Striving for Financial Wellness:

Personal Finance Resources for Graduate Students

Graduate Student Life & Wellness

Success

wellness

Michigan State University

FINANCIAL WELLNESS

Graduate school is often a time of personal growth and change, and students may be anywhere on the spectrum from being on their own for the first time and renting their first apartment to starting a family and buying a house, not to mention those pesky student loans or other forms of debt. No matter your net worth and money goals, one way to reduce stress as a grad student is to increase your financial wellness.

If you care about your health, career, and relationships, you should care about personal finance. The American Psychological Association has reported it as the leading cause in stress for Americans every year since their Stress in America survey began in 2007. Avoiding financial pitfalls and making thoughtful, informed financial decisions can be the difference between a stressful life, and healthful one full of prosperity.

Luckily, caring about personal finance doesn't have to be complicated.

For many of us, getting off on the right foot may be as simple as learning the basic terms related to personal finance, figuring out where your money is going and where it *should* be going, avoiding living paycheck-to-paycheck by prioritizing saving money, following simple debt repayment and investment strategies that work for you, and waiting (seriously).

Becoming comfortable with personal finance begins with answering some basic questions, such as:

- What does success look like for me?
- How do I know if I am financially stable?
- How much should I spend on that (house, car, grocery bill, etc.)?

- I need an emergency fund because this is a basic tenant of being a financially responsible adult. What amount of money should I keep in an emergency fund? Hint: a safe answer is 6 months worth of living expenses (and a great first step!).
- Where is my money best spent and invested? Hint: not on interest debt.
- How can I simplify the process of saving money so that it feels easy and painless, even if my income is low (shoutout to #gradlife)?
- Are there additional resources on campus at MSU that could help me deal with my personal finances? Hint: Check out Financial 4.0!
- And finally, instead of reading this guide, is there an index card with all the best financial tips that I should know? Hint: Yes!

What to expect from this guide?

This guide breaks down personal finances into four main timeframes and associated financial actions/goals: Now! (Budgeting), 1-2 years (Saving), 2-5 years (Getting rid of debt), 5 years to Financial Independence (Investing & Retirement).

Following, we have additional sections describing other related financial topics of interest, such as, 'International Student Resources', 'Personal Finance Communities & Support', and more (see Table of Contents below for full range of topics).

Hopefully, this resource offers some easy-to-follow, yet fundamental tips to graduate students that will help the reader build up a frame of basic financial knowledge and a clear life plan by holding oneself accountable and responsible for our everyday (and long-term) financial decisions.

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Budgeting: Getting your financial household in order

First and foremost, the path to financial wellness can't begin until you balance your budget. You can't save/get out of debt/plan for retirement if you spend more or equal to what you earn on a regular basis. Since most of our expenses occur on a monthly basis (e.g. rent, cell phone, insurance, etc.), it is more familiar to consider, and easier to interpret, your budget at the same temporal scale.

Building a monthly budget is a great way to track your spending and earning patterns. To track your spending patterns, there are multiple user-friendly apps right on your phone! Great examples include Mint, YNAB, Wally, and many more! However, the apps all work in different ways, for example, Daily Cost (as shown to the right) allows you to enter purchases in while you make them, whereas some programs will connect directly with your bank account.

But it doesn't stop with tracking your expenses, the real work starts with ***planning your monthly expenses in advance.*** While some apps may have this as an addition, a great way is to start your own spreadsheet. Luckily, instead of starting from scratch, there are already some great resources online. You can find multiple free spreadsheets here, here, here, and here! There is even a great Budget Tracker through the Financial 4.0 website at the Michigan State University Federal Credit Union. A great way to to prioritize how you allocate your income to different expense categories is to follow the 50/30/20 Rule. So, of your income, 50% goes to essentials (your needs), 30% goes to non-essentials (your wants, we all need to have fun!), and 20% goes to savings/retirement. Check out the 50/30/20 Rule in action!

Fun Fact: You can cut your grocery bill in half by using the MSU Student Food Bank! It's a 'run by students, for students' organization to provide students with supplemental groceries on a bi weekly basis.

Building a Savings Net

Once you get to the point where your budget is balanced, the next step before you start investing for your retirement or paying off large chunks of student debt/mortgage, is to build an emergency fund. The general rule of thumb is 3-6 months of living expenses, so you can plan for job loss, medical emergencies, etc. However, we know that general rules of thumb are, well, general. Luckily, a more specific calculator exists. Just make sure you follow these strategies, so you don't spend it!

Fun Fact: Saving is easier than you think! Check out these strategies for saving money.

But should your money just site in a basic savings account that earns 0.00% interest? No, it should be making you money! There are various types of accounts that will make you money while also remaining liquid (e.g. stocks and real estate are not considered "liquidable" assets). Some examples include, money market funds, CDs (no, not the successor of the cassette tape), and high-yield savings accounts. Currently, online savings accounts, due to their relatively high interest rates (1.00%) and liquidity (1-2 days), are seen as the best option for holding your savings. But for a more in-depth breakdown, read a more in-depth comparison here. Most high-yield savings accounts are based out of online banks or credit unions, and the best include Ally, Barclays, Capital One, and Synchrony. However, if your planning horizon for the money saved is at least 3-5 years in the distance (less need for liquidity), you may want to read the section 'Investing' (Page #).

Savings Tip: Emergency funds aren't the only reason to save, consider starting a travel fund, car fund, wedding fund, and others as well! You are less likely to spend money on wants than needs if your savings accounts are compartmentalized, and sometimes wants (such as travel) should be prioritized as well as your needs.

Minimalism: Ethical reasons for spending less

Aside from the many monetary benefits of making informed decisions related to personal finance, increasing your savings rate has another positive effect: saving the planet.

Using only the resources you need, investing in quality purchases that will last a lifetime or from companies that will repair or recycle their products, and reducing spending generally reduces consumption. We know that the climate is changing, the ocean's Great Pacific Garbage Patch is growing, and the world's population is increasing at an alarming rate.

Spend time thinking about the lifecycle of your possessions and program your mind to stop buying crap you don't need.

Borrowing and Debt

It goes without saying, college is expensive! Especially when multiple degrees are involved. Managing your debt is key. With credit cards, student loans, housing costs and so much more, debt can really start to pile up, especially for graduate students. Firstly, it's important to have a responsible Debt-to-Income Ratio. Use this calculator to figure out what your DTI is.

Credit Card Debt

First rule of credit card debt, avoid it! However, if you find yourselves in that situation (like many of those graduate students who have come before you) it should be one of your first priorities in paying off (above savings, investment, etc.). The APR (annual percentage rate) of most credit cards ranges from 15-25%. That's a lot!

For many students, credit card debt is unavoidable. There are some myths associated with credit cards and the best way to go about getting one. It's ideal to pay off your credit card balance monthly, (which is a great way to improve your credit score!) but if you do find yourself unable to do so, there are a few different suggested options for credit card debt repayment:

- The debt snowball plan suggests starting with your smallest balance first, (if you have more than one credit card) pay off that amount, and move on to the next. The idea is that you'll stay motivated if you see progress.
- Some like to focus on paying debts with the highest interest first.
- Others like to take a more moderate approach.

Once you find what approach works best for you, stick with it. There's no better feeling than paying off a financial burden.

Student loan repayment plans

Did you know there are multiple types of student loan repayment plans? You don't have to reluctantly agree to the plan that is assigned to you. There are plans for recent graduates, extended payment plans, and a variety of income based plans.

- Estimate your payments and check out all the plans.

Fun Fact: If you work full time as a healthcare professional or full time in a non-profit, you qualify for student loan forgiveness.

Home and Vehicle Loans

Congratulations! You've gotten to the point where you're ready to make a big purchase. All that financial planning has paid off! Most people don't have sufficient cash to pay for a new home or car in full, so taking out a loan is a must. With a plethora of lenders and loan types, it can be easy to get overwhelmed. Check out the resources below to find out what your options are.

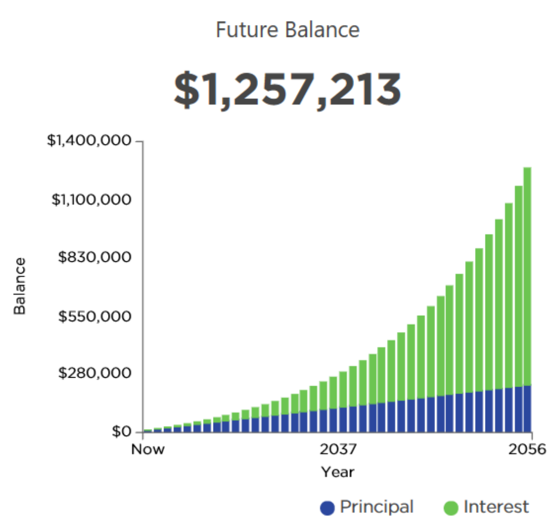
- Car loans: Ready for a new car? Learn how.
- House loans: Thinking of buying a house? Learn about your options.
- Use this calculator to estimate payments for home and vehicle loans.

Investing In Your Retirement: Striving for Financial Independence

As a graduate student, why should I be worried about investing for retirement? That's decades away, I'll worry about that later! Well, you should be thinking about it now. For many very, very important reasons, but for right now we'll just focus on two: Financial Independence & Compound Interest.

Put more simply, **financial independence is the ability to have sufficient personal wealth (typically, because your assets generate income - e.g. investments) to cover one's expenses without having to work.** You need to be financially independent to retire, but it doesn't mean you have to wait until you're 65. Wouldn't it be nice to be able to make career decisions related to your enjoyment, purpose, and well-being, and not just the paycheck? Heck, wouldn't it be nice to retire before you're 65?!

Your #1 sidekick to becoming financially independent is compound interest. Put in it's most simplest terms, it's 'interest on interest' (i.e. as interest is earned it is added back to the principal sum for the next compounding period, the time period in which interest is added which is typically done on a quarterly or monthly basis). So, long story short, your investments will grow at an increasing rate! Is that a good enough reason to start investing now?!



To better understand and determine how much you should contribute to your retirement, play around with this free compound interest calculator. As an example (to the right), assume you max out the contribution to your individual retirement account (IRA) every year (which is $5,500) for 40 years assuming an annual interest rate of 7% (which is a standard long-term average return from the market). If you had just saved that money (earning no interest), the principal amount would be $220,000. However, by investing early and taking advantage of compound interest (look at how the green bars increase exponentially!), ***you'll have over $1.2 million when you're ready to retire!*** You'll want to to plan for a [4% safe withdrawal rate](), so without dipping into the $1.2 million principal amount, you could expect an annual income of $48,000.

How to Get Started

There are various means to save/plan for retirement including; pensions, social security, 401(k), Traditional IRA, Roth IRA, etc. However, as a graduate student, most likely you will be utilizing a Roth IRA. Pensions and their modern-counterpart, the 401(k), are employer-established plans, in which your contributions are tax-deductible and matched (to some extent) by your employer. However, these options are not currently available to graduate students. Social security, while reliable, does not necessarily provide a livable wage by most standards (but might be more than we make as graduate students!). For example, the maximum monthly payment for someone retiring at full retirement age in 2016 was ~$2,500. And that amount isn't guaranteed to everyone, it's a function of how much you contributed through payroll taxes, at what age you retire (65 vs. 70), etc., *it's the maximum, not the mean.*

IRA's are individual retirement accounts and are most suited for graduate students interested in their retirement. Both are fairly similar (maximum annual contribution is $5,500, no taxes on your capital gains, no early withdrawal without penalty), the big difference between the two are their tax benefits. All contributions to a Traditional IRA are tax deductible (can claim on your annual tax return), however, when you retire, the withdrawals will be taxed as income. In a Roth IRA, your contributions are not tax-deductible, but your withdrawals (when you retire) are not treated as income. Because, as graduate student, your income is most likely lower than when you retire, **it's best to go with the Roth IRA. In other words, get taxed now at a lower rate than get taxed later at a higher rate.** And if you want to contribute more than the maximum, you're more than welcome to invest in a regular investment account (not tax-sheltered)!

Important note: An IRA is not an investment, more a tax-sheltered account used for investing. Once the money is established within an IRA, you will still need to pick stocks, funds, or ETFs to invest in.

Where to Invest

Most likely, due to the amount of money you will have invested (which might be low) it may be hard to get a personal financial advisor (and their fees will cut into your earnings). ***But due to an innovative revolution within the investment community,*** low-cost index funds are easily accessible online through firms such as Vanguard and Fidelity, which we highly recommend to the reader! When you think of investing, you most likely think of buying stock in a particular company (not recommended for your retirement investments). But another alternative is a mutual fund, which allows the investor to gain access to diversified, and professionally managed portfolios. However, there are two types of mutual funds: actively managed funds and index funds. Index funds are arguably better for retirement due to their lower expense ratios (less trading), less risk (track a sector of the market vs. an individual manager selecting funds), and have even been shown to outperform their actively managed counterparts!

Tip: The three main things to consider when purchasing shares in an index fund are: 1) Expense ratio (< 0.20%), 2) Average annual return rate (> 7.00 %), and the level of risk (moderate to low).

Example Fund: A great index fund offered by Vanguard is the Total Stock Market Index Fund, which is low cost (expense ratio < 0.16%) and diversified (covers the entire U.S. market) to minimize risk. But there are many to choose from, so do your homework!

International Students: Getting Set-up in the States

International students are a growing and important group in MSU. Setting up in another country with brand-new financial system, however, means a lot of life pressure. Following this step-by-step checklist, you will get a safe start to planning your financial wellness here at MSU (using on-campus resources as well!).

Obtain SSN (social security number)

Getting a social security card is the first step of legally working and getting paid in the United States. **This card is NOT an ID you take with you everyday like a driver's license**. It is very confidential and your foremost employee ID in United States. Keep it safe and do not reveal your SSN in written form to any unauthorized third-party.

Open bank account

It is never safe to take large amount of cash with your or keep at home without security measures. So the first thing to build up your financial system is opening a US bank account. It is also the best option to pay for tuition (wire transfer and/or credit card might be charged with processing fees). You can open checking and saving account with the MSU-Federal Credit Union, Chase and other locally available banks.

Identify scam and protect personal information

Everyone is vulnerable to scam calls - even many US citizens fall victim to these scams. International students are particularly prone to become targets as the predators would threaten to terminate your status in the US. Do not give out any confidential information when you get calls like this!

Always remember: US government agencies will NEVER demand money from you over the phone, by email, or social media.

Build credit from scratch

Apply for your first credit card to start building your credit history. A good FICO score will leave you better options for buying financial products and long-term financial stability. Again, for new non-resident students, MSU federal credit union is the one to start with. Discover Student credit card is also friendly to new students. Once you start up, Credit karma and Mint are websites you can use to track your credit score and get financial tips.

File taxes

Grad students who receive payments from the university need to file their taxes. International students might enjoy certain exemptions depending on their citizen countries. The MSU College of Law Tax Clinic hold interactive seminars for International students and scholars filing taxes as NON-RESIDENTS to assist you in preparing your federal and Michigan income tax returns using GLACIER, a web-based tax return preparation system. At the end of the instructional course, participants will have prepared their own returns and they will be ready for filing. Turbotax is another option for residents (after you live and stay in United States for more than 5 years). For more specific information regarding your own case, please go to tax walk-in hours in the International Center every Tuesday.

Be careful on auto-loan and mortgage

As mentioned earlier, with a blank credit history, the interest rates for international student are usually a few percent higher than US residents. Watch out and calculate carefully, as a 2% interest rate difference in interest rate could end up with thousands of dollars more in payments. MSUFCU loan office offers credit cards, vehicle and home loans in a fairly low interest rate compared to most commercial banks. Auto dealers like Spartan Toyota also have 0% student financing plans in fall of every year.

Resources to MSU International Students

- Michigan State University Federal Credit Union
- Office of International Students and Scholars

Resources for Non-traditional Students/Families

Contrary to popular opinion, many graduate students are not fresh off their bachelor degrees. It's becoming more and more common for graduate students to return after years off. For some, it may be a complete career change. Others may have a family to support. Whatever the case may be, returning to school after being financially independent can be daunting. Especially if you have to quit your current position or decrease hours.

- If coming back to school means revisiting student loans all over again, there are some other types of aid for non traditional students.
- There are also many different scholarships and grants specifically for non traditional students.
- MSU has also compiled a list of resources.

Forums/Blogs/Podcast to Follow

We love personal finance and often learn about the topic by following blogs, podcasts, and other financial outlets. We've collected the below resources for students interested in personal finance who want to read or listen to more on the topic.

Finance forums: Join a community of like-minded folks! At forums such as these, you can often solicit advice or read advice from experts to others in the same financial situation. I would definitely recommend reading a couple of case studies to help you create a vision for your own personal definition of financial success.

- Your Money and Your Life (NPR-sponsored facebook group)
- r/personalfinance

Finance blogs: No need to reinvent the wheel, learn from the pros! The blogs we've listed promote a range of ideas about money and how to it should be managed, and it can be helpful to learn about what's out there in the world of personal finance as you're trying to make decisions about your own financial health.

- The Billfold
- Budgets are Sexy
- Mr. Money Mustache
- Financial Samurai
- Frugalwoods
- The Financial Diet
- The Simple Dollar
- Think Save Retire

Finance podcasts are another great option for learning about personal finance if you prefer to listen rather than read.

- Bad with Money
- Planet Money

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