

Managing Your Finances as a Graduate Student

Money's tight: it's a fact of life as a grad student. Whether you're living on loans or stretching your assistantship dollars, knowing the basics about debt, credit, taxes and savings is crucial. Here's your starter guide to making the most of your financial options now while still planning for the future.

DEBT

Debt is used to smooth lifetime consumption. Basically, you're borrowing from future time periods to increase today's consumption, and if you pay it back on time it'll reduce future consumption.

Education is a human capital investment. The debt you incur to pay for school is good, because you're probably going to use it to increase future income. Human capital investment might include tuition and fees, books and study materials, your computer, or travel to an academic conference—all of these contribute to your degree. Rent isn't an investment, but rather a pure transfer from a future period, as are groceries and travel for fun. Minimizing your cash spending and by consequence, borrowing, right now makes the investment in education that much more valuable down the road. You're going to need your income in the future, so don't waste it now.

Your income as a grad student isn't level—maybe you're uncertain about getting funding over the summer, or you're waiting to hear about a scholarship you think you qualify for. Since your income is so variable from month to month, you'll need to make a spending plan for 12 months, so you can easily see when expense needs are coming up. When you see where the shortfalls are, you can take a little more from loans to cover yourself. Of course, you should be tracking ALL your expenses and saving wherever you can (borrowing less is still saving!)

If you need to borrow, definitely use student loans, but remember you don't need to take everything they offer you. Just refer to the 12-month spending forecast you made to see how much you think you'll need. For a car, auto loans are fine since they have a low interest rate and use fixed payments. Be sure to buy an older but reliable car. Get

a credit card with a credit limit and pay off your balance regularly. Make all your long-term debt student loans, NOT credit card debt!

Repaying the debt

Learn all your repayment options. Loan counselors—there are some in the Financial Aid Office!—will have the best info on this. If you're having trouble repaying your loans, be proactive with your creditor. Contact them first and ask if you can work something out BEFORE you are late or miss a payment. Prioritize your debts: Your family and living needs come first, followed by housing and utilities, car debts, federal debts, student loans and other secured debts. Unsecured debts are last priority, and these will probably be your most vocal creditors because they know they come last. If a creditor persistently calls you on the phone, it's a good guess that it's one of these lowest priority debts.

CREDIT

Credit reports

There are three major credit reporting bureaus: Experian, Equifax and TransUnion. They keep track of all credit transactions, which creditors report to them. Your credit report contains anything pertaining to your credit history: repayment history, credit limits, lenders, collections, current payments and balance, length of credit, current activity, and type of debt. It also has some public record information about you, such as convictions, divorces, bankruptcy, foreclosures and court judgments. And of course, there's the requisite personal data: your name, social security number, current and former addresses, and employer.

It's important to periodically check your credit report for accuracy. You can get one free report from each bureau per year (check annualcreditreport.com). Georgia residents can request another free report from each bureau per year, but you'll have to call the bureau on the phone. If there's incorrect info on your report, you must send a written letter to the credit bureau. They'll be obligated by law to follow up on it.

Credit scores

This is a numeric representation of the information in your credit report. Scores range from 350 to 900, and a good score is above 750. Finding out your credit score isn't free, but you can usually get it for very little cash—five dollars or less.

Your credit score is calculated using approximately the following formula: 35% payment history, 30% amount owed, 15% length of credit history, 10% new accounts, and 10% types of credit.

Who uses credit scores and reports? Lenders, of course, but also property and casualty insurers (homeowner, renters, auto), landlords, or employers with your permission. They're usually looking for the public record information, but might check your credit history if the position you're up for involves financial responsibilities. And it's a good idea to exchange credit reports with your partner before getting married.

Protecting your credit

If you find disputed items and corrections on your credit report, clear them up as soon as possible and check your report regularly to make sure they're gone. One exception: if you're in the midst of a financial struggle, prepare your letters but wait until you're back on your feet to correct the credit. Otherwise, you may not see a significant improvement in your credit score. Identity theft is an obvious concern, and most of it still occurs from personal contact, for example, someone gets a hard copy of your personal documents, rather than a mass security breach. Be sure to shred important documents, keep personal information secure, and never give out info online or over the phone if you didn't initiate the contact. Remember to keep reviewing your credit report regularly.

TAXES

Keep records of all school-related expenses: books, fees, software, conference fees, professional memberships. These may be used to offset taxable scholarships and fellowships. Scholarships that you use to pay tuition are NOT taxable, but those used for room and board are. Tuition and fees paid by you qualify for tax credit. After graduation, you can deduct up to \$2,500 of interest on your student loans.

Employee benefits

When you start working, be sure to take advantage of employee benefits to minimize taxes. This probably doesn't apply to you right now, but it will come in very useful in the future. For example, a flexible spending account is deducted from your pay pre-tax and can be used for medical expenses or dependent expenses, depending on the type of account. Voluntary retirement savings plans are an option. Minimize risks to your family by getting good life insurance as well as health and disability insurance and maybe long-term care.

SAVINGS

To be fully prepared, you'll want an emergency fund as well as an investment plan.

Savings is money not at risk to losing principal, but it is at risk to losing purchasing power. It's not likely to outpace inflation and taxes over the long run.

Investing is putting assets at risk with the potential of earning relatively higher investment returns. It is at risk of losing principal, but will likely outpace inflation and taxes in the long run to provide net positive returns to you, which builds wealth.

So, where do you begin? Start with employee-sponsored retirement plans. You'll want one that's employer-matched, and you'll want to be very familiar with the benefits they offer, as well as a tax-advantaged savings plan. Another good idea is a Roth IRA, which provides tax-free growth and withdrawals during your working years.

In investment, diversification is key. Diversification in your portfolio brings lower expected return but optimizes your return for the amount of risk you're taking. One way to diversify is through asset allocation, which spreads investments over multiple types of assets, such as stocks, bonds and real estate. Another way is through a mutual fund, which holds many securities. In choosing a mutual fund, you don't want to pay a fee, so find a no-load mutual fund and look for low expense ratios. ■

Based on the Graduate School seminar "Managing Your Finances as a Graduate Student" by Lance Palmer, Assistant Professor, Department of Housing and Consumer Economics. To view this seminar in full, visit <http://www.grad.uga.edu>.