Practical Skills: Money Management

By Stacy Francis

Times of transition are now the norm. Whether you are a recent law school graduate, a pink slip casualty, ready to reenter the workforce or an about-to-be-retired lawyer, this is an article you have to read.

It is more important than ever to master the practical skills of money management and get a firm handle on your finances. Here is some advice to get you on the right path . . . fast!

Law School Grad

Life is not so grand for newly minted law school graduates. We are in the fifth straight year of a depressed job market for new graduates. According to new U.S. Labor Department data,[1] the legal services sector added 2,700 jobs in August, the second highest single-month jump in the past year but still well below pre-recession employment levels. Instead of $150,000 a year salaries, many grads are earning as little as $25 an hour for contract work. At the same time expenses – especially in the Big Apple – continue to rise. Rents and home prices are at the highest levels we have seen in the last six years.

Don't Stop Learning Just Because You Are Out of School

When you needed to learn about contracts, you took Contracts. The same should be true about managing money. In fact, the practical skills of money management are much more important to your overall financial security than any course you took in law school.

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Get smart and learn about money. Start with a book that is geared toward individuals in their 20s and 30s. Set yourself a goal to read at least one personal finance book a quarter.

Start an Emergency Fund

Before putting your student loan debt repayment plan in high gear, start to build an emergency fund. Put at least three months of living expenses in a high-interest savings account to ensure that you never have to move back home. Online savings accounts at Ally Bank and Capital One offer some of the highest interest rates. Remember that an emergency might occur due to a medical issue, job loss or unforeseen major expense. Please note, the release of the latest iPhone 5S is not an emergency.

Pay Off Your Debt

The average law school debt is upwards of $100,000 and it can even top out at $150,000. While your interest rate may be low, it is wise to start paying off your student loan debt now to ensure that you are not still making payments in 20 years' time. Be sure to make on-time payments; this will start to build your positive credit history.

Credit Score

While a credit score of 850 would not have gotten you into an Ivy League law school, it may help you get the job of your dreams. According to many employers, your credit score clearly defines how fiscally responsible you are and how you manage your obligations.

Be sure to pull your free credit report by visiting www.annualcreditreport.com. Review your report to make sure all information is accurate.

On Your First Day, Think About Retirement

Most likely you have not even had a chance to hang up your shiny new law school diploma, so retirement is most likely not on the top of your mind; however, it should be. The best time to start to plan for retirement is your first day of work. Sign up for your employer's 401(k) plan as soon as you are eligible. You can contribute up to $17,500 for the year. If you are not able to part with this much cash, be sure to contribute at least the amount required to get your employer's match.

Pink Slip Position

A sad part of working in the law field is that sometimes, despite your hard work and effort, you get laid off. All of a sudden you are without a paycheck and the security that comes with it.

Difficult as this may seem, a pink slip can give you the opportunity to re-assess your career. Which areas of law are you most passionate about? What aspects of your last position did you love or hate? What skills do you want to develop further?

An in-depth review of these questions and their answers will give you the direction you need to make smart moves with your career. The most lucrative investment vehicle you have is neither your investment accounts nor your home – it is your career. By mapping out a strategy that adds critical skills to your career portfolio, you will be adding major earnings potential.

Secure Heath Insurance

While your career plan and next steps are important, there are other vital decisions you need to make immediately. One of these critical decisions is regarding health insurance. You have the ability to maintain your current health insurance through COBRA. This may be a good option for you; however, it can be expensive. Another option is to get insurance through New York State of Health, New York's health plan marketplace.[2] This is an organized marketplace designed to help people shop for and enroll in health insurance coverage. Individuals, families and small businesses will be able to use the health plan marketplace to help them compare insurance options, calculate costs and select coverage.

American Express, Visa and MasterCard Are NOT Your Friends

Studies have shown that you are more likely to spend more if you use your credit card to pay versus paying cold hard cash. Resist the urge to whip out your credit card and if you do use your plastic, be sure to pay your balance in full every month. Pay your rent and mortgage first. Keeping a roof over your head is most important.

The "B" Word

Don't get turned off by the "B" word. Your budget plan is the path to financial security and the vacation, home and retirement of your dreams. Track your expenses for one month. Record what you pay right down to the newspaper, bagel and latte you grab on your way to an interview. Evaluate the results and pinpoint where you are spending your money. Cut out expenses that are unnecessary.

Roll Over Your 401(k)

Many job changers get burned because they leave their 401(k) at their old employer and forget about it. Be sure to roll over your 401(k) to a rollover IRA and rebalance your portfolio every year. Another option is to roll your 401(k) into your new employer's retirement plan. Strong arguments can be made on both sides. You need to weigh all the factors and make a decision based on your own needs and priorities.

Most individuals decide to roll their plan into a rollover IRA, as it generally offers more investment choices than an employer's 401(k) plan. You also may be interested in eventually converting your IRA to a Roth IRA. You'll have to pay taxes on the amount you roll over from a regular IRA to a Roth IRA, but any qualified distributions from the Roth IRA in the future will be tax-free.

Roughly 75% of 401(k) plans allow you to borrow money, making the option of rolling your 401(k) into your next employer's plan more appealing. If you roll over your retirement funds to a new employer's plan that permits loans, you may be able to borrow up to 50% of the amount you roll over, up to $50,000.

- Chiropractic treatment
- Laboratory fees
- Over-the-counter items
- Prescriptions
- Mental health counseling

Dependent Care FSA

If you have kids, most likely you will have additional child care costs. You can contribute up to $5,000 a year to this account. All contributions are pretax, thus reducing your taxable income and cutting the money due to Uncle Sam. You can use a Dependent Care FSA to reimburse you for the work-related cost of care for a child who is under age 13, or any other tax dependent, such as an elderly parent or spouse, who is physically or mentally incapable of self-care. Note that they must reside in the same principal residence as you.

Retirement can be the saddest or happiest day of your life. It is the extent of your preparation that will determine which it is for you.

Returning to the Workforce

Whether it is because your kids are getting older, your partner lost a job or you are looking to get back into the career you love, returning to the workforce can be a major adjustment financially.

Rework Your Cash Flow

It is indeed a material world. However, don't let a "sudden money" mentality take hold of you now that more income is coming in the door. New cars, trips and even a larger home might be on your mind. Hold off on these purchases and maintain your pre-work level of spending.

Review your current budget and be sure to add new expenses such as child care, work clothing, dry cleaning and commuting costs. Be sure to calculate how much of a bite these new expenses will take out of your budget each month and make adjustments as needed.

Spending Accounts Save You Money in Taxes

Using a spending account is like getting a discount on certain expenses – not because the expenses are less, but because you are paying them with money that has not been taxed.

Medical Flexible Spending Plan

Medical costs have skyrocketed, so be sure to enroll in the Medical Flexible Spending Plan (FSA) at your new job. The limits are $2,500 per person, per employee for 2013.

Here are just some of the expenses that you can pay with your Medical FSA:

- Health plan copays and more
- Dental work and orthodontia
- Doctor's fees
- Eye exams and eyeglasses
- Contact lenses and saline solution
- Hearing aids

Catch Up on Retirement

Many people reentering the workforce need to make up for lost time, because their retirement savings are nowhere near the levels they should be. The goal is to save as much of your new income as possible. Therefore, enroll in your company 401(k) or 403b plan on your first day of work, if you are eligible. Your contributions will be taken directly out of your paycheck – before taxes. This has the added benefit of lowering your taxable income and allowing you to pay less to the government come April 15th. Once you have maxed out your employer retirement plan, open an IRA. You can put $5,000 a year into your IRA and up to $6,000 a year if you are over age 50.

Review Your Benefits

Many employers offer plush employee benefits such as life and disability insurance. Understand your benefits and whether you need to supplement them with a private policy outside of work. Now that you are earning a salary, you need to make sure that you have insurance to replace income that would be lost to your family if you were to die or be unable to work due to health reasons.

You Are a Retiree . . . Finally!

Retirement can be the saddest or happiest day of your life. It is the extent of your preparation that will determine which it is for you.

Make Your Money Work for You

The investment selection in your retirement plan is more important today than ever. Many soon-to-be retirees have chosen conservative investments to be "safe." While this may seem like a wise choice, you should realize that this portfolio must last you another 25, or even 40, years. You must be careful about the "decumulation" phase and make sure that you have enough money to see you and your family through retirement. Choose an appropriate mix of stocks and bonds based on your age and risk tolerance. A fantastic resource to help you discover your hidden risk tolerance is Morningstar.[3]

Are You Ready to Retire?

Before you hand in your notice, make sure that you are well positioned for retirement. Do a retirement calculation. Do you know how much you need to have saved to live comfortably after retirement? About half of people queried in retirement confidence surveys think they'll need less than 70% of their pre-retirement income. However, we suggest that you have at least 90% of your pre-retirement wages.

Use a retirement needs calculator to determine how well you have prepared and what you can do to improve your retirement outlook. It is important that you periodically re-evaluate your preparedness. Changes in economic climate, inflation, achievable returns, and in your personal situation will impact your plan.[4]

Rome Wasn't Built in a Day and Not by One Person Alone

You only get one chance to retire successfully, but an experienced financial planner has been through this many times before. You will want to select a competent, qualified professional with whom you feel comfortable as well as one whose expertise and business style suits your financial planning needs.

The term "financial planner" is used by many financial professionals (and many non-professionals). Ask the planner what qualifies him or her to offer financial planning advice and whether he or she holds a financial planning designation such as the Certified Financial Planner™ mark.

Look for a Fee-Only Financial Planner

These advisors receive no compensation from any product recommended (like insurance or annuities) and do not represent any product or company. They never accept commissions, trails, cross-selling fees, referral fee arrangements, kickbacks, surrender fees, sales contests, "educational cruises" and vacations, or "free" gifts. For a fee-only advisor in your area visit the website www.NAPFA.org.

Conclusion

Transition is the new normal. You may not be able to predict or anticipate when and how change will come, but a firm financial foundation will help maintain stability – no matter what the future brings. ■

1. *See* Tom Huddleston, Jr., *Legal Sector Adds 2,700 Jobs in August*, The AmLaw Daily, Sept. 6, 2013.
2. https://nystateofhealth.ny.gov/.
3. http://corporate.morningstar.com/us/documents/NASDCompliance/IWT_CurrentReport_RiskToleranceQuest.pdf.
4. http://finance.yahoo.com/calculator/retirement/ret02/.

TRANSITIONS

As a Senior Associate in the Corporate Restructuring Group at Skadden, Arps, Slate, Meagher & Flom LLP, **Suzanne Lovett** represents corporations, boards of directors, shareholders and creditors. She joined Skadden six years ago, after taking six years off to raise her three children. Prior to that, Suzanne had worked as a restructuring lawyer for almost nine-and-a-half years. While she found fulfillment in her job and career, the competing demands of raising her children won out. When asked what inspired her to go back to work, she said that she always missed the challenge of her job but needed to be sure that her children were settled in school and ready to have a working mom. She also indicated how incredibly fortunate she is to have a supportive husband who helped make the transition possible. Suzanne's advice for others going through transition is to "talk to everyone about your plans. I have heard from women who say they are reluctant to ask friends for help. Don't view it as asking for a favor; instead, just speak from your heart. Your passion will come through and you would be surprised how many people are willing to help with an introduction or a job lead."

– Jocelyn Cibinskas