

Directions:

1. Show evidence of a close reading.
2. Answer the questions at the end of the text.
3. Write a one-page reflection in your WN.

Financial Wisdom From a New Graduate

Every year around this time, longtime personal finance scribes run into the same challenge: writing an advice column for college graduates that is somehow different from all the other ones they have written before.

This year, I let myself off easy. I resolved to find the newly minted college graduate who knows more about money than any other 22-year-old in the country and let that person dispense the week's wisdom.

Alas, there is no N.C.A.A. tournament bestowing blue ribbons for financial competence. And even the GMAT exam for business school applicants does not measure its takers' skills in balancing checkbooks or deciphering the company benefits pamphlet.

So instead I came here, to Texas Tech University, home to what is arguably the best undergraduate financial planning program in the country. And I spent hours picking the brain of Madison Nipp, who graduated earlier this month with the highest grade point average of anyone in the major.

As I previewed this exercise for friends and colleagues, most of them expressed surprise (often pleasant) that it was a woman who took the crown. But Deena B. Katz, an associate professor in the Texas Tech program, said it made sense to her. "Women have better communication skills. And financial planning is about people more than portfolios."

Ms. Nipp, who looks and dresses her age but has the soft-spoken competence of someone much older, will begin counseling people on their portfolios for the financial services giant USAA early next month. Here is a preview of what she may tell them, drawing, in part, on personal experience. Plenty of the advice, it turns out, is useful for people far older than new college graduates.

CREDIT CARDS ARE NOT EVIL

The credit card bill that passed Congress this week makes it harder for college students to get a credit card. Ms. Nipp, however, wishes she had gotten one sooner. When she tried to get an apartment in San Antonio, the management company for her building told her that she hadn't had credit long enough to sign the lease by herself.

"They wanted at least three years of history," she said. "I wish I would have gotten a credit card earlier, since I really didn't want my parents to have to co-sign the lease."

This advice comes too late for recent college graduates who thought they were doing the right thing by steering clear of the plastic menace. But if they do not have their own credit cards yet, they should get at least one now to start establishing a good credit history. Without one, buying a house later could be more difficult and expensive.

BALANCE YOUR CHECKBOOK

As a peer counselor in Texas Tech's "Red to Black" financial assistance program, Ms. Nipp first worked with a client who needed help balancing her checkbook.

But why bother? Doesn't most online banking software add up the numbers for you these days? Well, sure. But as Ms. Nipp pointed out, you need to keep track of what you are spending, in part, to make sure the bank got it right. "Or a check may not go through for a while, you may not remember that you spent it, and you might overdraw your account," she said.

She does not speak from experience on this front. "My dad would kill me," she said, noting that her parents are co-signers on her old bank accounts at home in Amarillo. And while she admits to neglecting the balancing chore herself, she keeps enough of a cushion in her account to avoid surprise overdrafts.

BUDGETS ARE NOT COMPLICATED

A few years ago, Ms. Nipp had a boyfriend who was considering transferring to Texas Tech but wasn't sure he could afford it. So Ms. Nipp, then an 18-year-old freshman, made him a budget.

"It seemed intuitive to me," she said. "I wrote it on a piece of paper. I guess it was before I knew anything about Excel. I didn't know how much anything would cost, like the electric bill, so I asked my mom."

Ms. Nipp's boyfriend ended up at Tech. "His mom told me one time that she didn't think he would have ever gone if I hadn't helped him," she said. Not long after she created that chicken-scratch spreadsheet, she decided to switch into the financial planning degree program.

BEWARE OF DADDY'S WALLET

When I asked Ms. Nipp what she learned from observing the spending habits of her Pi Beta Phi sorority sisters and other undergraduates, it was clear she had taken careful notes. "All of the people who were spending ridiculous amounts of money were on their daddy's wallets," she said. "They were buying \$500 purses and having \$100 bar tabs, and it was like nothing to them."

Ms. Nipp has no problem with the finer things in life. She just worries about the habits that form when you come to expect them. "When you get used to having expensive things, you want them more," she said. "They're not going to be able to live like that when they get out of school, and they have to get used to that as soon as possible before they get themselves into trouble."

For those who were on the dole in college, this is a fairly harsh reality check. But facing it down squarely upon graduation is a terrific tactic for preventing credit card debt.

DON'T BUY A HOME

The notion of a 22-year-old buying a home sounds laughable to anyone living on the coasts. But Ms. Nipp and her brother, who is also a financial planning graduate of Texas Tech, lived in a \$60,000 house in Lubbock that their parents had bought for them. And she could afford the down payment and mortgage on a condo in San Antonio right now.

But she ran the numbers, and it would put her in too tight a financial vise. "A lot of people don't realize the expenses that come with a house," she said, though she knows, having taken care of the one in Lubbock. "There is upkeep. Taxes. Insurance. It's a lot more than just a mortgage payment, and just because your mortgage payment doesn't go up doesn't mean taxes and insurance won't."

DON'T MESS WITH TAXES

Nobody knows where income tax rates will be in 30 or 40 years. "But the fact is, people my age are in a lower tax bracket now than we probably ever will be in again," she said.

So her strategy is to take full advantage of the (incredible 8 percent) match that USAA offers on its 401(k) and then save as much after-tax money as she can in a Roth Individual Retirement Account. Under the current rules, the earnings in that account will come out tax-free when she retires.

It is a smart strategy, but what if the Roth rules change and diligent savers like Ms. Nipp are someday taxed on Roths over, say, \$500,000? She says it doesn't much matter, since the 401(k) rules could change, too. If either set of rules changes, at least she has two different types of retirement accounts and thus is hedged through tax diversification.

Source: Ron Lieber, *New York Times*, May 23, 2009

Possible Writers' Notebook Topics:

- What steps will you start taking after high school to ensure your financial future?
- What are your financial goals? What are the steps you will need to reach them?
- What can you do to begin building a good credit history?