Personal Finance 101
10 tips for building a solid financial future

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As the old adage goes, a lawyer knows the most about the law the day he or she takes the bar exam. If only a solid financial education came with the certificate of bar admission! It's no secret that the economy is in a severe recession and job losses are sharply on the rise. Individuals' net worth is being squeezed from all sides, from the precipitous drop in the stock market to the first national decline in housing prices since the Great Depression. Even those with a steady paycheck may be confronted with pay freezes and paltry bonuses. Credit is difficult to obtain, as banks have severely tightened lending standards and are hoarding liquidity in the face of mounting mortgage loan losses. In these uncertain economic times, it's more important than ever to make smart financial decisions. While the maze of financial advice may seem complicated and daunting, the following list identifies ten key goals for law students and new lawyers to build a solid foundation for a prosperous financial future.

1. Create a budget and stick to it
First and foremost, it's imperative to know how much money is coming in and going out every month. A solid budget will tell you just that. Identify all sources of income (including salary, bonuses, interest and dividend income, alimony, and child support) and how much is withheld for taxes and Social Security. Then identify all recurring expenses, both fixed and variable. If necessary, keep a journal detailing your expenditures, no matter how small. Be thorough and realistic. Once you create the budget, stick to it! If impulse spending is blowing your budget, allot your discretionary spending money in cash, and leave the credit cards at home. Once the cash runs out, there is simply no more left to spend until your next payday.

2. Live like a student
Law students often live on an Ikea and domestic-beer budget. However, once the first paycheck of the lawyer's salary hits the bank account, many students develop a taste for fine cigars and single malt scotch, or a collection of couture handbags and shoes. The problem with this step up in lifestyle is a phenomenon known as "hedonic adaptation," in which (much like a drug addict) an individual quickly becomes accustomed to his or her current situation and requires an ever-higher standard of living to feel happy and satisfied. After a few months, the shiny new car doesn't seem as shiny, and the 50-inch plasma screen doesn't appear quite as big anymore. Living simply is easier at a stage when you're already accustomed to a simpler lifestyle. Keeping the expenditure portion of your budget small while your income increases will allow you to save and invest at much higher rates than before without feeling deprived.

3. Evaluate and cut unused recurring expenses
Examine the list of recurring expenses you created as part of your budget. Once every expense is delineated in black and white, you can easily identify sources of waste and potential areas to cut spending. How often do you actually use that gym membership? Can you do the same activities (or a close approximation) outdoors or at home? How many movies from Netflix lie dormant on the DVD player for weeks? A painless way to save money is to reduce or cut out unused or underutilized recurring monthly expenses.

4. Create an emergency fund
Access to liquid assets is critical in times of emergency. Bad things often happen unexpectedly—the car gets a flat, the water heater breaks, or a trip to the emergency room delivers a four- or five-figure bill. Having an emergency fund (typically three to six months' worth of expenses) is crucial to avoid incurring further unnecessary debt in the face of an unexpected expense or financial emergency. While it is nearly impossible to put this much money aside at once, try to save some fixed amount of money when you receive each paycheck, even if only a small amount. These small amounts will add up faster than you think. Even a small emergency fund is better than none and will allow you to avoid relying on additional loans or credit card debt to remedy the situation.

5. Pay off high-rate credit card debt
Credit card debt often carries the highest interest rates of all consumer debt. Additionally, many credit card compa-

Published in *Student Lawyer*, Volume 37, Number 7, March 2009.

nies include provisions for cross-default, allowing the credit card company to raise the interest rate if you default on other unrelated obligations, such as a mortgage or a student loan. By paying only the minimum required payment on credit card debt, it can often take years or even decades to fully pay off the balance. If you have more than one credit card with a balance you carry over from month to month, make a list of all credit cards, the balance, and the interest rate on each. Begin paying off the one with the highest interest rate first, and then work down until all outstanding balances are paid off.

6. Avoid adding to "bad" debt

"Good" debt—including mortgage and most student loan debt—is generally debt incurred in the acquisition of appreciable assets. "Bad" debt, by contrast—including credit card debt and automobile loans—is debt incurred in the acquisition of depreciable assets. It's tempting to buy items on credit, especially knowing that a lawyer's salary is likely to rise substantially in the first few years of practice. Given the pervasive nature of credit card debt in this country, it almost seems un-American to forgo immediate consumption in lieu of savings and investment. However, it is critical to avoid adding to bad debt, even with the expectation of a higher future salary. Only use credit cards for items you can afford to pay off at the end of the month, and drive the old clunker until you can save enough money for a new car (or at least a sizeable down payment).

7. Pay yourself first

It is crucial to "pay yourself first." This means setting aside a certain sum of money to be placed in a savings account, money market account, or other liquid account at a competitive rate of interest. Make sure that a portion of every paycheck is deposited into this account, before any other bills or obligations are paid. Much as work expands to the time allotted, expenses tend to expand to the funds allocated. Paying yourself first will ensure that you constantly add to your financial cushion, instead of not saving at month's end because there simply isn't any left.

8. Aggressively pay down private loans

Private loans, unlike government loans, often carry high, variable interest rates. The interest rates on these types of loans are often as onerous, if not worse, than most credit card debt. It is imperative to know the balances, interest rates, and terms of your private loans. Whenever possible, make extra payments above the required monthly amount toward the loan with the highest interest rate. Even small payments over and above the required monthly minimum can shave years off your repayment plan.

9. Fund your retirement

One of the greatest challenges currently facing younger generations is adequate funding for retirement. Social Security faces an uncertain future. Unless changes are made, scheduled Social Security benefits could be reduced by 22 percent in 2041 and continue to be reduced every year thereafter from presently scheduled levels. For more information, read "Frequently Asked Questions About Social Security's Future," at *www.ssa.gov/qa. htm*. Funding your own retirement (not relying on the solvency of Social Security or uncertain future of pensions) is crucial for a comfortable retirement.

If your employer matches 401(k) contributions, make sure you contribute at least enough to get the full match. For example, if your employer will match up to 6 percent of your salary, you should contribute at least 6 percent. Not contributing to the full amount of the company match is like giving away money.

Once you reach the maximum 401(k) contribution for the company match, your next step should be contributing to a Roth IRA if you are eligible. For 2009, Roth IRA eligibility for a taxpayer filing as single requires a modified adjusted gross income (MAGI) of $114,000, and for taxpayers filing jointly requires a MAGI of $166,000 per year. The benefits of a Roth are numerous. Unlike a traditional IRA or 401(k) plan, the contributions are not tax deductible. However, because the contributions are made with after-tax dollars, they may be withdawn at any time tax and penalty free. The Roth IRA carries the additional benefit of tax-free growth, meaning that the entire balance of the account (contributions and gains) may be withdrawn in retirement tax free. This offers the tremendous benefit of tax diversification, acting as a hedge against future tax increases upon retirement. There is also no age for required minimum distributions for a Roth IRA, unlike with a traditional IRA.

10. Reward yourself for achieving goals

It is imperative to reward yourself as you hit interim goals such as paying off a credit card or student loan or saving three months' worth of expenses in an emergency fund. After all, it is no fun being frugal all the time! When you reach a financial goal, allow yourself to purchase that (reasonably priced) item you've been coveting for months or perhaps take a weekend getaway. Periodically rewarding yourself for achieving goals will reinforce these good habits and make saving and paying down debt even more gratifying.

While the foregoing list is not all-inclusive, following these ten steps will help you build a solid foundation to a prosperous financial future.

Online Financial Resources
Get more financial information and advice at these websites:

CNNMoney.com Personal Finance page
money.cnn.com/pf

Social Security Administration website
www.ssa.gov

Internal Revenue Service website
www.irs.gov

***The New York Times* Buy/Rent Calculator**
www.nytimes.com/2007/04/10/business/2007_BUYRENT_GRAPHIC.html#

***The Wall Street Journal* Personal Finance page**
online.wsj.com/public/page/news-personal-finance.html

Yahoo! Finance Personal Finance page
finance.yahoo.com/personal-finance