

OPCD Podcast: Episode 13 - “Managing Personal Finances” (11/20/2014)

Interview with Mr. Timothy Ullmann, *Director of Professional Development within the Office of Professional and Career Development, Harbert College of Business*

Voiceover: Personal finance goes way beyond the cash you have in your pocket. Need a few more details? Not a problem, we’ve got you covered!

Transitioning from student life to professional life can be complicated and along with the new city and new job comes the new responsibility of managing your money. That’s a lot to take on, but Mr. Timothy Ullmann of the Office of Professional and Career Development can get you started on the right track. His advice? Begin with three basic pieces of information.

T. Ullmann: Number one, how much money do you have coming in - your income. Secondly, how much money do you have going out - your expenses. Third, what is the difference between your income and your expenses and that is the money that you get to save and invest and do some really great things with that will benefit your life.

Voiceover: And once you know what’s coming and going, there’s a simple rule of thumb that will help keep things running smoothly.

T. Ullmann: One of the very basics of personal finance is to use the 10-10-80 rule. Save 10%, pay yourself first, give 10%, pay it forward and then live on 80%. In other words, manage your life instead of your life managing you.

Voiceover: Now before we jump in to the more complex side of things, let’s talk simple things that we can do to make our saving and spending plan successful. Instead of relying on debit and credit cards, use cash.

T. Ullmann: When you peel off those dollar bills and you actually see how much it costs for something and you feel that money departing from you, you’ll think twice before spending.

Voiceover: And now that you’re in the habit of doing that, make it easier to stick to your monthly budget by using the tried and true envelope method.

T. Ullmann: It's pretty Neanderthal, but it actually works. You take the actual cash that you have set aside in each category, and you take an envelope, a letter envelope, write on the outside the category and the amount that goes in there for each month. Put the cash in there and that's what you live off of for the month. So you live within those envelopes which helps you keep and stay within your budget.

Voiceover: Yeah that may sound like a lot of unnecessary work. After all, if the amount of money coming in is more than the amount going out then there's really no need to spend a lot of time on this right? Well at first glance it may look that way. But let's dive a little deeper into three areas that, while they may not have immediately come to mind, are a huge part of your finances - savings, investments and insurance.

T. Ullmann: As far as the savings is concerned, the first thing you need to do is establish an emergency fund. The goal is to have about three to six months of living expenses in a savings account. Why? Emergencies inevitably happen and basically what you have become is your own safety net. You are giving yourself your own line of credit and you've put the money aside in a savings account, something that's very easy to get ahold of, so that if something happens and you've got to go visit family or some other family emergency, you have the money to cover that. And then certainly once that emergency is over you want to replenish that. This emergency fund is not a vacation fund, it is for emergencies only.

Voiceover: And did you know that the recommended amount for a young professional to have in their emergency fund is around 15,000 dollars?

T. Ullmann: That might seem like a lot at first but if you have a major emergency that has to be addressed, you might lose a job or you have other catastrophic events happen in your life, you'll have a nice cushion to lean back on.

Voiceover: So what about investments?

T. Ullmann: There are lots and lots of ways to invest. You have money market funds, certificates of deposit, single stocks, bonds, mutual funds, annuities. There are just a whole host of vehicles that you can use for investing. And again the thing is that after you have your emergency fund set up, the extra money that you have, and I would encourage you to be able to do that, is to set aside money for investing. Investing in yourself, investing in your future.

Voiceover: And even though it may not be on your mind right now, your plan for retirement falls into this category as well.

T. Ullmann: For example, an individual retirement account, IRAs. There are some that are just the traditional where you put pre-tax dollars in there and you get a tax credit each year. Then once you take the money out at retirement, the tax man shows up and takes their portion. Or you can do another one called a Roth IRA, which is you put your after-tax dollars into an IRA account and then it grows tax-free. When you go to take it at retirement, every dollar that you take out, well the tax man can't touch it. A lot of you are going to wind up using 401ks because that's what your companies will have. You'll

put money in, they'll match it and it's just a great way to invest in your future and invest in yourself.

Voiceover: And insurance?

T. Ullmann: Young professionals starting out - things like renters insurance, auto insurance, health insurance and life insurance. Renters insurance is probably one of the best things that you can get, it's very inexpensive. Automobile insurance - your parents are paying for it right now. You'll be picking up the freight for that and you need to be savvy on how much do I need, how much liability, how much collision do I need? At a minimum, you're probably going to need five hundred thousand dollars of liability and then determine what it is you need as far as collision would be concerned. And then health insurance - this is an area where you work to find out what they have to offer, what is of benefit to you, how much do you really need? And then certainly, finally, is life insurance. The whole purpose of life insurance is to secure income, not to leave a legacy, but to secure income.

Voiceover: To figure out how much you'll need in life insurance you can multiply your salary times ten.

T. Ullmann: Or add up all your liabilities, all your indebtedness, all your obligations and then add \$10,000. That the basic amount you would need.

Voiceover: So to wrap it up, start with learning how to budget. Know what your earning, know what your spending and make adjustments until those numbers work. From there, familiarize yourself with all the options available to you when it comes to savings, investments and insurance. As always, Lower 101 is the place to visit for more information.

T. Ullmann: The Office of Professional and Career Development offers a seminar on personal finance, it's called "Live Smart" because that's what we want you to do. You have money coming in as a young professional, we want you to live as smart as possible to maximize everything that you have.

Voiceover: And that's where we leave you for this week. Remember to subscribe to us on itunes and I'll be back with you next time here on the OPCD podcast. See ya soon!