
- Fire
- Parks
Sources of Government Revenues

• 3 major sources of funds to pay for expenditures:
  1. Taxes
     – Government forces citizens to pay regardless of whether one receives goods or services that individuals deem to be worth what each pays
  2. User Charges
     – Fees for using services like driver’s license
  3. Borrowing
     – Adding to the deficit and debt
Personal Income Taxes

• most important tax for the federal government
• becoming more important at the state layer
  – e.g. only FL, NV, SD, TX, WA, WY do not have state income taxes
  – some cities have an income tax
    • e.g. NYC, St. Louis, Cincinnati
Current Income Tax

• Progressive
• Poorest families are exempted
• Middle income pay 10, 15%
• Successively richer pay
  – 25%, 28%, 33%, 35%, and 39.6%
# History of Highest Tax Brackets

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Brackets</th>
<th>First Bracket Rate</th>
<th>Top Bracket Rate</th>
<th>Top Bracket Income</th>
<th>Adjusted 2011 Income</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>7</td>
<td>1%</td>
<td>7%</td>
<td>$500,000</td>
<td>$11.3M</td>
<td>First permanent income tax</td>
</tr>
<tr>
<td>1917</td>
<td>21</td>
<td>2%</td>
<td>67%</td>
<td>$2,000,000</td>
<td>$35M</td>
<td>World War I financing</td>
</tr>
<tr>
<td>1925</td>
<td>23</td>
<td>1.5%</td>
<td>25%</td>
<td>$100,000</td>
<td>$1.28M</td>
<td>Post war reductions</td>
</tr>
<tr>
<td>1932</td>
<td>55</td>
<td>4%</td>
<td>63%</td>
<td>$1,000,000</td>
<td>$16.4M</td>
<td>Depression era</td>
</tr>
<tr>
<td>1936</td>
<td>31</td>
<td>4%</td>
<td>79%</td>
<td>$5,000,000</td>
<td>$80.7M</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td>32</td>
<td>10%</td>
<td>81%</td>
<td>$5,000,000</td>
<td>$76.3M</td>
<td>World War II</td>
</tr>
<tr>
<td>1942</td>
<td>24</td>
<td>19%</td>
<td>88%</td>
<td>$200,000</td>
<td>$2.75M</td>
<td>Revenue Act of 1942</td>
</tr>
<tr>
<td>1944</td>
<td>24</td>
<td>23%</td>
<td>94%</td>
<td>$200,000</td>
<td>$2.54M</td>
<td>Individual Income Tax Act of 1944</td>
</tr>
<tr>
<td>1946</td>
<td>24</td>
<td>20%</td>
<td>91%</td>
<td>$200,000</td>
<td>$2.30M</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>26</td>
<td>16%</td>
<td>77%</td>
<td>$400,000</td>
<td>$2.85M</td>
<td>Tax reduction during Vietnam war</td>
</tr>
<tr>
<td>1965</td>
<td>25</td>
<td>14%</td>
<td>70%</td>
<td>$200,000</td>
<td>$1.42M</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>16</td>
<td>14%</td>
<td>70%</td>
<td>$212,000</td>
<td>$532k</td>
<td>Reagan era tax cuts</td>
</tr>
<tr>
<td>1982</td>
<td>14</td>
<td>12%</td>
<td>50%</td>
<td>$106,000</td>
<td>$199k</td>
<td>Reagan era tax cuts</td>
</tr>
<tr>
<td>1987</td>
<td>5</td>
<td>11%</td>
<td>38.5%</td>
<td>$90,000</td>
<td>$178k</td>
<td>Reagan era tax cuts</td>
</tr>
<tr>
<td>1988</td>
<td>2</td>
<td>15%</td>
<td>28%</td>
<td>$29,750</td>
<td>$56k</td>
<td>Reagan era tax cuts</td>
</tr>
<tr>
<td>1991</td>
<td>3</td>
<td>15%</td>
<td>31%</td>
<td>$82,150</td>
<td>$135k</td>
<td>Omnibus Budget Reconciliation Act of 1990</td>
</tr>
<tr>
<td>1993</td>
<td>5</td>
<td>15%</td>
<td>39.6%</td>
<td>$250,000</td>
<td>$388k</td>
<td>Omnibus Budget Reconciliation Act of 1993</td>
</tr>
<tr>
<td>2003</td>
<td>6</td>
<td>10%</td>
<td>35%</td>
<td>$311,950</td>
<td>$380k</td>
<td>Bush tax cuts</td>
</tr>
<tr>
<td>2011</td>
<td>6</td>
<td>10%</td>
<td>35%</td>
<td>$379,150</td>
<td>$379k</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>7</td>
<td>10%</td>
<td>39.6%</td>
<td>$400,000</td>
<td>$388k [88]</td>
<td>American Taxpayer Relief Act of 2012</td>
</tr>
</tbody>
</table>

[88] American Taxpayer Relief Act of 2012

[en.wikipedia.org/wiki/Income_tax_in_the_United_States#History_of_top_rates](en.wikipedia.org/wiki/Income_tax_in_the_United_States#History_of_top_rates)
Tax Credits

• Tax credits permit some specified amount to be subtracted directly from the amount of tax liability
  – Better than a deduction!
• e.g. earned income tax credit
  – goes to working families with children who have relatively low earnings
• e.g. child care credit, elderly care credit
A “Kinder, Gentler” IRS

http://apps.irs.gov/app/understandingTaxes/hows/mod01/sim_mod01_04.jsp


IRS Withholding Calculator

If you are an employee, the Withholding Calculator can help you determine whether you need to give your employer a new Form W-4, Employee’s Withholding Allowance Certificate to avoid having too much or too little Federal income tax withheld from your pay. You can use your results from the calculator to help fill out the form.

Who Can Benefit From The Withholding Calculator?

- Employees who would like to change their withholding to reduce their tax refund or their balance due;
- Employees whose situations are only approximated by the worksheets on the paper W-4 (e.g., anyone with concurrent jobs, or couples in which both are employed, those entitled to file as Head of Household, and those with several children eligible for the Child Tax Credit);
- Employees with non-wage income in excess of their adjustments and deductions, who would prefer to have tax on that income withheld from their paychecks rather than make periodic separate payments through the estimated tax procedures.

CAUTION: If you will be subject to alternative minimum tax, self-employment tax, or other taxes; you will probably achieve more accurate withholding by following the instructions in Pub 15, Tax Withholding and Estimated Tax.

Ready to start? Make sure scripting is enabled before using this application. Continue to the Withholding Calculator.

Tips For Using This Program

- Have your most recent pay stubs handy.
- Have your most recent income tax return handy.
- Estimate values if necessary, remembering that the results can only be as accurate as the input you provide.

To Change Your Withholding:

1. Use your results from this calculator to help you complete a new Form W-4, Employee’s Withholding Allowance Certificate.
2. Submit the completed Form to your employer.
PERSONAL FINANCE RESOURCES FOR STUDENTS
MMM Spring 2014 Schedule

• Our website
  – http://www.moneymanagement.msstate.edu/
Love Your Money

http://loveyourmoney.org/

• Use Invite Code: a5bcfffa4
• Access and complete seven online modules to learn basic principles and techniques for money management and investing.
  – Measuring Financial Health
  – Spend Less, Save More
  – How Debt Can Keep Us From Building Wealth
  – Emergency Fund
  – Protecting Your Investments
MSUcares.com publications

- Financial Fitness: Exercises to Shape-Up Your Spending
- Financial Fitness Checklist
- How to Get out of Debt
- Financial Planning for Retirement
- Healthy, Wealthy, and Wise 12-part Program
Cash Course Prep

GET READY FOR COLLEGE!
When it comes to college, it’s all about preparation.
The information here will help you plan, pay for, and manage your financial life during your college years.

What's New?
What do you need to know about managing money?
- Take our quiz to find out
- Finding work in a tough job market
- Credit card companies dropping out of college

http://www.cashcourse.org/prep
http://budgetchallenge.com/
http://www.360financialliteracy.org/
http://www.youtube.com/watch?v=rK6WLHNYjwM
Is mint.com safe?

**Pros**

- The site is protected with the same level of security as your financial institutions.
- No personal identifying information connected to your account other than your email address.
- You may not transfer money to or from your accounts through mint.com.

**Cons**

- You must give them your bank account login ID and password.
- Anytime you enter or access personal information on-line there is a risk.

Contact Information

Rebecca Smith, Ph.D.
Extension Center for Economic Education and Financial Literacy
Becky.smith@msstate.edu