Financial Planning for Early Career Psychologists
From Repaying Student Loans to Successful Retirement
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The financial planning process calls for setting personal and professional goals (including paying off debts), assembling a portfolio of financial resources needed to achieve those goals, and adjusting your portfolio (mainly personal savings and investments) for life-changing events. The task can be formidable, especially for early career psychologists trying to achieve financial stability and pay down debt at the same time.

This publication of the American Psychological Association and its Committee on Early Career Psychologists provides insight into the financial-planning process for psychologists and information on what financial planning comprises. Readers can learn financial planning basics and then decide to do their own financial planning or select a financial planner to bring expertise and objectivity to the job.

Appendices contain helpful worksheets on budget and retirement planning, a glossary of terms from the language of finance that potential investors may find useful while building a portfolio, and a bibliography (including online resources) for readers who want to learn more.

Visit www.apa.org/earlycareer for updates and extensions to this booklet and on related financial planning issues.
Small Savings Can Add Up!

With an initial investment of $1,000 in a high-yield money market account and a $100 deposit each month (the cost of dinner for two and a movie) over 5 years, you can parlay your savings into a small down payment on a house (about $7,600), probably the most significantly large investment you can make in early life. If you increase your deposit by $25 more per month, you will save close to $10,000.

PARLAYING $1,000 INTO A DOWN PAYMENT ON A HOUSE IN 5 YEARS
Bank X High-Yield Money Market Account for 5 years
Minimum beginning balance = $1,000
Monthly deposits made for 12 months = $100
Interest rate per year = 3.26%
Ending balance = $7,670

SOURCE: Adapted from www.bankrate.com

Financial planning is all about creating and accumulating wealth through wise investments. It is also about making sound financial decisions to pay down debt and build a cushion against unexpected events. Modest savings and investments add up fairly quickly, especially when you consider that returns compound over time. You won’t become wealthy overnight, but chances are good that you’ll be able to live comfortably. You will also have a rainy-day fund to see you through a job change, economic hard times, or a family emergency.
Sound financial planning can help you zero in on a career that satisfies you professionally and personally and makes financial sense. Psychologists have a myriad of careers to choose from. At various times, some fare better than others.

### Table 1
#### SALARIES FOR PSYCHOLOGISTS IN SELECTED SETTINGS, MAY 2006

<table>
<thead>
<tr>
<th>OCCUPATION TYPE</th>
<th>MEAN ANNUAL WAGE$</th>
<th>[ ]$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinical, Counseling, and School Psychologists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary and secondary schools</td>
<td>64,140</td>
<td></td>
</tr>
<tr>
<td>Employment services</td>
<td>88,840</td>
<td></td>
</tr>
<tr>
<td>Individual and family services</td>
<td>57,730</td>
<td></td>
</tr>
<tr>
<td>Management, scientific, and technical consulting services</td>
<td>138,150</td>
<td></td>
</tr>
<tr>
<td>Offices of other health practitioners</td>
<td>80,400</td>
<td></td>
</tr>
<tr>
<td>Offices of physicians</td>
<td>94,900</td>
<td></td>
</tr>
<tr>
<td>Other ambulatory health care services</td>
<td>88,760</td>
<td></td>
</tr>
<tr>
<td>Outpatient care centers</td>
<td>55,820</td>
<td></td>
</tr>
<tr>
<td>Scientific research and development services</td>
<td>82,120</td>
<td></td>
</tr>
</tbody>
</table>

| Industrial/Organizational Psychologists  |                  |        |
| Colleges, universities, and professional schools | 64,980       |        |
| Management of companies and enterprises  | 79,380           |        |
| Management, scientific, and technical consulting services | 116,300      |        |
| Scientific research and development services | 83,300       |        |
| Semiconductor and other electronic-component manufacturing | 86,950     |        |
| State government                         | 50,400           |        |

| Psychologists, All Other                 |                  |        |
| Colleges, universities, and professional schools | 57,490       |        |
| Federal government                       | 57,785           |        |
| General medical and surgical hospitals   | 84,510           |        |
| Local government                         | 76,250           |        |
| Offices of other health practitioners    | 69,120           |        |
| Offices of physicians                    | 144,790          |        |
| Scientific research and development services | 91,820      |        |


- Estimates do not include self-employed workers.
- Annual wages are calculated by multiplying the hourly mean wage by 2,080 year-round, full-time hours. The annual wage is directly calculated from survey data for occupations with no published hourly mean wage.
CAREER START-UP

Financial Prospects
Your projected annual income and income potential will likely affect how long you wait before you start investing toward short-term (e.g., buy shares of stock), medium-term (e.g., buy a house), and long-term (e.g., pay for retirement) goals. Table 1 depicts the salaries for psychologists in May 2006. Figure 1 depicts the salary gap between men and women in 2007. Although the numbers vary slightly, they provide two ways to view the financial prospects for a career in psychology. The subcategories in the table show the wide range of jobs and pay available, while the figure shows that women still lag behind men in compensation.

Positive job outlook
Overall career prospects for psychologists are good. Faster-than-average growth in employment has been predicted for U.S. psychologists during the decade 2006 to 2016: 15% compared to 10% for all professions. Clinical, counseling, and school psychologists and industrial/organizational psychologists will face the highest demand. A growing recognition of social need is the prime reason for this growth, according to the U.S. Bureau of Labor Statistics.

Perhaps the most significant work that most practice psychologists will be doing in the months right after graduation is completing the year of supervised clinical experience nearly all states require for licensure.

The academic market
Early career psychologists today looking for a job in academia face a somewhat mixed job market. Although a university psychology department frequently has a higher percentage of tenure-track positions than other departments, these coveted positions are difficult to get. The American Association of University Professors reports that little more than half (53%) of all academic positions were tenured in 2006-2007, and only 23% were tenure-track positions.

Faculty members who could normally be expected to retire are in many cases remaining in their jobs after retirement age to build their retirement funds. Those women and men who entered the job market later than their peers because of family responsibilities are also later retirees. When these faculty leave, universities sometimes convert their positions to part-time, contract, or freelance work.

Picking up on this trend, more psychologists are taking contract work when necessary. For new psychologists, a contract position may even be a first choice; it is a way to affiliate with a particular institution, be free of the administrative and publishing demands of the tenure track, write a book on the side, or all of the above.

Part-time instructors have become the nation’s fastest growing faculty group. But full-time contract positions or part-time instructor positions don’t always pay salaries equal to tenure-track positions and may also include a limited benefits package—or sometimes no benefits at all.

Entering the job market
Once you’ve completed your education and job search, it’s a good time to deal with a few financial-planning fundamentals such as tax planning and monitoring your credit rating. Read on for what you need to know.

Employment in psychology is expected to grow more quickly than average.

Psychologists with doctorates in an applied specialty such as clinical psychology or school psychology have the best prospects for employment.

About 34% of psychologists are self-employed.
Paying Your Taxes

Almost every stand-up comedian has a joke about paying taxes. But it’s no joke when the IRS comes calling because you’ve filed late or entered incorrect information on your IRS form. Penalties and related payments are high, and if you don’t have the money, the IRS can garnish your income.

If you work as a regular employee, either full- or part-time, your employer pays your taxes for you, although you still have to file a tax return. To calculate how much to withhold from each paycheck, a new employer will ask you to fill out a W-4 form on which you can claim exemptions, usually for dependents. The number of exemptions you claim determines how much tax your employer will withhold from each paycheck. Claiming the correct number of exemptions is important. If you claim too few, you’ll have to pay back the taxes still owing at the end of the year, plus interest and penalties. If you claim too many exemptions, you will probably be eligible for a tax refund from the federal, state, or local government, or all three. Many people like to treat a tax refund as “found” money, but there are other ways to save money that pay interest.

The IRS recommends that you complete a new W-4 form whenever your personal or financial circumstances change.

If you are a contractor, a freelancer, self-employed, or a private practitioner (all synonymous for tax purposes), you can set yourself up as a company or continue as an independent. Either way, you will have to estimate your income for the year and pay your own prorated, estimated taxes each quarter.

The tax benefits of operating as a company are large, covering business-related expenses such as office supplies and equipment, client entertainment, books and DVDs; health insurance; financial-planner fees; and rental space in your own home. It all adds up to a lot of money that doesn’t go to taxes. However, putting together a company tax return is complicated, and many early career psychologists who are setting up or already running a business find it helpful to work with an accountant on a regular basis for tax-planning purposes. If you decide instead to file on your own, a number of resources are available, including those directly from the IRS and numerous off-the-shelf tax-planning and tax-filing software programs.

How to Choose a Financial Planner

If what you have read so far sounds complicated and time consuming, you may want to consider hiring a financial planner to assist you. A financial planner is, effectively, your employee: You are hiring this person to help you invest your money. Your financial planner should fit your comfort zone. Ask yourself: Can this planner help me set measurable and realistic financial goals? Does this planner understand that I am under no obligation to make a particular investment just because it is recommended? Am I getting a satisfactory explanation for the types of investments being suggested? How will these investments affect my financial goals?

People with a modicum of financial know-how can sell themselves as financial planners. The term is generic, so be sure to check the credentials of whoever you choose to work with. The Certified Financial Planner Board of Standards suggests that you find out whether your financial planner has ever been disciplined by any government or private regulatory authority. Its Web site contains a search engine for the user to search by name, state, or zip code; the search results will note whether the financial planner has been flagged professionally.

Fees to Consider When Working With Financial Planners

- Hourly fee
- Flat fee
- Fee based on percentage of your assets or income
- Commissions from the company selling the financial instrument (e.g., life insurance)
- Combination of fees and commissions

Note. Commissions represent a potential conflict of interest. Ask your financial planner for a written disclosure of any such relationships.
Your first financial planning goal will probably be to pay down your debt. Here are some tips.

**TALLY WHAT YOU OWE**
Be honest about the total amount you owe so you can budget accordingly.

**TRACK YOUR MONEY**
Keep a spending diary for 2 months. Find out where your money is going and look for places to reduce your spending and start saving.

**SET REPAYMENT GOALS**
Several good debt- and repayment-plan calculators are available online (www.choosetosave.org/calculators). Find out how paying a few extra dollars toward your debt each month will help you get rid of it that much sooner. Or set a goal to become debt free in 3 years (or whatever timeline fits your budget) and use a calculator to find out how much you will need to pay each month to reach that goal.

**GO ON A CASH-ONLY DIET**
Buy everything with cash. Keep no more than one or two credit cards and use them for emergencies only.

### Table 2
**Sample Credit Card Debt Calculation**

<table>
<thead>
<tr>
<th>Credit card balance</th>
<th>$5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card interest rate</td>
<td>8.99%</td>
</tr>
<tr>
<td>Desired months until debt free</td>
<td>12</td>
</tr>
<tr>
<td>Monthly payment needed to reach goal</td>
<td>$437.23*</td>
</tr>
</tbody>
</table>

* Assumes no further charges to card

**CREDIT RATING**
What is your credit rating? A credit rating is a summary report on your loan repayment history from all your creditors. Your outstanding credit card, student loan, and other debt plus the interest rates you pay on the debt and your history of consumer payments all add up to your credit rating. Credit ratings are expressed in numbers—your FICO score—and can range from 300 to 850. The higher your score, the more creditworthy you are, i.e., you qualify for lower interest rates on future loans. Nearly every consumer-oriented business reports on the status of consumer payments to the three main credit bureaus—Equifax, Experian, and TransUnion.

Each credit bureau uses its own calculations to assign a credit score; therefore, someone’s credit score may differ slightly from one report to another depending on which company produces the report. Anyone accessing your credit history will have a fair idea of your creditworthiness. Your credit rating affects the interest rate banks will offer for a mortgage, if they offer one at all. In some cases, a bad credit rating can prevent you from even renting an apartment. Your rating will also affect the interest rates you receive for any future loans. If you are late or miss a payment, the default interest rate on that card can soar to 30%. You may still be able to obtain new credit but may pay a higher-than-market interest rate. The best way to determine your own credit standing is to get a copy of your credit report. You are entitled under the Fair Credit Reporting Act to one free copy every year. The simplest route is through the AnnualCreditReport.com Web site, which will send you a report combining the findings of the three main credit bureaus. The Federal Trade Commission strongly suggests linking to this site from the FTC Web site to avoid being misdirected to Web sites that require you to purchase goods or services before sending you your report. Signing up for an ancillary product is not necessary. You are not required to purchase anything from AnnualCreditReport.com.

Knowing and protecting your credit rating is the keystone for building a strong financial foundation. Credit card debt may be ubiquitous, but it can be especially burdensome to people starting their careers. Credit bureaus are not infallible. If you find a mistake in your report, contact each credit bureau directly, request changes in writing, and provide documentation to support your request. The credit bureaus should correct the mistake and notify you that they have done so.

How much credit card debt do you have and how long will it take to pay it off? Many online sites have calculators to help you, including ones that determine how much you must pay each month to reduce your debt in a specific amount of time (Table 2 shows an example).
LIFE INSURANCE
A life insurance policy for each family breadwinner is an important part of any family’s financial security. This insurance is essentially an annuity contract between the policyholder and an insurance company. In return for a monthly premium, the company provides financial security for your designated beneficiaries after you die. If the death of a family member, perhaps the stay-at-home dad, means you will have to hire day care help to replace him, you should consider life insurance for that person, too.

Whole life insurance contains both an insurance component and a savings component. You pay an agreed-upon premium each month; a portion of the premium goes into insurance, another portion into the policy’s savings that draws tax-deferred interest. If the term insurance looks like it’s going to expire before you die, you can use the policy returns dividends, you can reinvest the dividends to increase the payout to your beneficiary. Term life insurance also pays a benefit to the beneficiary, but only provides coverage for a limited time (e.g., until you reach a certain age or as long as you work for the company). Your employer determines how much benefit (say, $200,000) your beneficiary will receive and pays premiums based on that benefit. Premiums for term life insurance are usually lower than for whole life. If the term insurance looks like it’s going to expire before you do, and you (not your employer) purchased the policy, you should be able to extend the term. A term life policy does not contain a savings component. A universal life insurance policy is relatively new; it combines the benefits of whole and term life insurance. As with whole life insurance, a universal policy contains a savings component you can use to pay monthly premiums or borrow against for unexpected expenses. The biggest difference between a universal life policy and whole or term life is that you can review your coverage periodically and shift money between the policy and the savings component.

DISABILITY INSURANCE
Disability insurance replaces a portion of last income if you become disabled and are therefore unable to work for some period of time. Many employers offer disability insurance as part of their regular benefits package. Ask about it when you are considering job offers. For most early and mid-career professionals, the odds of becoming disabled are higher than the odds of dying. The Social Security Administration also offers disability insurance to Social Security subscribers who become permanently disabled. You probably feel you should have life insurance to protect your family; disability insurance is just as, and maybe more, important. Disability insurance with whole or term life is that you can review your coverage periodically and shift money between the policy and the savings component.

LIABILITY INSURANCE
For psychologists working as health service providers, professional liability insurance is a must-have policy. Liability insurance protects your personal assets if you are sued as a result of your professional work. The APA Insurance Trust is one source of coverage. For more information, visit www.apaint.org/apaint.

FLEXIBLE SPENDING ACCOUNTS
Your employer may offer you flexible spending accounts as part of your benefits package. Participating in these programs can help you lower your tax bill because the dollars you set aside for these accounts are considered pretax salary. There are many flexible spending accounts. The most common flexible spending account pays for medical expenses not otherwise covered by an employer-sponsored health insurance plan. One thing to be aware of with these accounts is the use-it-or-lose-it factor: If you don’t use the entire amount set aside during one year, the amount does not carry over to the next. Flexible spending accounts are also available for child care or adult care for dependent parents. These programs allow you, through payroll deductions, to set aside up to $5,000 each year to help pay for your child or adult care expenses using pretax dollars. The funds do not become available until they are set aside from your paycheck.

Note, however, that you can only set aside a total of $5,000 in any one flexible spending account, whether you are single or part of a two-income family. Check with your employer’s human resources staff or consult the IRS Web site for more information on these programs and program eligibility.

COLLEGE SAVINGS PLANS
There are many types of college savings plans that allow you to prepay for a child’s college tuition. All 50 states have college savings plans. One important advantage of these plans is that you are paying for your child’s tuition in today’s dollars. These plans are regulated by Section 529 of the IRS Tax Code; hence, the name “529 plan.” These plans are also offered by some postsecondary education institutions. Some state plans cover only in-state tuition; others pay out-of-state tuition as well. Under a 529 plan, withdrawals to pay for qualified education expenses are exempt from federal tax but not necessarily from state tax. You may pay taxes on withdrawals that exceed a certain amount depending on how the money is spent, whether you claim an education tax credit, or if the child receives scholarships. The tax advantages and liabilities are best discussed with an expert.

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# What Papers to Keep

It may sound simplistic but knowing what papers to keep and how long to keep them is an important beginning to getting your financial house in order (Table 3). With so many of us drowning in paper, one way to stem the tide is by requesting electronic-only copies of regular monthly statements (e.g., utilities, credit cards, bank statements). Another way is to scan documents, unless they are tax related, that are normally kept in hard copy. They will store easily on a computer hard drive or CD. (Remember to back up!) If you are in private practice, whether or not incorporated, the rules for keeping paperwork are different, more detailed, and best discussed with an accountant.

This paper trail will help you identify where your money has been going month by month and will probably continue for a few years. By evaluating your spending habits for only 2 months, you probably can come up with ways to accumulate some personal savings or money to invest without additional sacrifice.

## Table 3
### Managing the Endless Paper Trail

<table>
<thead>
<tr>
<th>Keep forever</th>
<th>6 Years</th>
<th>Until you don’t need them</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax returns</td>
<td>Documentation to support your tax return</td>
<td>Car records (until car is sold)</td>
</tr>
<tr>
<td>Copies of checks to IRS, state, and local tax agencies</td>
<td>Accident reports and claims, including settled claims</td>
<td>Credit card and ATM receipts (until verified on statement)</td>
</tr>
<tr>
<td>IRS audit reports</td>
<td>Medical bills (if you claim medical deductions on your income taxes)</td>
<td>Insurance policy (for life of policy)</td>
</tr>
<tr>
<td>Citizenship and naturalization papers</td>
<td>Monthly bank statements (with copies of canceled checks)</td>
<td>Investment records (6 years beyond sale)</td>
</tr>
<tr>
<td>Family legal documents</td>
<td>Property records or contracts (including receipts if tax related)</td>
<td>Mortgages, deeds, leases (6 years after sale of property or move)</td>
</tr>
<tr>
<td>(e.g., birth, adoption, marriage, divorce)</td>
<td>Other tax-related records (e.g., sales receipts, utility bills)</td>
<td>Monthly bank and investment statements (until you receive quarterly or year-end statements)</td>
</tr>
<tr>
<td>Military records</td>
<td></td>
<td>Professional licenses (latest copies until licenses renewed or superseded)</td>
</tr>
<tr>
<td>Retirement records</td>
<td></td>
<td>Property records or contracts (until sold)</td>
</tr>
</tbody>
</table>

### 3 Years

- Credit card statements (monthly statements unless company issues year-end statement listing all transactions)
- Medical bills (for insurance disputes)
- Expired insurance policies

### Until you don’t need them

- Car records (until car is sold)
- Credit card and ATM receipts (until verified on statement)
- Insurance policy (for life of policy)
- Investment records (6 years beyond sale)
- Mortgages, deeds, leases (6 years after sale of property or move)
- Monthly bank and investment statements (until you receive quarterly or year-end statements)
- Professional licenses (latest copies until licenses renewed or superseded)
- Property records or contracts (until sold)
- Prospectuses (until newer prospectus arrives or investment sold)
- Receipts for large purchases (until sold)
- Utility bills (until payment verified on next bill)
- Other bills (until payment verified on next bill)

**SOURCE:** Adapted from Certified Financial Planner Board of Standards eNewsletter, April 2006 (www.cfp.net/enewsletter/ Apr2006.htm#freespace), extension: more mind reach (www.extension.org/pages/Organize_Your_Important_Papers#Legal_Records), and various CPA and CFP practitioner sites.
RESOLVING STUDENT LOAN DEBT

Resolving debt is the first order of business for many early career professionals, including psychologists. Credit agencies classify debt as “bad” or “good.” Consumer credit debt is “bad” because in large part the debt comes from optional consumer purchases or purchases that can be paid in cash. Student loan debt is “good” because the debt has been assumed for good reason, that is, for someone’s advancement. One strategy for getting out of debt is to pay off high-interest debt first. The cost of credit card debt is usually much higher than the cost of most student loan debt.

APA has found that psychology doctoral graduates carry much more debt per person than other doctoral students (Figure 2). Overall in 2005, close to 70% of doctoral graduates had some debt; almost 40% owed more than $75,000. Practice psychology graduates usually have the most debt of all. Nearly 70% were carrying more than $75,000.18

Sound financial planning involves balancing high-interest credit card payments and lower-interest medium-term student loan payments so that neither type of debt becomes late, goes into default, or ruins your finances.
Rehabilitate Your Loan: Payments Required Before DoEd Will Rehabilitate Loan

Direct loan FFEL loan Perkins loan

<table>
<thead>
<tr>
<th>Minimum number of payments</th>
<th>9</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum number of consecutive months</td>
<td>60</td>
<td>24</td>
</tr>
<tr>
<td>Number of consecutive months</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Loan can be purchased by non-government lending institution</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Direct loan servicing center</td>
<td>Takes back your loan</td>
<td>Takes back your loan</td>
</tr>
</tbody>
</table>

You must begin repaying a federal student loan within 6 to 8 months of graduating or changing your status from full-time student to less than half time. 20 You may defer repayment temporarily if you reenroll or complete your postgraduate, do not find full-time employment, or suffer economic hardship. (Temporary if you reenroll or complete your postdoctorate, do not find full-time employment, or suffer economic hardship. (R) If your bankruptcy case is dismissed rather than discharged, none of your student loan debt goes away.

No matter if your federal loan came directly from DoEd or was private, the lender will make every attempt to find you. Defaulting on one loan makes the full balance of all your loans due immediately—or no deferment, no forbearance. You are also responsible for paying all the collection costs. The DoEd estimates that collection costs alone add 25% to the principal and interest you will repay. 23

How will the government enforce repayment? The IRS will garnish your paycheck, reclaims your federal and state income tax refunds, and bar you from receiving any other federal loans. It will also offset any earned income credit you claim on your income taxes. If you are married and filing jointly, the only way a spouse can recover the portion of the tax refund due to him or her personally is to file an “injured spouse” claim with the IRS. 24

Furthermore, there is no statute of limitations on how long the federal government can enforce repayment, despite state law limitations. Bankruptcy is not an option unless you receive an undue hardship ruling from the court. Even with a hardship ruling, DoEd’s Education Credit Management Unit reviews the case and ultimately decides whether you must still pay off your federal student loan. If your bankruptcy case is dismissed rather than discharged, none of your student loan debt goes away.

Suspose you are in default on one or more federal loans. You can negotiate with your state guaranty agency or DoEd to begin repaying at a rate reasonable for you and them. If you want to qualify for a HUD or VA loan, you can agree to pay all your defaulted loans in full, rehabilitate them, or consolidate them all into one loan.

The government’s rehabilitation program is one way to get back on track (Table 4). Once you start adhering to the program’s terms, you are no longer in default and you become eligible for the benefits (deferment, forbearance, and Title IV eligibility) you received before you defaulted. DoEd will remove a major blem-

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FEDERAL LOAN DEFERRAL AND FORBEARANCE

You must begin repaying a federal student loan within 6 to 8 months of graduating or changing your status from full-time student to less than half time. 20 You may defer repayment temporarily if you reenroll or complete your postgraduate, do not find full-time employment, or suffer economic hardship. (Handship deferrals are granted for no more than 3 years.) You can also receive repayment deferrals for service with the military or the Peace Corps. Interest does not accrue during deferral unless you have an unsubsidized Stafford loan. Until you receive certification of your deferral, you must make monthly payments or be declared in default. If you are declared in default, deferral is no longer available. Another option far temporarily avoiding the pain of loan repayment is forbearance. Unless you are in the military or your student loan payments exceed 20% of your monthly income, you must show good cause for your lender to reduce or stop phone payments. The minimum forbearance you can expect is 12 consecutive months, if you request forbearance for fewer months, the total accumulated forbearance periods may not exceed 3 years.

Forbearance is not as painless to your wallet as deferral; interest accumulates the whole time. You are responsible for paying the extra interest when you begin to repay your loan.

LOAN REPAYMENT

Every loan provides for a specific number of years, typically on a monthly cycle, to pay before the loan becomes late. At this point the government uses to declare a loan in is default. To find out whether your payments are current and on time, you can create an electronic account with the Department of Education’s (DoEd) National Student Loan Data System. 21 This database integrates information from all your student loans and grants into one monitoring system.

FEDERAL LOAN DEFAULT

Failing to pay your federal student loan for 270 consecutive days throws the loan into a different status. The least serious consequences are that you will pay more late fees, interest, and bank on your credit rating will plummet, and it will take you at least 7 years to establish a decent rating again. The other consequences are far more serious.

Employment and its possibility is put in jeopardy. If you are a government (city, county, state, or federal) employee, you can be fired. 22 If you are applying for work in the public sector, you may be declared ineligible for the job. If you need a license, you can be prevented from obtaining one; if you already have one, it can be revoked.

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20 The government’s rehabilitation program is one way to get back on track (Table 4). Once you start adhering to the program’s terms, you are no longer in default and you become eligible for the benefits (deferment, forbearance, and Title IV eligibility) you received before you defaulted. DoEd will remove a major blem
ish from your credit history, and the IRS will stop garnishing your wages and withholding your tax refunds.

PRIVATE STUDENT LOANS
Private student loans are another matter entirely.25 No government agency guarantees or insures private student loans. Few private lenders allow borrowers to reduce principal by making extra payments, although borrowers are welcome to pay off their loan balance at once to avoid accumulating interest charges.

Private lenders usually grant deferment only while you are in school. Depending on their loan agreement, students make interest-only payments during deferment or add the accumulated interest to their loan balance. Forbearance is rarely granted and is usually for no more than 6 months. Each time a private lender grants deferment or forbearance, the borrower pays a fee.

Flexible repayment plans, reasonable loan settlements, and loan cancellations for economic hardship are nearly impossible, even with mandatory arbitration. Depending on their loan agreement, students make interest-only payments during deferment or add the accumulated interest to their loan balance. Forbearance is rarely granted and is usually for no more than 6 months. Each time a private lender grants deferment or forbearance, the borrower pays a fee.

Flexible repayment plans, reasonable loan settlements, and loan cancellations for economic hardship are nearly impossible, even with mandatory arbitration. Moreover, if you or your cosigner dies or becomes disabled, your private loan debt is not canceled. Most private student loans have variable interest rates that can range from as low as 5% to as high as 19%. The higher interest rate will end up costing you even more money.

The only way to remove the default from your credit record is to pay all your debts from that particular lender on time for 12 consecutive months. You are reported to the credit bureaus as being in default even if you make 11 out of 12 consecutive on-time payments. Like a credit card company, the private lender can charge the highest default interest rates that the market will bear. The increased interest rate will end up costing you even more money.

What can you do as a last resort before defaulting on your private loan? Despite all the fine print, private lenders still want to work with you to give you time to get your finances in order.

CONSOLIDATION LOANS
A way to reduce your monthly debt payment is to consolidate all your private student loans into one, and do the same with your federal loans. For a private loan, you can shop for and lock into a lower fixed rate and extend the term of the loan to 10, 20, or even 30 years. Some direct loans from your educational institution may also be eligible for consolidation through the federal program. Certainly, smaller, fixed monthly payments can reduce strain on your current budget, but they may cost you in the long run.

If you have Federal Direct student loans, federal loan consolidation may be an option for you.26 If your loans carry interest rates lower than current consolidation rates, or if you are close to paying off some loans, it might be better to pay each loan separately. If your loans’ interest rates are high, you may be able to lower your monthly payment and save money. You can consolidate a group of federal student loans through the government’s program only one time.

If you have both federal and private student loans and want to consolidate all of them into a single loan, you may do so through a private lender. Almost every private lending institution offers student loan consolidation, attractive interest rates, and incentives for on-time payments.

The short-term financial pain of higher monthly payments may achieve a better long-term financial gain. DoEd has a Federal Direct Consolidation loan calculator to help you determine whether consolidation will work to your advantage.27

LOAN REPAYMENT PROGRAMS
About 35 federal agencies offer loan repayment programs for their employees.28 The average loan repayment is $10,000 per year for a total of 6 years. These federal loan repayment programs cover federal student loans, private student loans from lenders the programs choose to include, and some direct loans from educational institutions. Two programs of particular interest are: the National Health Service Corps (NHSC) and the National Institutes of Health (NIH)—invite you to work off your loan, shape a career, and reduce your monthly repayment expenses, all at the same time.

NHSC will repay up to $50,000 to a practitioner who works at least 2 years in an underserved area.29 Note that the IRS treats this money as pretax salary, but some states treat it as income. That is, the participant pays state income taxes on the money NHSC uses to pay off his or her student loans. To be eligible, you must have a doctorate and postgraduate supervised clinical expe-
rience and be able to practice independently as a health service psychologist. If you continue service beyond the initial 2-year contract, NHSC can award up to $35,000 per year for additional 1-year contracts. NHSC especially seeks professionals likely to remain in the area after their contract expires. The NHSC Loan Repayment Program will repay up to $35,000 per year in exchange for 2 to 3 years of service in clinical, pediatric, health disparity, contraception, or infertility research. You must be a U.S. citizen or permanent resident, have a doctorate, and have non-practice oriented, you may be eligible for forgiveness if you are employed in public service as defined in the CCRAA (e.g., work for a state or local government), do not default, are paying principal and interest on an eligible Federal Direct loan (Table 5), and make 120 payments on or after October 1, 2007. Payments made before October 1, 2007, do not count toward the 120 payments.

Only certain repayment plans are eligible, including, but not limited to, the Income-Contingent Repayment and Income-Based Repayment plans (available July 2009). Note that extended repayment plans are not considered one of the eligible repayment plans. If you have a Federal Family Education Loan (FFEL), you must first consolidate into a Federal Direct Loan. If you already have an FFEL Consolidated Loan, you must reconsolidate into a Federal Direct Loan. FFEL payments do not count toward the 120 qualifying payments. Final regulations of the program are to be made available by the Department of Education in November 2008.

The NIH Loan Repayment Program will repay up to $35,000 per year in exchange for 2 to 3 years of service in clinical, pediatric, health disparity, contraception, or infertility research. You must be a U.S. citizen or permanent resident, have a doctorate, and have non-practice oriented, you may be eligible for forgiveness if you are employed in public service as defined in the CCRAA (e.g., work for a state or local government), do not default, are paying principal and interest on an eligible Federal Direct loan (Table 5), and make 120 payments on or after October 1, 2007. Payments made before October 1, 2007, do not count toward the 120 payments.

The NIH Loan Repayment Program was established by the College Cost Reduction and Access Act of 2007 (CCRAA) to provide financial incentives to professionals who work in underserved areas to remain in public service. The program forgives remaining student loan debt after 120 qualifying payments. As a psychologist (practice or non-practice oriented), you may be eligible for forgiveness if you are employed in public service as defined in the CCRAA (e.g., work for a state or local government), do not default, are paying principal and interest on an eligible Federal Direct loan (Table 5), and make 120 payments on or after October 1, 2007. Payments made before October 1, 2007, do not count toward the 120 payments.

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Financial planning comes with a culture, lingo, and buzzwords. What does it mean to invest conservatively or aggressively? What is the difference between a T-bond and a T-note? What does a high P/E ratio mean for the growth potential of a stock? Money talk like this can be intimidating to a new investor.

Early career psychologists can save time and money if they know some essential terms before they start. For example, you should be able to read and understand the basics of a company’s prospectus (information for a stock or bond offering) or a company’s quarterly report to determine whether an investment is sound. The Securities and Exchange Commission requires every company selling investments to file such reports and maintains a searchable, online database available free to potential investors.

Although it may seem strange to think about investment strategies while you are worried about student loan debt, it is important to remember that while investing for retirement you are also, at the same time, investing to make short- and medium-term gains that can be used to purchase a car or a home. A variety of other investments in your portfolio—stocks, bonds, and asset accounts (money market accounts and funds and mutual funds)—offer such gains and provide income before you retire.
STOCKS AND BONDS

You can purchase stocks only through an intermediary such as a licensed broker or licensed online trading firm. Most people buy and sell, gaining portfolio value a few shares at a time. Stocks are sold as common or preferred shares.\(^\text{29}\) Common stock share prices fluctuate more with the market and thus carry a higher risk as well as the potential for a higher return on investment (ROI) if the share price goes up. Holders of common stock may receive dividends, but a dividend is not guaranteed. Preferred stock pays a guaranteed fixed dividend that varies with the market interest rate. Both common and preferred stockholders benefit when the price per share increases, but common stockholders are not guaranteed a dividend and receive dividends only after preferred stockholders get theirs. Common stockholders often receive lower dividends than preferred stockholders do.

In addition to the share price of stocks, also consider dividends and capital gains taxes. Investors who increase their portfolio value by trading stock earn dividends \((\text{interest income})\) while they own the bond and any increase in the bond's value in the secondary market if they sell the bond before it matures.\(^\text{29}\) Most (but not all) bonds are taxable investments; you would be liable for taxes on your bond's interest rate.

**Money market funds**

Money market funds are similar to money market accounts and have the same minimum deposit and transaction requirements. The major difference is that the FDIC does not insure money market funds. Fund managers mitigate the depositor's risk by offering a higher interest rate than a money market account.

Money market accounts and money market funds are prime examples of conservative, safe investments. Returns can be lower than a trading account, but the accounts give the investor the main advantage of liquidity with less risk and, in many cases, lower fees. Some, but not all, are tax exempt. If you invest in an account that is not tax exempt, you will pay taxes on the interest earned. Investors often open these accounts with brokerage firms so they can park money from the sales of stocks or bonds and gain a little interest until they decide on another investment. One advantage of opening these accounts with a brokerage firm is that many firms allow investors with both a trading account and a money market account or money market fund to roll over between accounts without incurring a capital gains tax liability.

**Mutual funds**

Mutual funds are riskier than money market accounts and money market funds but generally pay a higher ROI. These funds come in all sizes and types. Some mutual funds invest only in stocks (equity funds), bonds (fixed-income funds), or money markets; some invest in a mix of all three. Large companies manage a panoply of funds, each with its own investment formula. Some are equity funds (stock only), fixed-income funds (bonds and other annui-
ties), balanced funds (stocks and bonds), or money market funds (money market instruments). A mutual fund’s business is twofold: (1) investing in stocks, bonds, or short-term investments issued by companies and (2) making money by trading the investments on behalf of its shareholders. Portfolio managers direct the fund’s investments and trading. The investor’s profits or losses depend on the portfolio manager’s skills and experience. The fund makes money by collecting stock dividends, interest on bonds, and capital gains from its sales of various financial instruments. It absorbs the gains or losses and distributes them among its shareholders.

Shares in mutual funds are assigned a net asset value (NAV). The NAV is calculated by subtracting the fund’s liabilities from its total value and dividing the result by the number of shares issued and outstanding. The NAV fluctuates according to how the fund’s investment portfolio performed, that is, its total value increases or decreases based on the closing prices of fund’s individual investments each day. The NAV determines how much it costs the investor to buy into or sell out of the fund. As with stock sales, investors pay a commission for each transaction.

In addition to the NAV, the fund may charge investors yearly management and account maintenance fees. In some cases, it charges transaction fees, also known as loads. Most investors have heard of no-load mutual funds but have no idea what a load actually means. The load is a fee you pay at the front end when you buy shares or at the back end when you sell. It pays to understand the fund’s fees before you invest; the fund may be performing admirably but lower your return and your principal investment by charging heavy fees.
The vast sea of mutual funds on the market (some companies offer more than 50 different funds) can be made more navigable by visits to two Web sites. The Securities and Exchange Commission’s (SEC) Web site has a simple calculator for the investor who wants information about how a specific fund’s costs will affect the bottom line (Table 6). The Financial Industry Regulatory Authority (FINRA) is a non-government regulator for nearly 5,000 U.S. brokerage firms. Its calculator, the Mutual Fund Expense Analyzer, permits investors to compare up to three mutual funds at a time based on an initial investment, an expected rate of return per year, and the number of years the money will remain in the fund. It projects how much money you will make hypothetically, assuming the rate of return it is calculated here to show how much an investor will make over the holding period.

Money market accounts, money market funds, and mutual funds provide the diversification and exposure to markets and market instruments that small investors cannot amass by themselves. Although the FDIC insures against loss from investments in bank accounts (to a limit of $100,000 per account when a bank fails), it does not insure against loss of principal for other investments. Your risk tolerance is your ability to weather financial uncertainty as the value of your portfolio fluctuates in response to market changes. It helps you decide which investment strategy is best for you. Other critical factors are your age, family status, and how long you can wait to access your savings. Your age, financial health, and risk tolerance determine how much money you must invest and what types of investments you set types within their savings and investments portfolios. Your age, financial health, and risk tolerance determine how much money you must invest and what types of investments you set types within their savings and investments portfolios. Your age, financial health, and risk tolerance determine how much money you must invest and what types of investments you set types within their savings and investments portfolios.

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Holding Company X’s Diversified Equity Fund for 15 Years, in 2008 dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost$</td>
<td>$657.42</td>
</tr>
<tr>
<td>Dollars invested</td>
<td>$5,000.00</td>
</tr>
<tr>
<td>Annual rate of return</td>
<td>4.19%</td>
</tr>
<tr>
<td>Fund’s total annual operating expense</td>
<td>0.38%</td>
</tr>
<tr>
<td>Sales charge (buying fee)</td>
<td>0.5%</td>
</tr>
<tr>
<td>Deferred sales charge (selling fee)</td>
<td>2%</td>
</tr>
<tr>
<td>Investment amount after 15 years</td>
<td>$8,597.25</td>
</tr>
<tr>
<td>Net gainb</td>
<td>$3,597.25</td>
</tr>
</tbody>
</table>


a The cost is the sum of total fees paid ($513.43) plus foregone earnings ($143.99).

b The SEC Web site does not calculate the net gain. It is calculated here to show how much an investor will make over the holding period.
If you are nearing retirement age, bonds and IRAs will probably make up the bulk of your portfolio. Wise asset allocation can protect your portfolio against major losses.

Conservative investors allocate most of their portfolio to fixed-income securities, a small portion to equities, and the smallest portion to cash and cash equivalents. Aggressive investors allocate most of their portfolio to equities, a small portion to fixed income, and the smallest portion to cash and cash equivalents. You can invest conservatively with the goal of protecting the value of your portfolio or invest aggressively, risking more of your portfolio, with the goal of increasing its value and income more quickly.

If you choose to do your own investing without a financial advisor, you have to do the homework to allocate wisely (read company prospectuses, investigate bond yields and maturities, and assess mutual fund compositions and fees). You also have to determine how to diversify your investments within each asset class.

Perhaps you have invested all the money you have allocated for equities into manufacturing stocks, and these stocks drop sharply. Over the short term, you could lose money that will take time to recover. You mitigate risk and potential loss by investing in more than one type of stock and more than one market sector.

You should rebalance your portfolio regularly (at least annually) to see if your current asset allocation is helping you achieve your financial goals. As you approach new life and career changes, re-check your asset allocation to see if it still works for you. Typically, you will want your asset allocation to become more conservative as you get closer to retirement.
Financial experts generally agree that you will need between 70% and 80% of your annual income when you retire to retire comfortably. Heavy outlays to pay back student-loan debt may postpone saving for that day. But take heed: the U.S. Department of Labor warns that for every 10 years you delay saving for retirement, you will need to save three times as much to catch up. Along with Social Security, personal savings and wise investments begun early and maintained over a long period can help you build your retirement savings and mitigate the effects of inflation on your after-retirement income. A retirement plan, established early by you or an employer and contributed to consistently, is the key to your retirement nest egg. The fundamental premise of most retirement plans is to defer taxes on a portion of your income until you reach either retirement or a specified age. Because you will then probably have a lower income, your money will come back to you taxed at a lower tax rate. While you are working, you might be able to take advantage of what the IRS considers pretax salary.

It pays to understand a retirement plan’s costs, risks, and benefits, especially before you accept or decline a job offer or weigh the pros and cons of working for yourself or an employer. Pay particular attention to what portion of a plan is matched with an employer contribution and tax deductible (portion of contribution deductible from taxes during the tax year it is made).

If you make $50,000 a year and contribute $5,000 a year to your company plan, the IRS may treat the $5,000 as pretax salary. You would only owe taxes on $45,000.
Many calculators are available online to help you determine the amount you will need to retire comfortably. The computation is made using a number of variables pertaining to your situation (e.g., age, number of years until retirement, gross or net salary per month or year, pension contributions, savings, a nominal inflation rate, and the projected value of a dollar). The result of the equation is the amount of money you need to put away each month through investments and other savings in preparation for retirement.

INDIVIDUAL RETIREMENT PLANS
Traditional and Roth IRAs are retirement accounts familiar to most people. Both are established by an individual investor with a financial institution (e.g., bank, credit union, brokerage firm). Both also have limits on the amount of money an investor can contribute to the plan each year; however, only a Traditional IRA contribution can be deducted from income taxes. The IRS sets the maximum contribution each year, for example, $5,000 in 2008, $6,000 for people over age 50 years. The actual allowable deduction may be lower than the IRS limit, depending on the investor’s adjusted gross income.

With the Traditional IRA, you contribute money to your account each year; your contribution and accumulated earnings are tax deferred. The contributions may be fully tax deductible, depending on your adjusted gross income and whether you participate in another retirement plan during that tax year. If you withdraw the money before you reach age 59 1/2, you pay a penalty and taxes on the amount withdrawn. After age 59 1/2, you will pay taxes on withdrawals.

For you to benefit from a Roth IRA, your adjusted gross income must fall below a designated sum ($116,000 if single, or $169,000 if filing jointly in 2008). Your contributions are taxed, but the gains are tax free. After you reach age 59 1/2, withdrawals are penalty and tax free. Early withdrawal may result in penalties and taxes.

TARGETED RETIREMENT FUNDS
Targeted retirement, or lifecycle, funds consist of a pool of investments that are chosen to maximize performance and allocated among asset classes based on the number of years before an investor retires. Offered by investment firms, the funds provide diversification among asset classes and allocation adjustments. As the investor’s retirement date nears, the fund’s asset allocation becomes more conservative. For example, a targeted fund whose investors are aged 36 to 40 and expect to retire by 2035 will start out with a more aggressive mix of investments mostly made up of stocks. Funds for investors who expect to retire shortly (within 20 years) will still contain stocks and bonds allocated to achieve moderate growth but will shift toward balanced and conservative growth and income distribution.

All targeted retirement funds require a minimum investment and pay annual returns. Investors also pay taxes on their withdrawals or distributions (dividends) paid out by the fund, although the assumption is that the account holder will begin to make withdrawals in retirement when the tax rate is lower than when they were working.

WHAT DOES IT COST TO RETIRE?

EMPLOYER-SPONSORED RETIREMENT PLANS
Employer-sponsored plans are either funded entirely by your employer or by the two of you together. The employer’s contribution is, in essence, “free” money. There it lies in your portfolio, tax deferred and quietly gaining value. Employer-sponsored retirement plans come in two flavors: defined benefit and defined contribution. They differ in composition, amount of employer-employee contributions, withdrawal penalties, taxes, and payments at retirement.

The defined benefit plan, also known as a fully funded pension plan, was common for earlier generations of American workers. In a defined benefit plan, the employer sets aside money for you and guarantees you will receive regular monthly payments at retirement, which can also include cost-of-living adjustments. The company manages the plan, assumes all investment risk, decides
when and how you may withdraw funds and how long you must work for the company before you become vested, that is, legally entitled to your pension. As with Social Security, you have no control over how the money is invested or paid out, and how much you receive at retirement depends on your age, salary history, and years of service.

A company can insure its defined benefit plan through the Pension Benefit Guaranty Corporation (PBGC). If a company becomes insolvent or its benefit program fails, the plan goes into trusteeship. Using the money it makes from investing the premiums, PBGC pays monthly retirement benefits to eligible pensioners from the companies in trusteeship. You can find out whether PBGC insure a company’s defined benefit plan by asking your benefits administrator. As of 2008, PBGC was insuring about 30,000 defined benefit plans, covering 44 million people. Except for the military and civil service employees, few companies offer these plans today.

Instead, most employers today offer a defined contribution plan. It differs from a defined benefit plan in management, contribution, payout, and, in line with the times, portability. Few people these days expect to begin and end their career with the same employer. Most early career professionals value job mobility and the ability to switch their investments around.

Your contribution is a portion of your yearly salary taken out of each paycheck and is tax deferred; you and your employer agree on the amount. Your employer’s contribution is a percentage of your yearly salary but rarely matches your entire yearly contribution dollar for dollar. The employer maintains the plan or chooses a financial institution to provide those services. The plan manager selects the investments, or you choose from a pool selected by the manager. Defined contribution plans are not insured by the government. The risk devolves primarily to the company: Your monthly payments at retirement depend on your length of service and the company’s vesting guidelines. Be sure to read the fine print so that you know how your plan works and how it pays out in retirement.

The 401(k) or 403(b) plans are the best-known defined contribution plans. They differ from each other mainly in sponsorship. For-profit and some tax-exempt organizations offer the 401(k); educational institutions and nonprofits, the 403(b). In general, if you invest in one of these plans, you and your employer contribute a percentage of your salary to the plan. Your employer chooses a financial institution to administer the plan, but you choose where to invest your funds within the pool of investments offered.

Participants can sometimes borrow money from the plan or make withdrawals for hardship, subject to a 10% federal tax if money is withdrawn before the participants reach age 59½. Both the 401(k) and 403(b) plans levy fees and penalties for early withdrawal. Both allow new plan participants over age 50 to play catch-up, that is, contribute extra money, tax deferred, until retirement. Although any organization offering a 401(k) or 403(b) is subject to IRS regulations, the plans may have different rules for borrowing or taking a hardship withdrawal.

The 401(k) and 403(b) plans are also portable. If you leave your job, you can roll over (transfer) your contributions and earnings, tax free, into another retirement plan or an IRA. Your participation makes you vested immediately, but you may have to work for your employer a set number of years before you are entitled to take your employer’s contributions, along with your own, when you leave. Each employer distributes its matching funds to departing employees differently; some companies may not distribute matching funds at all unless you are retiring. Your contributions are withheld from your paycheck before taxes are taken out. A few years a year, you can choose again how to invest your money and shift your investments around.

If you contribute to more than one type of plan (say, a Traditional IRA and a 401(k)), the contribution limit for your 401(k) may be lower than $15,500. The IRS also limits employer–employee combined contributions to the lesser of 25% of your annual compensation or $46,000 in 2008. Like a Traditional IRA, your contributions and earnings are tax deferred until withdrawn.

A SEP IRA allows a small business owner to contribute 25% of an employee’s salary up to a limit of $45,000 each year. Self-employed persons may also establish SEP IRAs, but contribution rules are more complex for individuals. Contributions are tax deferred until withdrawn but carry a penalty (about 10%) if withdrawn before age 59½. A SIMPLE IRA allows both the employer and employee to contribute. Your employer must match your contribution by at least 1% to 3% of your yearly salary or make a fixed 2% contribution. The contribution reduces your current taxable income up front because it is considered pretax salary. If you withdraw money before age 59½, you pay up to a 25% penalty.
Endnotes


8. If you visit this site directly, be sure to correctly spell www.cfp.net/learn/knowledgebase.asp?id=7


12. An insurance company calculates mortality expenses based on actuarial data and the individual’s health status. The company sets its insurance premium based on whether the individual’s health data suggest he or she will die before or after the age suggested by the actuarial data.


18. Any postsecondary education institution eligible to participate in the U.S. Department of Education’s student aid programs may establish a prepaid tuition fund.


31. Organizations you may wish to consider include CFP Board, National Institute of Financial Education, and the National Association of Student Financial Aid Administrators.”

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Endnotes


34 For more information, see www.ed.gov; www/equaliteiteworks.org/files/studentloan_checklist_6-19.pdf; and www.law.georgetown.edu/news/releases/ ar01.html#d0e124


39 About the cost of investing in a mutual fund: "Higher expenses do not assure superior performance. A high-cost fund will have to perform better to provide you with the same return as a low-cost fund."


46 In 2007, the IRS limited employee pretax contributions to $15,500; this amount is subject to cost-of-living increases in 2008 and thereafter.


53 If the company makes a profit, the employer deposits a percentage of its profits into the plan. These deposits are made in lieu of a specific dollar amount or a contribution based on a percentage of an employee’s salary.


Endnotes
annuity Contract between investor and insurance company. For regular payments during fixed time, insurance company pays investor regular income. Withdrawals taxed as ordinary income and subject to additional federal income tax penalty (about 10% in 2008).

asset allocation Mix of assets in portfolio, apportioned among equities, fixed income investments, and cash and cash equivalents. See diversification.

asset-backed security Bond or note issued by banks and other lenders; pool of assets or cash flow from group of assets, usually issued to make unencumbered investments (e.g., auto loans, leases, and credit card debt) worthwhile to investor. Allows issuer to secure debt and pay lower interest than do traditional financial institutions.

asset-based fee Fee charged by investment institution; deducted from investor’s account each month based on total value of investment (e.g., account worth $1,000 will be charged $10, or 1% per month).

balance sheet Value of company’s assets, liabilities (e.g., money owed), and stockholders’ equity on specific date. Usually produced once each quarter. See net worth.

bear market Investors lack confidence in financial markets when share prices drop. Investors may sell stock, even at loss, in anticipation of future, greater losses. See bull market.

bond fund Bonds issued by group of companies to secure debt. See corporate bond, high-yield bond, municipal bond, and U.S. Treasury Bond.

brokerage fee Fee paid by investor to brokerage company for financial transaction made on investor’s behalf.

bull market Investors exhibit confidence in financial markets when trading and returns on investment increase. Investors may buy more stock or sell stock at higher price than they paid. See bear market.


capital gains Profit from an investment sold at a higher price than the investor first paid.

capital losses Losses from an investment sold at a lower price than the investor first paid.

capitalization rate Money an investment (usually real estate) will eventually produce compared to its initial cost or current market value. Indicates how fast investment will pay for itself while producing cash flow. (If a building that cost $1,000,000 returns $100,000 per year, the “cap rate” is 10%; i.e., the building will pay for itself in 10 years.)

cash flow statement Shows company’s incoming and outgoing sources and use of cash, often reported monthly or quarterly. Indicates if company is financially sound.

certificate of deposit (CD) Money deposited for fixed term of days, months, or years, accrues fixed interest payable (e.g., monthly, quarterly, yearly) until term is complete. Money and interest taxable. Subject to bank fees if money removed before fixed term expires.

certified financial planner (CFP) Certification by Certified Financial Planner Board of Standards. A CFP has fulfilled education and ethics requirements, takes continuing education courses, and pays certification fees.

commodity Raw or primary product (coffee, corn, oil, electricity) sold by contract (say, 1,000 barrels of oil at $85 per barrel). Investor earns or loses money based on contract’s value when sold (e.g., sold oil at $98 for a profit of $13 per barrel minus transaction fees).

compensation package Salary and (if any) pension benefits, paid leave, subsidized commuting costs, health insurance, life insurance, etc.

corporate bond Bond issued by corporation to secure debt, usually issued with maturity date of at least 1 year. Corporation repays investor’s initial investment plus yield (interest) when bond matures. Also called “commercial paper.”

credit rating Number representing investor’s ability to pay debts. (The higher the investor’s credit score, the better the credit risk for the lender.)

defined benefit plan Employer funds and manages plan. Employee has no control over how money is invested or paid out. Not portable.

defined contribution plan Both employer and employee contribute to plan. Employee earnings grow tax deferred. Usually portable.

direct deposit Electronic transfer of money between accounts, often as salary payment.

diversification Financial portfolio contains assets from various investment classes (e.g., stocks, bonds, mutual funds); diversifying minimizes investor’s loss of money in any one market sector. See market sector.

dividend Periodic payment from share of stock. May be returned to investor as taxable income or in the form of additional stock.

Dow Jones Industrial Average (DJIA) Index of 30 largest and most widely held public companies in United States. Index’s average is based on stock splits and other adjustments rather than actual average of share prices of component stocks on given day. Also called “the Dow.”

equity Share of ownership in publicly held company.

Federal Deposit Insurance Corporation (FDIC) U.S. government program insuring individual banking accounts (maximum of $100,000 per account) if bank fails. Investor loses any amount over reimbursement limit in single account.

Federal Reserve U.S. central bank. Sets monetary policy, including interest rates; adjusts policy according to market and economic conditions. Also called “the Fed.”

financial plan Plan for spending and investing future income. See business plan.

fixed income Investment Investment paying set interest rate until investment matures (e.g., 1 year Treasury bond). Value fluctuates over time with prevailing interest or inflation rates (e.g., investment pays lower or higher interest than Fed rate, or consumer prices increased or decreased since investment was made).
life insurance (universal) Combines benefits of whole and term life insurance (savings and low monthly premiums). Can be adjusted periodically to account for life changes.

life insurance (whole) Contract between insurance company and investor that pays specific amount of money to designated beneficiary when investor dies. Usually provides death benefits and guaranteed cash value; can be borrowed against; mortality expenses usually do not reduce the policy’s cash value.

market correction A 10% to 20% drop in share prices following a gradual, extended rise in share prices. (Lower share prices and valuations are opportunity to buy low when everyone else sells.)

market segment Segment of investment market (stocks, bonds, commodities, currencies) or segment of specific market (technology stocks, municipal bonds, copper futures, Euros).

money market account Fund containing short-term investments (government bonds, CDs, foreign currencies). Investor receives interest payments.

Moody’s Corporation Large, worldwide credit agency publishing financial research and analysis of stocks and bonds.

municipal bond Bond issued by state, city, or local government, or their designated agency. Interest income sometimes exempt from federal and state taxes, depending on how bond is used. Also called “muni.”

mutual fund Fund of pooled investments in stocks, bonds, or other securities; shared by many investors. Return an investment (ROI) and principal balance vary according to market conditions.

NASDAQ World’s first electronic stock exchange. NASDAQ shows share values increasing or decreasing depending on individual performance of pool of more than 5,000 stocks, usually in technology sector.

net worth Calculation of company or investor’s worth after subtracting total value of liabilities from assets owned. Also called “net assets.”

New York Stock Exchange (NYSE) Main stock exchange for U.S. stock market. NYSE Composite Index shows share values increasing or decreasing depending on the performance of individual stocks within a pool of publicly traded stocks. Also called “the big board.”

online brokerage account Internet account to trade stock, controlled directly by investor. Investor pays monthly, per transaction, or fee at all. Online brokerage firm uses investment pool’s money to make its own investments, keeps percentage of investments in reserve.

per transaction fee Fee charged by investment institution for an investor transaction. (An online broker charges investor a flat fee of $5 per trade.) See brokerage fee.

portfolio All the money an investor has in various accounts (e.g., cash, insurance, stocks, bonds, mutual funds). Balance calculated by adding the total investments and interest earned and then subtracting the fees rendered to maintain accounts.

price to earnings ratio (P/E ratio) Dollar amount investor pays for one share of stock divided by company’s profit per share during 12-month period. One share trades at $50, and the company’s earnings per share is $5; P/E ratio is 50/5. Investor pays $10 for every dollar the company earns. If earnings increase or decrease at the same time as share price, ratio remains the same. If share price increases and earnings either remain the same or decrease, P/E ratio increases. Also called “earnings multiple.”

principal Money in an investment that draws interest. (A $100 investment returning 10% per year earns $10 interest. If interest not withdrawn, principal will be $110 next year and earn $11 interest.)

promissory note A written agreement between two parties, one agreeing to pay the other money on demand or on a specific date.

prospectus Document describing features of an investment. Read by prospective buyers, investors, or participants. Usually contains company’s financial position, names of its officers, how its officers are paid, number of shares to be issued, initial share price, and future plans.

reserves Money a bank does not lend out or invest. See reserve ratio.

reserve ratio Set by the Federal Reserve, the percentage of depositors’ money that a bank must keep on hand as cash. (If a bank has $100 million in deposits and the reserve ratio is 5%, the bank must have $5 million in cash on hand at all times.)

reserve statement Usually specifies coverage for set number of years. Does not accumulate cash value beyond initial coverage.

return on investment (ROI) the bank must have $5 million in cash on hand at all times.)
return on investment  Money investment accrued over time, usually expressed as a percentage of initial investment. Also called “ROI.”

risk  Potential for losing or making money on investment.

risk tolerance  Amount of risk the investor is willing to take to receive a higher return.

roll over  Investor transfers funds from one retirement plan to another without tax liability or reinvests funds from one security (e.g., CD) to a new or similar one.

Roth IRA  Retirement plan. Contributions taxed according to adjusted gross income; earnings not taxed until the investor receives payments; may be withdrawn tax- and penalty-free if account is more than 5 years old and investor is age 59½, disabled, or using funds (up to $10,000) to purchase first home. See SEP IRA.

Self-Directed IRA  Investor deposits fixed amount per year up to maximum set by government. Investor controls how funds in account are invested.

Simplified Employee Pension (SEP) IRA  Self-employed investor deposits fixed amount per year up to maximum set by government (e.g., up to 25% of earned income to maximum of $46,000 per year).

Standard & Poor’s  Large, worldwide credit agency publishing financial research and analysis of stocks and bonds.

Standard & Poor’s 500 (S&P 500)  Index of stocks from 500 large companies chosen from several market sectors. Shows how well or poorly stock market reacts to economic forces on particular day.

stock  Share of ownership in publicly held company. See equity.

tax deferred  Taxes do not accrue until investor withdraws money or reaches specific age (59½).

U.S. Savings Bond  Government bond (e.g., series EE) issued to secure debt, sold at face value between $50 and $10,000. Investor purchases bond at half face value and redeems for face value when bond matures. See zero coupon bond.

U.S. Treasury Bill  Government bill issued to secure debt for 1 year or less. Sold at discount from $1,000 face value. Investor collects interest when bill matures. Also called a “T-bill.”

U.S. Treasury Bond  Government bond issued to secure debt for 30 years; sold in multiples of $1,000. Also called “long bond.” See yield.

U.S. Treasury Note  Government note issued to secure debt, sold in increments of $1,000. Investor receives interest every 6 months until note matures. Also called “T-note.”

vested  Employee entitled to receive retirement benefits from employer or cash from retirement plan if employee leaves company.

volatility  Fluctuation in price of stocks, bonds, and other financial instruments in response to economic forces (interest rate changes, earnings reports, future earnings forecasts, etc.).

volume  Number of financial instruments bought and sold during specific time period.

yield  Return on investment for corporate, municipal, or Treasury bond, usually expressed as percentage per year.

zero coupon bond  Bond issued by federal, state, or local government to secure debt, usually sold at discount from face value. Investors earn money through the difference between discounted bond price and its value when it is redeemed.
Appendix B: Selected Print and Online Financial Planning Resources for Early Career Psychologists

As in many fields, information on financial planning and related subjects is abundant. Given the disparate sources and the far reach of the literature, the search for resources can be daunting. For readers who want to look deeper into financial planning, the information below should make the search easier.

Most of these sites also carry links to additional information, both online and in print. Some URLs offer online calculators tailored to the subject matter. Or, you can choose from the more than 150 custom calculators available at www.choosetosave.org/calculators/.

**CAREER START-UP**

**Employee benefits (eNotes.com)**

**Federal government job site**
[U.S. Office of Personnel Management](www.usajobs.gov/infocenter/)

**Job outlook, psychologists**

**Marketing and building a private practice (APA)**
www.apapractice.org/apo/insider/practice/marketing.html#

**Practice finances (APA)**

www.apapractice.org/apo/insider/practice/pracmanage/practice_finances.html#

**Private practice**


**FINRA**
www.finra.org/InvestorInformation/index.htm

**Learn about financial planning**
(Certified Financial Planner) www.cfp.net/learn/knowledgebase.asp

**Learn about financial planning**
(CFP Board of Standards) www.cfp.net/learn/

**The Motley Fool**
www.fool.com

**SmartMoney**
www.smartmoney.com

**360 Degrees of Financial Literacy**
(American Institute of Certified Public Accountants) www.360financialliteracy.org

**INVESTMENTS**

**Investing**
[Forbes](www.forbes.com)

**Investing**
(The Motley Fool) www.fool.com/investing.htm

**Investing basics**
(Get the Facts on Saving and Investing) [Securities & Exchange Commission](www.sec.gov/pdf/facts.pdf)

**Investing basics**
(Questions You Should Ask About Your Investments) [Securities & Exchange Commission](www.sec.gov/pdf/facts.pdf)

**FICO scores**
www.myfico.com

**Credit rating**
www.smartmoney.com

**SmartMoney**
www.finra.org/InvestorInformation/index.htm

**FINRA**
www.finra.org/InvestorInformation/index.htm

**Learn about financial planning**
(Certified Financial Planner) www.cfp.net/learn/knowledgebase.asp

**Learn about financial planning**
(CFP Board of Standards) www.cfp.net/learn/

**The Motley Fool**
www.fool.com

**SmartMoney**
www.smartmoney.com

**360 Degrees of Financial Literacy**
(American Institute of Certified Public Accountants) www.360financialliteracy.org

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**Investing**
(The Motley Fool) www.fool.com/investing.htm

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(Get the Facts on Saving and Investing) [Securities & Exchange Commission](www.sec.gov/pdf/facts.pdf)

**Investing basics**
(Questions You Should Ask About Your Investments) [Securities & Exchange Commission](www.sec.gov/pdf/facts.pdf)
Appendix B: Selected Print and Online Financial Planning Resources for Early Career Psychologists


Investor’s clearinghouse (Alliance for Investor Education) www.investoreducation.org/index.cfm

HOMEWEALTHSHIP
Buying and owning a home (Freddie Mac) www.freddiemac.com/corporate/buying_and_owning.html

Homeownership (U.S. Financial Literacy and Education Commission) www.mymoney.gov/homeownership.htm

Your Path to Homeownership (Ginnie Mae) www.ginnie Mae.gov/yph/index.aspx?subTitle=YPTH

INSURANCE
Disability insurance (Steve Crawford, licensed insurance agent) www.about-disability-insurance.com

Insurance for a professional practice (Insurance Information Institute) www.iisi.org/smallbusiness/:specific/professional

Life insurance (Insurance Information Institute) www.iisi.org/indiv
duals/life

Medical Malpractice Insurance Information Institute www.iisi.org/media/hottopics/insurance/medicalmal

Social security—disability (U.S. Social Security Administration) www.ssa.gov

Understanding medical malpractice insurance: A primer (RWJ Foundation) www.rwjf.org/pr/product.jsp?id=15091

PERSONAL FINANCES


Save, invest, and manage your money better (U.S. Financial Literacy and Education Program) www.mymoney.gov/default.shtml

360 Degrees of Financial Literacy (American Institute of Certified Public Accountants) www.360financialliteracy.org

RETIREMENT
Cash benefit plans (U.S. Department of Labor) www.bankrate.com/brrm/news_advicehome.asp

Financial planning and retirement (AARP) www.aarp.org/money/financial_planning/

Life insurance education (Life Insurance Net) www.lifeinsurance.net/education.htm

Retirement planning (online tutorial) (Investopedia) www.investopedia.com/university/retirement/default.asp

Retirement planning (U.S. Financial Literacy and Education Commission) www.mymoney.gov/retirement

Retirement planning center (UnionPlus-AFL-CIO) www.dol.gov/topic/retirement/consumerinfo/pension

Retirement plans, benefits, and savings (U.S. Department of Labor) www.dol.gov/dol/topic/retirement/

Social Security Online (U.S. Office of Social Security Administration) www.ssa.gov

STUDENT LOANS
Common disputes regarding defaulted loans (U.S. Department of Education) www.ed.gov/students/college/repay/edpicks.jhtml?src=ln

Direct loan servicing online (U.S. Department of Education) www.dl.ed.gov/borrower/BorrowerWelcome.jsp

FinAid calculators www.finaid.org/calculators

Retiring student loans (U.S. Department of Education)

TAXES

Student-loan interest tax deductions (WorldWideWeb Tax Directory Project) www.wwwebtax.com/

Worksheet 1. Monthly Budget Analysis
This worksheet is a simple way for you to determine where your money goes every month. Some expenses listed below may not be applicable for a given month, but you can still budget for them. For example, your car insurance premium of $2,538 payable twice a year divides into 12 monthly payments of $211.50.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>Budget ($)</th>
<th>Actual ($)</th>
<th>Difference</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Net monthly pay (after taxes)</td>
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<tr>
<td>Alimony/child support received</td>
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<tr>
<td>Other income (e.g., interest)</td>
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<table>
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<tr>
<th>EXPENSES</th>
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<tbody>
<tr>
<td>Housing expenses</td>
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<tr>
<td>Mortgage/rent</td>
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<tr>
<td>Real estate/personal property tax</td>
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<tr>
<td>Owner/renter’s insurance</td>
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<td>Owner’s association/condo fees</td>
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<tr>
<td>Total housing</td>
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<tr>
<td>Utility expenses</td>
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<tr>
<td>Electric/gas/heating oil</td>
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<tr>
<td>Water/sewage/trash</td>
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<tr>
<td>Land line/cell phone</td>
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<tr>
<td>Cable/TV/Internet</td>
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<td>Total utilities</td>
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<tr>
<td>Health/medical expenses</td>
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<tr>
<td>Health/dental insurance</td>
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<tr>
<td>Insurance copays</td>
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<tr>
<td>Prescriptions/eyeglasses</td>
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<tr>
<td>Total health/medical</td>
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<tr>
<td>Transportation expenses</td>
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<td>Car payments</td>
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<td>Car insurance</td>
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<td>Car maintenance/repair</td>
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<td>Public transportation</td>
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<td>Gas/parking/tolls</td>
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<td>Tags and inspection</td>
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<td>Total transportation</td>
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<td>Credit cards, loans, and other money owed</td>
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<td>Credit card 1 balance</td>
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<td>Credit card 2 balance</td>
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<td>Student loans</td>
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<tr>
<td>Legal fees/alimony/child support</td>
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<td>Total credit cards, loans, and other money owed</td>
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<tr>
<td>Food and entertainment expenses</td>
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<td>Groceries</td>
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<td>Meals out and entertainment</td>
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<td>Total food and entertainment</td>
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<td>Child expenses</td>
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<td>Child care</td>
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<td>School tuition</td>
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<td>School supplies and lunch money</td>
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<td>Lessons, sports</td>
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<td>New clothing and allowance</td>
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<td>Total child</td>
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<tr>
<td>Personal expenses</td>
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<td>Dry cleaning/laundry</td>
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<td>New clothing</td>
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<td>Total personal</td>
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<tr>
<td>Unplanned expenses</td>
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<td>Item 1</td>
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<td>Item 2</td>
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<tr>
<td>Total unplanned</td>
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<tr>
<td>Large expenses (e.g., housing maintenance, auto repair)</td>
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<tr>
<td>Total large</td>
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<tr>
<td>Savings</td>
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<tr>
<td>Total savings</td>
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SUMMARY

(Total monthly income - total monthly expenses = difference)

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<tr>
<td>Total Monthly Income (+)</td>
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<tr>
<td>Total Monthly Expenses (-)</td>
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<tr>
<td>Difference</td>
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<tr>
<td>Question</td>
<td>Company A</td>
<td>Company B</td>
<td>Notes</td>
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<tr>
<td>-------------------------------------------------------------------------</td>
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<tr>
<td>Matching employer contribution (Y/N)?</td>
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<tr>
<td>Amount of matching funds (%/year)?</td>
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<td>Tax implications (e.g., tax deferred)?</td>
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<td>Time until vested in plan?</td>
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<tr>
<td>Time until benefits available (age, years of service)?</td>
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<td>Potential benefits ($)?</td>
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<td>How benefits paid out?</td>
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<tr>
<td>Survivor benefits (eligibility, type, amount)?</td>
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<td>Who manages the plan? (company, third party, employee)?</td>
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<td>Withdrawal limitations (kind, amount, penalty)?</td>
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<td>Rollover or lump sum payout if I leave my job before retirement (kind, type, &amp; taxes)?</td>
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<td>Portability?</td>
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<tr>
<td>Withdrawal options?</td>
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ADD QUESTIONS ACCORDING TO YOUR NEEDS.