Winona State University
Career Services
314 Maxwell
Winona, MN 55987
507.457.5878
www.winona.edu/career
career@winona.edu

Winona State University
Career Services - Rochester
Student Services 125
Rochester, MN 55904
507.280.5079
www.winona.edu/career
rochestercareer@winona.edu

Top 10 Shocks for College Grads

By Pat Curry, Bankrate.com

Mom and Dad aren't there to pay the bills anymore. Are you ready to deal with credit, insurance, student loan payments and the jolt from your first electric bill?

The summer after I graduated from high school, I expressed my enthusiasm for starting college to a co-worker, who was a student at the university I would attend. I couldn't wait, I said, to finally get out into "the real world." She smiled. "College is not the real world," she said knowingly. "College is the final playpen." She was right. For most young people, college is the last phase in life in which someone else is paying the bills. Graduation marks the point at which they take full responsibility for their financial successes and failings.

This summer, thousands of students will leave the final playpen for the real world. From negotiating a lease to the heart attack of auto insurance rates, there's a host of new experiences awaiting them, and some situations for which they're totally unprepared.

Bankrate.com asked financial experts for their lists of the top 10 financial surprises faced by college graduates and suggestions on navigating in the real world. Here's what they said: Gross vs. net income "Even though they may work in college, they weren't making near the money they're making now," says Ric Edelman, author of "The Truth About Money." "They've never seen this much money in their lives." Reality hits with the very first paycheck, Edelman says, when they suddenly discover deductions for benefits, payroll taxes and income taxes at the 15%, 27% and 30% bracket. (Check out the net pay calculator at paycheckcity.com.)

"They go out, get an apartment and buy a new car," he says. "They develop very quickly a lifestyle based on their gross salary, having failed to realize they have to live on their net. Two weeks after they start, the bills are due and they get their first paycheck and discover it's less than half of what they were expecting. To sustain the expenses they're now incurring, out come the credit cards." **The cost of independence -- bills, bills and more bills!** If a college student is living in the dorms and has a meal plan, it might never occur to him or her that living on their own comes with a long list of expenses, starting with auto insurance and ending with utility bills. Groceries, the cable bill, Internet access, car maintenance, commuting costs -- it all adds up. "One of the biggies is rent," says Fran Katzanek, former director of Career Services at Roger Williams University and author of the book, "Reality 101: The Ultimate Guide to Life After College." "Everybody thinks they will have a big apartment, beautifully furnished. They almost can't afford an apartment by themselves. They really need to think it through and need to have one roommate, possibly two. "The other fantasy is a wonderful car to drive up to this phenomenal apartment. Does one really need a car? In New York or Boston, a car is a detriment. It's very unglamorous, but public transportation may be an answer for a short while. They need six months to see how their work lives develop. Then they will have a better idea of what they can and cannot afford." The range of bills comes as a surprise, she says, because of the number of adjustments to make after graduation. "They're so overwhelming, finding out what the electricity costs is at the bottom of the list," she says. "When a graduate goes up in May or June to receive a diploma, there should be a little budget sheet hidden in there." One significant resource that many students don't take advantage of is the alumni in the city in which they will live. They're a wealth of information, Katzanek says, and often eager to help a new grad. Contact the alumni affairs office to see if there's a chapter in the area. If not, ask for a list of names of alumni to contact ahead of time. **The first tax return** Sure, college students may have filled out a tax return before, but it probably was a simple form that involved no more record keeping than hanging on to a W-2. This will be the first time a return could get a bit involved. "They'll go to H&R Block at the beginning of April and they haven't planned over the year for the deductions they can take, so they can't take them," says John Sherman, the Money Matters guru at egrad.com. "There are an awful lot of rules to learn. They don't think about business travel and business car use."

Some of the activities that could translate into tax-savings for new graduates include job-hunting expenses such as resume services, mailing costs, travel to interviews (if you drive, keep track of the mileage), professional association dues, subscriptions to journals, moving expenses related to starting a new job, charitable contributions and setting up a home office. "There are tough rules to qualify (for the home office deduction)," Sherman says, "but they can be tax-deductible." **The price of youth -- car insurance** Mom and Dad may have picked up the bills until now. Even if students are paying for their own car insurance while they're in college, they may be the beneficiaries of the family's multicar and multi-policy discounts. But since many graduates will find work in a metropolitan area, car insurance rates may come as a major shock. "Because they no longer live with their parents, they'll need to insure their car on their own," says Madelyn Flannagan, vice president of education and research for the Independent Insurance Agents of America. "They may find that insurance is very expensive. College grads tend to want to go out and buy new, sophisticated cars. They don't realize the cost of insuring that car. There are huge increases to move to big cities." Other issues to consider include gap insurance, which covers the difference between what a car is worth and what is still owed to the bank if the car is totaled or stolen. Also, if a policyholder allows another person -- a roommate, a sibling, or a boyfriend or girlfriend -- to drive their car regularly, that has to be disclosed to the insurance company and can affect the premiums. Another issue to keep in mind is that poor spending habits may affect your car insurance rates, depending on what state you live in. "The logic behind it is if you're desperately in debt, you might burn the car to collect the insurance," Flannagan says. "That's the plain and simple of it." **Health insurance** The other insurance coverage that comes to a screeching halt when students graduate is health insurance. Whether they're still in school or not, they can't be covered under their parents' policy after age 23. (In fact, students who take time off from college or drop to part-time status will usually lose coverage under a parent's policy.) IIAA reports that young adults ages 18 to 24 are more likely than any other age group to lack health insurance -- nearly one in three lacks coverage. Among adults age 25 to 34, the number improves only slightly, to nearly one in four. More than 80% of college graduates with full-time jobs are eligible for employer-sponsored health insurance, but many companies have employee probation periods before coverage goes into effect. Grads should talk to an insurance agent about catastrophic coverage as an interim measure.

Also, they should check to see if they are eligible to extend their parents' coverage short-term under COBRA. Some colleges also offer graduates interim coverage. "If they're gainfully employed, most employers offer health insurance," Flannagan says. "Take advantage of everything that's offered, including flexible spending accounts." **Overlooked insurance needs** Most graduates will initially rent an apartment or a house, but few think of getting renter's insurance. "People think the landlord's insurance covers them if something happens, but that's not true," Flannagan says. "His coverage is on the building, not your personal belongings." In some states, if several people rent an apartment together, they can't get a policy together, and some items, such as high-end stereo equipment and computers, might be difficult to insure. Also, recognize that most renter's insurance policies cover what an item is worth today, not replacement cost. (Think about it: what's a 4-year-old computer worth?) Renter's insurance also covers liability, which would pay some of the costs "if your dog bites the FedEx guy," Flannagan says. The other commonly overlooked insurance need is disability insurance. While most company benefits plans include some level of DI, it's still worth looking into getting an individual policy. The benefit to getting it as a new graduate is that it will be very affordable (the cost goes up with age). Try to get a non-cancelable, guaranteed renewable policy. That means it can never be canceled, the rates will never be increased, and it's good until age 65. **Bad credit decisions in college have long-term implications** Perhaps the most unsettling surprise for college graduates surrounds the effect that poor use of credit during college can have for years after graduation. The typical graduate owes $3,262 on credit cards, according to HSH Associates. Loan burdens average almost $20,000. Graduate students accumulate more than $31,700 in student loans. "You go to rent an apartment, they check a credit report. You go to get a graduate loan, same thing," says Mallary Tytel, president of Education and Training Programs, Inc., an employee training company. "It's a very serious issue in terms of the repercussions." The result can be higher insurance rates, larger security deposits for apartments and even missed job opportunities and graduate school acceptance when credit reports show bad habits. "The moral of the story is you can't run away from your obligations," says Tahira Hira, founding president of the Association for Financial Counseling and Planning Education. "I knew a person who kept doing interviews, doing very well, and not getting jobs. It turned out their credit reports showed they were irresponsible. That's not the kind of person people wanted to hire."

Besides the financial implications, excessive debt has physical consequences, too, Tytel says. Studies have shown that college students with credit balances of more than $1,000 smoke more, drink more and take more medication for depression than students with less debt. They're also more prone to heart attacks, insomnia and explosive emotions. The most beneficial thing college grads can do is to get copies of their credit reports to have clearer pictures of their debt situations and how the debt is affecting their credit histories. This is also an opportunity to correct any inaccurate information on a report. (You're entitled to a free copy of your credit report from each of the three major bureaus each year. Read more.) **Credit isn't free money** Barraged by credit card offers and enticed by incentives to sign up, college students frequently do not understand the true cost of credit. "They don't know diddly-do about interest rates," Hira says. Add to that the cost and impact of late fees, and the vicious cycle that occurs when just the minimum is paid each month. "Restraint is very important when one graduates," Katzanek says. "You get all sorts of credit cards in the mail, and one often uses all of those credit cards. It would scare the hell out of me. "My daughter graduated from college in 1985," Katzanek says. "She had a very close friend who is still paying off credit cards. They're not academic type debts. This woman is in her mid-30s, has a wonderful job and wonderful earnings, but so much of it goes to paying off her credit cards for debts incurred 15 years ago." **Student loans don't go away** Sherri Williams, assistant director of career services at Texas Women's University in Denton, Texas, says students often are surprised by how soon six months passes and they have to start paying on the loans they have taken out. Be careful of deferring loan payments, she says, because they continue to accrue interest. Another item to remember is that if finances get totally out of control and a graduate decides to declare bankruptcy, everything will be forgiven except student loans. "Those never go away," Tytel says. **Now is the time to start saving for retirement** The last thing on the minds of most college graduates is saving for retirement, and it's a missed opportunity they'll never regain. "The most important thing is to get started early on retirement," egrad.com's Sherman says. "Put aside as much as you can. There's a million different ways to invest. They'll all tell you, start as soon as you can. You get long-term growth, but it's the interest on the earnings you accumulate. There can be a huge difference in just a couple of years. You get the tax savings and in some cases, it's free money."

If it seems like college graduates are totally unprepared for what's waiting for them, there's definitely some good news to share. Studies show that about 70% of college students graduate with positive credit habits and their debt under control, and many have already begun saving for retirement. "Here is the glimmer of hope," Hira says. "I see a lot of good things as well. I see students who are very aware of financial reality, understand what they earn and what they spend. They're already talking before graduation about a 401(k). We have kids who go home and teach their parents. I'm very optimistic about the future."