

# **COSTS AFTER COLLEGE**

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## **Your Money and How to Manage It**

Once you graduate, you realize that there is a whole different world ahead. It is filled with great opportunities and exciting experiences, as well as many responsibilities. One of the biggest of these is money. How to budget and manage your money is something that takes organization, but will help you succeed and save thousands in the future. This packet will look at some common financial burdens, such as student loans, credit cards & health insurance. Hopefully it will give you some tips on how to be successful with your finances.

One of the best things you can do in order to manage your finances is to develop a budget for yourself.

- The first step in this is to make a list of your necessary expenses (rent, car payment, phone, groceries, student loan payment, etc.) and your additional or occasional expenses (cable TV, newspaper, movies, gym membership, unexpected costs, etc.)
- Calculate how much you already spend or plan to spend on the necessary expenses per year. Then figure out how much you spend on the rest. Add it up and divide by twelve. If your monthly total is less than or equal to your paycheck, you're in good shape. You've hit your spending target.
- Now your goal is to stay within your target range by paying your necessary expense and balancing your additional ones.

### **Quick & Easy Ways to Save**

- What you buy something, ask for a receipt and stuff it in your wallet. Even if you buy a Coke, ask for a receipt. When your wallet gets full, empty the receipts into an envelope and keep them until you've collected a month's worth. Then divide them up. See what patterns develop. The point is to identify where the money goes so you'll have some sense of control over your spending. You may decide there are some things you could do without.
- Clipping coupons will help you save money on groceries, dry cleaning, car washes, car maintenance apartment cleaning. Coupons are everywhere. They come to your apartment, on the back of grocery receipts & in the Sunday paper. If you save \$10 a week on dry cleaning, that's over \$500 by the end of the year!
- Moonlighting is a way to do the extra things you want to do, without breaking your budget. You can take on some part time work to supplement your cash flow. Sometimes it helps to think of your extra job as your trip fund or ski boot fund. That way, instead of being used to pay your gas bill, your moonlighting money gets earmarked for something fun. Some options of moonlighting opportunities include tutoring, temp work, walking dogs, babysitting or freelance writing. Keep an open mind about it; there are thousands of ways to make a little extra cash.
- It's amazing how much stuff piles up over the years. Having a yard sale is a good way to accumulate some cash and get rid of useless baggage. This is especially timely if you're planning to move. You can also take books to used bookstores and textbooks to the campus bookstore if the class is still being taught. If you want to thin out your CD collection, look for music stores that will trade your used ones for cash.

## Student Loans

On a national scale, the average graduate owes \$17,000. Think of it as the price tag that comes with your hat and tassel! Remind yourself, because the education you bought will serve you well in the years to come. During the 6-month grace period it is a good idea to organize your loans. Begin by:

- Looking at the interest on each loan. If one loan carries a higher rate than another, you've just prioritized your repayment schedule. You'll should pay more on the expensive (higher-interest) one and the minimum monthly payment on the lower-interest rate.
- If you have more than one loan, consider loan consolidation. This allows you to lump all your loans together then choose a repayment schedule.

### **How Loan Consolidation Works**

Loan consolidation allows you to combine your loans and pay them back at lower rates over a period of time that fits your budget. There are two ways you can consolidate your loans; through either Sallie Mae or the Department of Education.

#### **Sallie Mae Plan**

There are 4 basic repayment options you can choose. Base your choice on your income level right now and your expected income in the next three to five years. Also take into account other debts you might have such as credit cards and how long it will take you to pay them off.

1. The **Level Payment Plan** divides your total loan into equal payments for the long term of the loan. This is the least expensive option in the long run.
2. The **Max-2 Option** allows you to pay only interest for the first two years, which keeps your payment low, then fixed payments for the remainder. You'll pay more than the level plan, but you'll get a break when you need it most, during the first two years.
3. The **Max-4 Option** lets you pay only interest during the first four years, slightly higher payments during years 5-6, then your highest payments from year 7 onward. This costs the most in the long run but can give you the lowest payments in the years when you need it.
4. The **Income Contingent Plan** allows you to pay a portion of your income (4-25%) as long as that covers the interest that accrues. Again, the less you pay, the longer it will take and the more interest you'll pay in the end.

#### **Department of Education Plan**

Not wanting to stifle you, the Department of Education puts no minimum or maximum amount you can consolidate. Your repayment term can be up to 25 years and you have 4 options to choose from.

1. The **Standard Repayment Plan** divides your loan equally over 10 years and has a fixed payment of at least \$50 each month. You'll save the most with this plan.
2. The **Extended Repayment Plan** is one you might choose from if you have substantial loans. This plan allows you to extend your repayment period from 12-30 years, and pay a lower fixed payment than if you paid it back in less time under the standard plan. You end up paying more interest the longer the repayment term you choose.

3. The **Graduate Repayment Plan** gives you the lowest payments at first with increases every two years. Your repayment term can be from 12-30 years and you'll pay more interest in the long run.
4. The **Income Contingent Plan** allows you to pay based on your income level, rising (or falling) as your income changes. You have up to 25 years to repay the loan, accruing more interest with a longer term.

### **Why You Might Not Want to Consolidate**

When you have several loans at different rates, you may get the best deal by consolidating. Or you may not. It depends on what loans you have and what loans you have and what special subsidies or interest rates accompany them.

- ❑ If you have a subsidized loan, you may be able to get lower interest rates during certain periods, like the first few years. If you combine these with other loans, you might not get the break.
- ❑ If you have very high rate and very low rate loans, consolidation will go for a happy-medium rate that could cost you more in the long run. By keeping your loans separate or leaving the high-rate loan out of the consolidation package, you can pay the high-interest early and take a longer term for the lower-interest loan.
- ❑ If you're planning to go back to school, ask in advance if you'll be able to stop the interest from accruing on your original loans while in school. If this is impossible under certain consolidation programs, you might choose to keep your loans separate.

### **When You Don't Have to Pay**

Depending on your situation, you might be able to defer your loan or qualify for forbearance, which allows you to pay over a longer period or stop making payments for a specific period. If you're going back to school or you have special circumstances, such as financial hardship, ask about deferment and forbearance. Your lenders want to be paid back, so they'll work hard to come up with repayment options that work for you.

## **Credit Card & The Art of Repayment**

Once you get one card, the doors of purchasing are open to you. Since the credit card companies probably won't rush in and offer debt management courses any time soon, you need to work out a debt control system for yourself.

Some terms you should understand:

- ❑ LATE FEE – Charges if your payment doesn't arrive on time. The main problem with this is that the bill's due date can vary from month to month within a few days. If you miss the due date, your next bill could come with a \$25 penalty. Always call and ask if these charges can be removed if you notice it on your statement.
- ❑ GRACE PERIOD – The amount of time you have before interest starts accruing. Some cards will set the interest meter the day you make a purchase, so even if your bill in full each month, you'll still owe interest. Avoid these cards.
- ❑ CASH ADVANCES – When you use credit cards to get cash, interest starts accumulating on that day and you'll usually be charged a transaction fee as well.
- ❑ BILLING DATE – Be aware of when your billing date is for each card you have. If you charge something right after this month's billing date, you won't have to pay for it on your next bill. You'll be billed the following month.

### **Why You Should Pay More Than the Minimum Balance**

The following example shows you how much you can save by paying an extra \$10 a month.

	Minimum Payment	Payment + \$10
Amount charged on card	\$3,900	\$3,900
Interest Rate	18%	18%
Amount Paid	2% of balance	2% of balance + \$10
Years to Pay off Debt	35 years	6 years
Total Paid	\$13,997	\$6,479
Total Interest Paid	\$10,097	\$2,579

### **Some Tips for Credit Card Management**

#### **Prioritize**

- ❑ Make a list of what you owe, whether it is credit card, debt, student loans or IOUs to your parents.
- ❑ Pay off the most expensive loan first.
- ❑ Avoid sending your monthly payment late. The late fee can tack on \$25 or more per month and there's no sense in paying it if you can mark the due date on your calendar.

#### **Interest Rates and Annual Fees**

- ❑ Check around to see if you're really getting the lowest interest rate.
- ❑ Call and ask if your credit card company will remove the annual fee if it appears on your statement. Often they will remove this if you explain that other cards you have do not include an annual fee and you have no problem cutting up their card.

## Change Your Spending Habits

- ❑ Try to stop using your card to charge more and just concentrate on paying them off.
- ❑ Commit to paying for any new purchases the month you make them.
- ❑ On any card you have, if you pay the minimum payment plus the interest for that month and don't spend anything extra, you'll pay it off in four years.

## Break Your Patterns

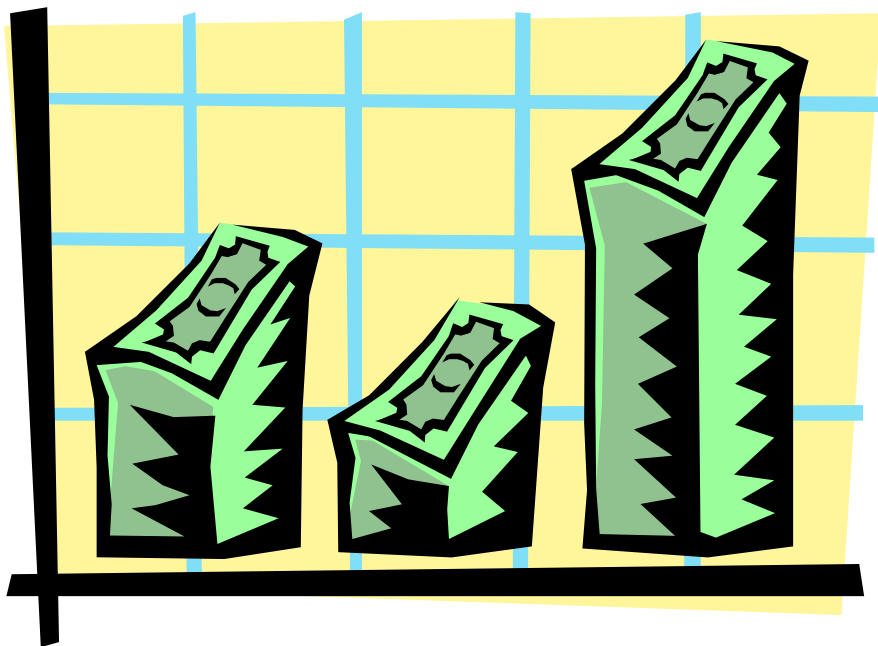
- ❑ Cut down on the number of cards you have. There are advantages to using only one card.
- ❑ Figure out how much you can realistically commit to paying each month to reduce your debt. Pay that before you figure out how much discretionary income you have left.

## Ask for Help

- ❑ There are companies that can help you figure out how to pay off your debts more efficiently.
  - Consumer Credit Counseling Service (800-388-CCCS)
  - Bankcard Holders of America (540-389-5445)

## Give Yourself Some Credit

- ❑ In all likelihood, this is not the first or last time you'll be dealing with debts. As life gets more complicated, so do the methods of paying for it. You may have a car loan, or a home loan. You may open a small business and borrow money for that. None of this means you'll be underwater – it just means you'll have to get pretty good at managing your debt, getting the lowest rates and keeping your credit record clean.



# **Health Insurance**

## **Types of Coverage**

### **Indemnity Insurance**

Under this type of plan, you pick which doctor you'll see, whenever you want. You can choose anyone from your family physician to a neck and back specialist, and your insurance company pays on a fee for service basis, which means the doctor gets paid for the services provided. But the cost to you in monthly premiums is pretty exorbitant, so this is no longer really the trend for insurance coverage.

### **Group Plans**

These are plans that are sponsored – that is, paid for in part or fully by your employer. If the company you work for doesn't cover the entire cost of the plan, typically the rest is taken out of each paycheck automatically. Group plans, which are typically HMO'S or PPO's allow you some choices, but not as many as indemnity plans.

### **Short-term Individual Policies**

The key is to think of them as a temporary solution, for emergencies only. If you are on your parents' insurance policy, you might consider staying on it and paying for your portion, until you find a job that has benefits. Many insurance providers offer short-term insurance policies to cover you from the time you graduate until you find a job or the time between jobs. These policies usually run about \$30-\$65 a month, but they have high deductibles. The policies are written for 3-6 months.

### **HMO's & PPO's**

These are both versions of managed health care insurance. The idea is that a panel of doctors and hospitals are created (sometimes called a network) to reduce the cost of health care for you and the insurance companies. The doctors and hospitals offer discounted fees in exchange for being listed on the panel, where they gain access to patients who sign up for the plan. The patients have incentive to use the doctors on the panel because the discounts are passed on to them.

#### **HMO's vs. PPO's**

##### **HMO**

- ❑ A Health Maintenance Organization is a type of insurance plan that provides comprehensive health care for patients as a prepaid, fixed cost. A HMO is the least expensive coverage available
- ❑ You start by picking a doctor/primary care physician from a list provided by the HMO. This makes a HMO more restrictive than a PPO. You pay a little bit each time you go to the doctor, but the HMO picks up the rest. This is called co-pay.
- ❑ The main criticism people have about HMO's is that they are too limiting, that they don't want to be restricted to choosing from a list of doctors they can see.
- ❑ HMO's and their participants are growing in numbers. Employers like them because they cost less, so it's more likely that you'll find one in your group health insurance packet at work. They also cost less for you.

## PPO

- ❑ Preferred Provider Organizations give you a list of doctors from which to choose. The doctors in a PPO have agreed to discount their fees in order to be on the panel. When you get a bill, it has been reduced by a certain percentage, usually around 20% and you pay the rest, until you've met your deductible at which point your insurance pays.
- ❑ Deductibles are usually \$500, \$1000 or \$2000 per year. Choosing a lower deductible will raise your insurance payments and vice versa.
- ❑ PPO's cost more than HMO's. You pay your monthly payments and you have to meet your deductible before the insurance company pays anything.
- ❑ The main difference between a PPO and a HMO is that PPO's are available to you on an individual basis or through a group plan.

## Determine Your Needs

Not everyone has the same health insurance needs. At our age, we have different needs than our parents do, so we can't always follow their lead. The type of coverage you want depends on how often you go to the doctor, whether you regularly take prescription medication, or whether you are in a high-risk profession. If you are an athlete, for example, and need to see podiatrists and orthopedists regularly to treat injuries, you'd probably want a PPO with a low deductible. That way you'd have a greater choice of specialists and wouldn't have to go to a primary care physician every time you wanted to see a knee specialist. Ask yourself these questions:

- ❑ On average how often do you see a doctor per year?
- ❑ What kind of doctor do you see, a general doctor or a specialist?
- ❑ Do you usually go to the doctor for basic checkups or for specific illnesses or injuries?
- ❑ What are you used to, going to a private physician or a doctor under a plan like Kaiser Permanente, the largest HMO in the country?

## Things to Remember...

- ❑ When you're deciding between policies and especially once you've chosen one, take time to read the policy provisions carefully.
- ❑ Some policies will include visits to the dentist or eye doctor. If this is the case with the plan offered by your employer, consider yourself lucky.
- ❑ Unions and guilds that receive dues from their members generally offer excellent plans as a benefit.
- ❑ Whether it's walking to work once a week instead of taking the subway or strolling during your lunch hour twice a week & eating at your desk, do something. Just because you have health insurance doesn't mean you should eat triple brie until you force your cholesterol to record levels or go skating on thin ice.