Making It On Your Own

The young adult's guide to money and life

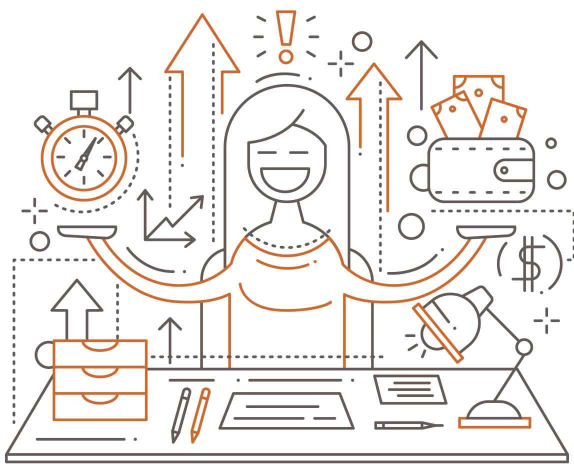
You've reached that milestone in life the rest of the world calls adulthood. Congratulations! Now it's time to earn a paycheck, pay bills, and start making those dreams come true. Excellent!

As much as you're learning now, you'll soon find that being money-smart is one of the most valuable skills you can have.

Literally the more you learn, the more you'll earn. With a college degree, you'll earn about $800,000 more over your lifetime than you would with only a high school diploma.

But the money you'll make in your career is only half of the story. How you manage your money can actually be more important than how much money you make.

Keep reading for the most important facts, figures and strategies for personal financial management — everything worth knowing to build yourself a lifestyle of fun, comfort and free of financial stress.



BUDGETING

The secret to living well within your means

A budget is a solid foundation for all spending decisions.

When you're about to make a bigger purchase, like a car, you'll probably do some research and put thought into the larger financial impact. But the many little purchases you make casually and constantly have a huge impact on your financial position.

For example, buying a tall latte and lunch every day can add up to almost $4,000 a year. That money could be used for a major purchase — like new living room furniture — or better yet, put into savings or investment deposits that could potentially earn you a fortune over time (we'll show you how later).

Whether you're living on an allowance, working part-time or fully financially independent, now is the time to start managing your personal finances.

Pro Tip!

Set up automatic payments for monthly bills and a deposit to savings. Use your debit card to pay for small purchases as much as possible.

Get started now

Simply, a budget compares your income to your expenses — and tells you at a glance how much you can afford to spend.

Setting up and managing a personal budget is actually relatively easy. And you can use widely available software to make your budget convenient to maintain. However you choose to make it, it will look something like this:

		Month	Annual
INCOME			
	Wages	$	$
	Grants	$	$
	Student loans	$	$
	Assistance from parents	$	$
	Investment income	$	$
Total INCOME		**$**	**$**
EXPENSES			
	Housing	$	$
	Tuition & supplies	$	$
	Fun	$	$
	Food	$	$
	Transportation	$	$
	Insurance	$	$
	Utilities	$	$
Total EXPENSES		**$**	**$**
Excess/(Shortfall) (Total INCOME - total EXPENSES)		**$**	**$**

If your expected expenses exceed your income, you have early warning to cut costs or make more money.

Pro tip!

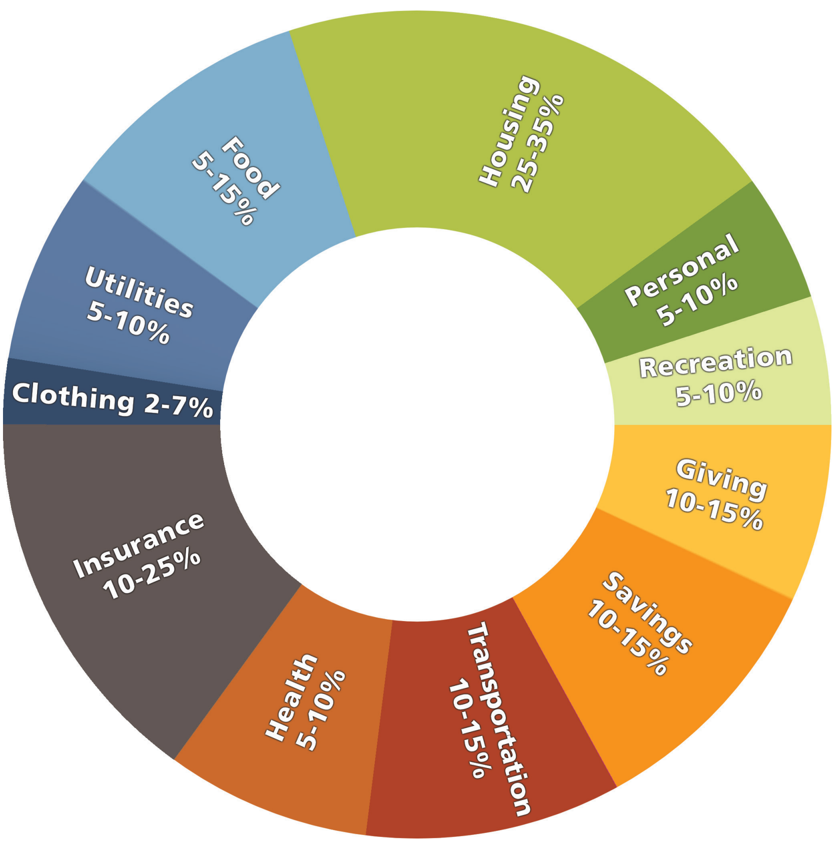
Budgeting software like Mint and YNAB will pull your banking information in automatically so you just need work on setting up your spending categories and making sure they are in line with your budget.

Working with your budget

At this stage in life, you may not have much flexibility to change your income, so when and how you spend is the key to managing your finances. Spending, however, is often more than you estimate (temptations are everywhere), so it's important to start keeping track of what you actually spend.

At least four times a year, check your spending to see if you're within these spending lanes.* If you're not on track, adjust your spending in non-essential and somewhat flexible areas.

Budget guidelines



*numbers should be portion of gross (vs. net) pay

TAXES

You can't avoid them, but you can be smart about them

Now that you've reached adulthood, be ready to become (gulp) a taxpayer. Your parents have probably covered you in their annual federal and state tax returns as a "dependent," but now taxes are (or soon will be) all yours to manage.

Paying income tax starts with your first paycheck. There are three critical things to know:

- Everyone working in America is required to pay tax on all income over $600.
- Income taxes are due as they are earned. They will be removed from your paychecks unless you are a contractor/1099 employee. In this case you will need to pay estimated taxes quarterly.
- You must file a federal and state tax return on or before April 15 each year.

Tax regulations are complicated. We'll give you the basics here, but eventually a tax advisor will be really helpful.

Federal and state income tax: It's pay as you go

No matter the size of the company you work for, you'll get a paystub, which lists the hours worked and earnings for that pay period. The paystub also lists the mandatory deductions your employer has taken out for your federal and state income taxes, Social Security, Medicare and disability insurance for that period. It will also list any deductions for voluntary fringe benefits, like group medical coverage or 401(k) retirement savings.

Example paystub

A Corporation
1234 Main Street CA 90210

Earnings Statement

EMPLOYEE NO.	EMPLOYEE NAME	SOCIAL SECURITY NO.	PERIOD BEG.	PERIOD END	CHECK DATE
587846	John Doe	XXX-XX-XXXX	05/01/15	05/15/15	05/16/15

EARNINGS	HOURS	RATE	CURRENT AMOUNT	WITHHOLDINGS/DEDUCTIONS	CURRENT AMOUNT	YEAR TO DATE
SALARY PAY	40	22.50	$900.00	MEDICARE	$13.05	$117.45
				SSA	$55.80	$502.20
				FED TAX AMT	$101.41	$912.69
				CA STATE TAX	$12.59	$113.31
				SDI INS	$9.00	$81.00

CURRENT AMOUNT	CURRENT DEDUCTIONS	NET PAY	YTD EARNINGS	YTD DEDUCTIONS	YTD NET PAY	CHECK NO.
$900.00	$191.85	$708.15	$8,100.00	$1,726.65	$6,373.35	26964

Depending on your benefit choices, expect that your take-home pay will be 20 - 30% less than your total earnings. This lower net earnings is the amount you should use to plan your budget.

Tax returns: Easier with technology

With technology, it's easy to have all your checking, savings, and credit information in one place. At the end of the year, you can print out a report with spending totals by category — virtually all the information you or your tax preparer will need for your tax returns.

Your income taxes are based on the calendar year, January 1 through December 31. By the end of the following January, each of your employers will send you a W-2 form with your last year's total earnings, paid taxes, and other contributions. You'll also get interest and earnings reports from all bank and investment accounts you have. Taxes are due April 15, and remember that you need to keep your annual tax records for seven years.

Sample W-2

a Employee's social security number: 123-45-6789
OMB No. 1545-0008
Safe, accurate, FAST! Use IRS e-file
Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN): 11-2233445	1 Wages, tips, other compensation: 48,500.00
	2 Federal income tax withheld: 6,835.00
c Employer's name, address, and ZIP code: The Big Company, 123 Main Street, Anywhere, PA 12345	3 Social security wages: 50,000.00
	4 Social security tax withheld: 3,100.00
	5 Medicare wages and tips: 50,000.00
	6 Medicare tax withheld: 725.00
	7 Social security tips
	8 Allocated tips
d Control number: A1B2	9
	10 Dependent care benefits
e Employee's first name and initial / Last name / Suff.: Jane A DOE, 123 Elm Street, Anywhere Else, PA 23456	11 Nonqualified plans
	12a See instructions for box 12: D 1,500.00
	13 Statutory employee [ ] Retirement plan [X] Third-party sick pay [ ]
	12b DD 1,000.00
	14 Other
	12c P 4,800.00
f Employee's address and ZIP code	12d

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA	1235	50,000	1,535	50,000	750	MU

Form **W-2** Wage and Tax Statement 2014
Department of the Treasury—Internal Revenue Service
Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Deductions and deferred taxes: Your big tax breaks

U.S. tax regulations are designed to encourage behavior that's considered desirable — raising children, owning a home, and charity — and provides tax breaks for these activities. Saving for retirement is one of these activities. Deposits to a 401(k) or individual retirement account (IRA) help lower your taxes now and build retirement income for later.

SAVING

Doing it consistently is a game-changer

Saving is the most important thing to do right now with your money. It's vital to your financial stability and building wealth. Make your savings or investment deposit a monthly priority, consistently and automatically.

There are several kinds of savings: emergency savings, big ticket savings, and retirement investment accounts like a 401(k) or individual retirement account (IRA).

Each works in a different way and is totally worth having, even now.

Emergency savings: Because stuff happens

Personal emergencies can and will happen to everyone, even to you. A car door opens into your bike lane. Your roommate moves out and leaves you with the lease and the rent due. Or worse, you lose your job. Now what?

If you have an emergency savings, it's an easy fix.

Make it a priority to squirrel away at least three months of essential living expenses into a basic savings account using automatic savings deposits. You'll earn only pennies on the dollar, but it's the easy access you'll want for these funds.

Big ticket savings: For the big deals

Now it's up to you to buy your car, wardrobe, furniture and that vacation you've been dying to take. Using credit cards can double the cost and take years to repay, so paying the max up front with savings is very money-smart. The more and sooner you can save, the more you can get.

Retirement Account Options	
401(k)	**Roth 401(k)**
• Company opens account for you • Dozens of different investing options • Save up to $17,000 each year • Contributions are pre-tax • Company may offer a match	• Company opens account for you • Dozens of different investing options • Save up to $5,000 each year • Contributions are after-tax • If company matches, it will go into regular 401(k) portion
Traditional IRA	**Roth IRA**
• You open independent of work • Thousands of options to invest • Save up to $5,000 each year • Contributions are pre-tax • No match	• You open independent of work • Thousands of options to invest • Save up to $5,000 each year • Contributions are after-tax • No match

Earmark a certain amount of money for these goals and look for savings accounts that safely lock up your funds a bit but pay more interest, such as a certificate of deposit (CD) or money market account.

401(k) or IRA: Your first excellent investment

You've got the most powerful financial force of all, time, on your side. The sooner you start putting money away, the better.

If your employer offers a 401(k), fantastic! Take it. If the company matches what you save, even better (think free money!) If this isn't an option, you can open a traditional IRA at your bank or brokerage. Every dollar put into a 401(k) or IRA (up to a federal annual limit) reduces your taxable income and lowers your income tax bill for the year.

Making the deposits automatic will do wonders for your bottom line.

Credit

Use it, don't abuse it

Credit is a fact of life. It's easy to get and easier to use. But make no mistake: How you use credit will impact your employment, lifestyle and finances throughout your lifetime.

How credit works for you — or against you

Credit allows you to purchase goods or services now and pay later, usually with monthly payments. Over time, you pay the cost of your purchase, plus a percentage of your borrowed amount in "interest."

There are three types of credit you will see:

- Installment loans – Long-term loans for education, autos, furniture
- Major credit cards – Revolving credit (pay some off, buy more) that can be used to make small and large purchases almost anywhere
- Store credit cards – Revolving credit, store use only

Your credit score will determine your access to credit throughout your lifetime — whether you'll be approved, for how much, and at what interest rate.

The FICO® Score: Your golden ticket or painful financial detour

Your FICO® Score is the nearly universal measure of your credit worthiness used by banks, mortgage lenders, retailers, and credit card companies. Some employers and government agencies will even check your credit to see how responsible you are.

Your FICO Score is determined by a mathematical formula that analyzes the data in your cumulative credit history, weighing these factors:

What Impacts Your FICO	
Payment history:	35%
How much credit you use:	30%
Length of credit history:	15%
New credit:	10%
Credit mix:	10%

FICO Scores range from zero to over 800. Scores of 700 and above usually suggest good credit management.

A lower FICO Score means you are a greater risk and, and if you can get credit at all, you will be charged a much higher interest rate. It pays to protect your score by using credit responsibly and making sure you can make your payments on time. Also, review your reports at least once a year to make sure there's no incorrect or fraudulent information.

Credit Cards: The slippery slope

Having and using a credit card does help your credit if you use it responsibly; however, it can be a slippery slope.

The best defense against overcharging is to carefully budget your expenses each month — and stay within the limits you can actually afford, whether paid in cash or charged on credit.

It's best to not charge more than 30% of your credit limit on any credit card. And beware of low introductory interest rates that can skyrocket after a period of time.

Note

A buyer with a good 700+ FICO Score might finance a car purchase at a 6% annual interest rate. A buyer with a 500 FICO Score might be charged 16.16%!

INVESTING

Put your money to work

You've heard the adage: "No risk, no reward." That is especially true when it comes to your money.

When you save in bank accounts, the amount you put in is essentially safe. You earn very little interest, however, and over time inflation can take a bite out of your earnings.

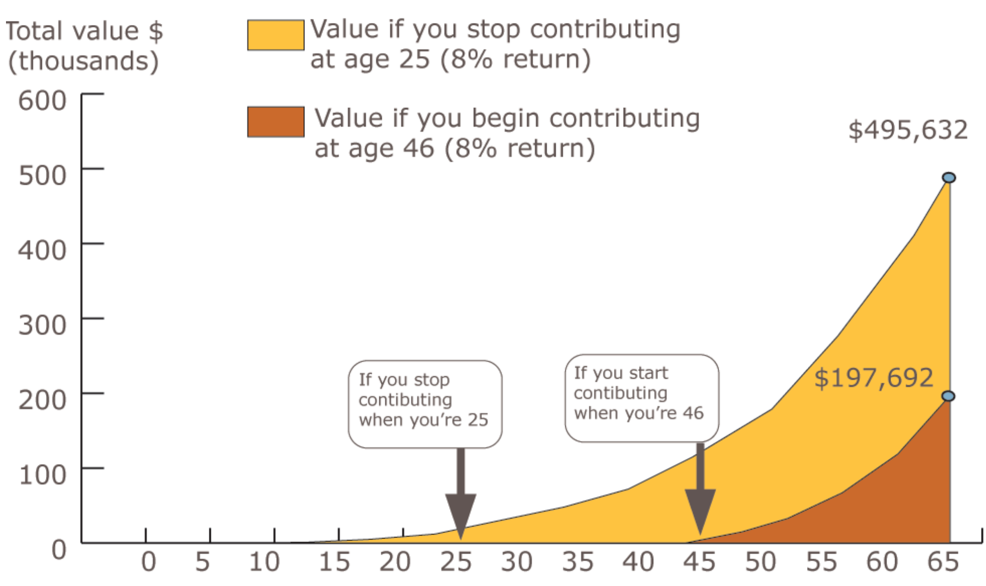
To stay well ahead of inflation and potentially increase your wealth, you have to step into the riskier world of investing.

Pro tip!

You can avoid taxes on capital gains (the tax paid on stock sale profits) if you trade in a tax-advantaged 401(k) or IRA.

But even within this realm, there are different types of investments with different levels of risk: the more risk you take, the greater potential return.

Power of compounded interest



Basic types of investments

The most common types of investments, also known as asset classes:

- Stocks – share in ownership of company
- Bonds – funding business or government debt
- Cash – generally short-term obligation; provide return in form of interest payment
- Real estate – homes, buildings
- Collectibles – art, coins, cars
- Derivatives/esoteric – more complex investments, e.g., options

Diversification: Your best chance of success

The wide range of available investments gives you the opportunity to be money-smart, that is, being cautious with the money you can't afford to lose while also taking calculated risks that can increase your wealth.

The strategy for achieving both is known as "diversification." You invest in a broad and balanced mix of asset classes, industries, and geographic regions — depending on the risk you're willing to take.

Because you have a longer time to make money, you can theoretically take on more risk. As you get older, you and your financial advisor adjust the balance as the markets, economy and your goals change.

The easiest way for investors to diversify is through funds that hold a bunch of securities. Some focus on specific types of investments, like technology, while others are multi-asset, or all-in-one funds.

But it's important to note that when you buy fund shares, you pay fees to the fund manager. When you're just getting started, you want to look for funds with low fees, otherwise known as "expense ratios." As you might expect, the more complicated the investment strategy, the more you'll typically (but not always) pay the manager.

Two types of funds are most common*:

- Mutual funds
- Exchange traded funds (ETFs)

*See next page for comparison

ETFs and Mutual Funds: Side-by-Side		
Feature	**ETFs**	**Mutual Funds**
Trading	Continuous through the trading day	End of day
Minimum investment	One share	Specified dollar amount
Diversified	Yes	Yes
Professional manager	Yes, generally passive management	Yes, generally active management
Expense ratio (fees)	Generally lower	Generally higher
Follows an index	Yes	Sometimes
Transparency	Holdings typically published daily	Holdings typically published quarterly

Insurance

Protect yourself from life's little surprises

Insurance protects you from losses that are infrequent but can be so severe that they could wipe you out financially.

The way it works is you pay a premium — can be monthly, quarterly or annually — for coverages specified in your policy. Generally, the more you pay, the more coverage you get.

There are always very specific limits on the types of protection and amounts your insurance will pay. Some types of insurance, like auto and home, require you to pay a "deductible" before the insurance company pays anything. Other types, like health insurance, may have you pay a fixed amount or percentage of each medical cost (called a "co-pay") while they pay the rest.

You can insure almost anything, from lost airline luggage to massively expensive costs of long-term health care. But for now, these are the most important types of insurance you'll need:

Auto

If you own or are driving a car, truck or motorcycle in the U.S., you are legally required to have vehicle insurance coverage for both property damage and injury. Each state has different insurance requirements. Your auto finance or leasing company may require additional types of coverage and higher amounts of coverage than your state.

Medical and dental

Debilitating accidents and chronic diseases strike people of all ages, and the medical costs can be astronomical. For the time being, you are probably covered for most ordinary medical and dental costs by your parents' plans until you reach age 26.

After this you should take advantage of your employer's group health benefit plans for medical, dental, and vision care, if offered.

If employer benefits are not available, shop for another group health plan or local HMO system for affordable coverage.

Property

Would you be able to replace your computer, electronics, jewelry, and clothing if your apartment was robbed or caught on fire? In most cases the answer is no, which is why renter's insurance may be worth the premium.

If you buy a home or condo, your mortgage company will require you to carry insurance to rebuild or repair the building

in the event of fire, windstorm and other hazards. You'll also want liability coverage for injuries to workers or guests on your property. Flood insurance, while expensive, is also advisable in low-lying areas.

Entering adulthood is an exciting time. And now that you are armed with these money-smart tips, you can start making smart financial decisions that will pay dividends for the rest of your life.

About Aspiriant

Aspiriant is the leading independent wealth management firm in the United States.

Our firm draws upon deep roots within the wealth management industry. Aspiriant was formed in 2008 when two highly regarded firms combined to provide a full suite of sophisticated, integrated wealth management services.

Our firm's mission is to enhance the quality of our clients' lives by creating and implementing personal wealth strategies and managing clients' investment portfolios to meet their own unique, individual goals. At Aspiriant, you get true customization and personalization – the specific blend is dictated 100-percent by you.

Contact us today to see how we can help you reach your goals

415.371.7888

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