Stanford FEDERAL CREDIT UNION | Stanford Mind Over Money

Financial Life on The Farm

February 2021

Financial tips and information for students from [Stanford Federal Credit Union](#) (a full-service bank serving the Stanford community) and [Mind Over Money](#) (Stanford's financial wellness program for students).

Invest in your future

Start building credit now for a secure financial future

You've likely heard the horror stories of people who get in trouble with their credit cards or too much debt. Many Americans owe more money than they earn in a year. It's a scary thought, yes, but there's a positive side to debt. Loans can help you buy a car or house much sooner than if you tried to save enough money to purchase them on your own. And without credit history, you won't qualify for any loan. Even apartment managers will check your credit history before renting to you.

Now is the time to start building credit, so when the time comes to apply for a needed loan, you'll qualify for the lowest rate and highest loan amount:

1. Start with a credit card or retail store card with a small credit limit.
2. Use the card for small purchases, and carry a small balance.
3. **Be sure to make the monthly payments in full and on time**—this will show lenders that you can manage debt.

You should also begin monitoring your credit activity and score, which are used by lenders when they're reviewing applications. There are free online programs like Credit Karma where you can view your credit score. Stanford Federal Credit Union also provides all members with their free FICO® Score quarterly through Online and Mobile Banking. And all consumers can get a free credit report annually to monitor your credit activity and history at annualcreditreport.com.

Start young, retire young!

As difficult as it may be to think about retirement when you're still in school, you should begin saving for retirement just as soon as you're able. The younger you are when you start investing, the more time you have for your savings—however small they may be—to harness the power of compound interest and grow substantially.

Compound interest simply means that you're earning interest not only on your initial savings, but also on the interest you earn. **By starting in your 20s, you have 40 years of compound interest working to maximize every penny.** The chart at right shows the huge benefit of starting your retirement savings in your 20s.

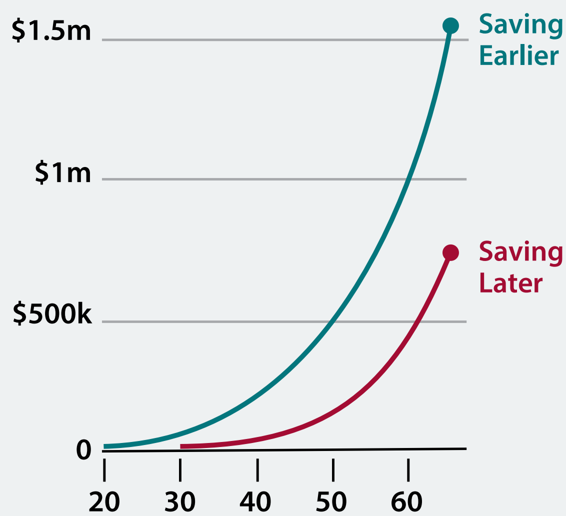
You don't need a financial advisor to get started—open a simple Individual Retirement Account (IRA) at any credit union or bank. Set up automatic deductions if you have a paycheck, or automatic transfers into your IRA if you have other income. Be sure to choose an IRA where **dividends are compounded monthly to earn the most interest on your savings.** As your savings begin to grow, you can move up to more sophisticated investments and meet with a professional financial advisor.

If you work for a company with a 401(k) matching plan, be sure to take advantage of any additional money they're willing to deposit into your retirement account by putting a portion of your pre-tax paycheck into the 401(k).

Remember, you don't need to save a lot right now—just get started, and get in the habit of saving for retirement. By starting young, you'll be able to retire young!

Investing Sooner Rather Than Later Pays Off

An individual who begins investing in their 20s rather than their 30s will likely end up with a retirement account balance that is nearly twice the size.



Note: Assumes one investor starts saving $5,000 annually at age 22, while the other starts at age 32. They both start with a $5,000 balance, earned 7 percent return and retire at 67.

By the New York Times | Source: Vanguard

Good news for grad students!

The *Setting Every Community Up for Retirement Enhancement Act*, commonly known as the SECURE Act, makes it easier to save for retirement. It also makes retirement plans more accessible to more people, including grad students! The SECURE Act now permits graduate students to count taxable stipends and non-tuition fellowship payments as earned income for the purposes of making Traditional or Roth IRA contributions.

Managing money after The Farm

Today your primary goals are graduation and landing that first job. Having a rewarding career and a steady paycheck means you'll live happily ever after—but only if you can manage your everyday expenses while planning and saving for the future. It took hard work and planning to get to Stanford. It will take discipline and planning to achieve your financial goals, as well.

Start with a budget. There are lots of free online budgeting tools and calculators to help you match your monthly income to your monthly expenses. The idea of a budget is quite simple—subtract your monthly expenses like rent, groceries, cell phone, and car insurance from your monthly take-home pay:

$4,000 monthly income after taxes and other deductions like health insurance cost
- $1,600 rent
- $350 groceries/dining out
- $150 utilities
- $50 cell phone
- $50 Netflix, iTunes, gym and other subscriptions
- $450 car payment, insurance and gas
- $350 miscellaneous
= $1,000 leftover

Once you've determined your necessary expenses and made sure that your income is sufficient to cover everything, you should set up regular contributions to a savings account for emergency funds. Most financial experts recommend having six months' worth of living expenses available for emergencies. You will decide how much you want to deposit into your savings account each payday, and your Human Resources Department should be able to deduct that money directly from your paycheck and deposit it for you. This ensures that your savings will be consistent, and it won't get diverted for other spontaneous purchases. Remember that you can always make a withdrawal if needed!

You can also set up a separate savings account for specific goals, such as a dream vacation to Greece, or a down payment on a house. A portion of your income should also be set aside for retirement, and if your employer has a 401(k) matching program, be sure to take advantage of that free money!

If your company has limited resources, you can also set up automatic transfers from your checking account to your savings accounts to provide the same consistent savings. And if you get extra income like a bonus, commission, profit sharing or tax refund, use the 50/50 rule to put at least 50% in savings and enjoy the rest.

The most important thing to remember is that planning, budgeting, and discipline are the keys to achieving your financial success!

Online Budgeting Tools

Mind Over Money   Stanford Federal Credit Union

Financial Education Resources

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Stanford FCU's Financial Education Tools

Mind Over Money's Financial Coaches

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Financial Life on The Farm is published through Stanford Federal Credit Union and Mind Over Money's partnership and shared mission to improve the financial lives of Stanford students.

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