



# CURRENTS

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*This is the first edition of O'Brien Management's electronic newsletter on financial planning issues. If you have suggestions or ideas for future article topics, please e-mail us at [ckuppens@obrienmanagement.com](mailto:ckuppens@obrienmanagement.com) or call us at 617-547-6717.*

## Financial Fitness for College Graduates and Twenty-Somethings

By Cindy Kuppens, CFP® and Lis Zimmerman, CFP®

Fostering Trust  
Building Wealth  
Educating Clients

Clients often ask us to help them—and sometimes their grown children—understand the basic “rules” of managing their financial wellbeing. The recession that began in 2008 and its lingering effects—including stubbornly-high unemployment and decreased property values—have caused many people to reexamine their spending and their lifestyles. They seek simpler approaches to living, with more emphasis on values and people, and less emphasis on material goods. Over the past three years more clients have approached us with questions about budgeting, how much they should spend on mortgages or rent, how much and where they should save, and whether they can afford expenditures such as vacations or college tuition. O'Brien Management clients, like millions of other Americans, are focusing on financial basics, no longer assuming that the financial markets or their appreciating house values will ensure continued financial health.

As the parent of two children in their early twenties, one just out of college and the other graduating next year, Cindy is encouraging her two young adults to find paths that work for them, hopefully allowing them to find interesting and satisfying work and lives while remaining focused on building a solid financial foundation. By this we mean living happily within their means while building a reserve for rainy days and for the future. As we think about the “rules” that apply to young adults just starting out, we realize that these same rules apply to all of us, whatever our stage of life. However, it never hurts to review the basics, and may even help refocus or reenergize you to become financially fit. Here are the “rules” Cindy is trying to teach her two children as they go out into the world on their own.

### The “Rules”

- If you don't have an income, don't use a credit card.
- If you have an income, go ahead and get a credit card, but use it only for very limited purchases, and pay the full balance off at the end of the month. Do this for a few purchases every year so that you can build a credit history.

*The greatest compliment you can pay is the referral of friends and family. Thank you for your trust!*

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- Use a debit card or cash for daily spending (but use a credit card for on-line purchases, so that cash in your checking account cannot be accessed in the event that an on-line retailer's website is compromised).
- Use [www.mint.com](http://www.mint.com) or another on-line budgeting site to create a budget and track your spending.
- The maximum you should spend on rent is 25% of your gross income (or, one week's pay).
- If you rent, purchase renter's insurance.
- If you buy a condominium or house, the most you should spend on mortgage, property taxes, and home insurance is 28% of your gross income.
- The maximum amount of consumer debt (such as credit cards, car and education loans) you should carry should be no greater than 20% of your gross income.
- Save 10% to 15% of your pay to build an emergency fund equal to three to six months of your salary.
- Once you have an adequate emergency fund continue to save 10 to 15 percent of your pay. If you have a job where your employer matches your contributions to a savings plan, contribute at least enough to get the maximum employer match.
- Contribute to a Roth IRA if you are eligible, but only after you have contributed enough to receive any available match in an employer savings plan. In 2011, individuals earning less than \$107,000 per year can contribute up to \$5,000 to a Roth IRA. Allowable contributions are reduced for incomes between \$107,000 and \$122,000. There are separate rules for those who are married and those who are age 50 or older.
- Make sure you have at least catastrophic health insurance (that is, health insurance for hospitalization and large medical expenses).
- Make sure that you have long-term disability insurance, either through your employer or on your own, to replace 60 to 70 percent of your income in the event you become disabled.

As with O'Brien Management's approach toward investing, we hope to make financial fitness "rules" simple and easy to understand. With discipline and knowledge, it is possible for twenty-somethings, even in these challenging times, to begin building a solid financial house, and it is never too late for the rest of us to strengthen our financial foundation.

Please let us know if you have any comments or thoughts about these recommendations, and feel free to pass this article along to your young (or not-so-young) friends who may be interested.

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