McRae
Capital Management, Inc.
Investment Counsel

COMMENTARY

TIMELESS MARKET WISDOM THAT MATTERS NOW

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New Job? Congratulations!

(Here's how to decode the tricky stuff.)

You graduated from school, perfected your resume, aced the interview, and landed a good job with a decent salary. Well done! It's an exciting new journey, but you probably have a couple of questions. Questions like: How am I supposed to choose a healthcare plan? When do I need to start worrying about retirement? And who the heck is FICA—and why are they taking money out of my paycheck?

At McRae Capital Management, we've spent decades guiding families toward smart financial decision making at every stage of their lives. To help you get started in the right direction, we've put together this handy answer guide to help explain what's going on. Because as confusing (and frankly boring) as this stuff can be, smart decisions today really will add up to a more comfortable future for you.

The Big Stack of Papers from Human Resources

When you start a new job, HR usually gives you a small mound of new employee documents (paper or digital) to read and sign, and you may be wondering if all of this is worth decoding. The answer is yes! They really do have your best interests at heart, and you're going to have to make small but important choices regarding taxes, insurance, and retirement savings that nobody else can make for you.

Some of these issues may be unfamiliar, so it's definitely worth getting advice from an older friend or family member you trust. NOT your drinking buddy or a roommate who's studying to be an accountant. Consult with someone who's been around the block a few times, like your parents, or an aunt or uncle, or a trusted advisor. They'll save you some time and help you avoid common rookie mistakes. Meanwhile, here's the lowdown.

The Starting Point: Paycheck Deductions

You probably knew taxes and other costs were going to be automatically deducted from your paycheck, but it can still be a shock to see just how much disappears. Not all of the money is gone for good, though. These withholdings and costs are generally in one of three areas: taxes, insurance, and retirement savings. Some are required by law and some are optional, but you do have a say in the process, and thoughtful choices here will go a long way toward setting you up for financial success. So let's walk through these three areas.

Area #1: Taxes

Count on paying at least 15-20% of your salary toward federal income taxes, state income taxes (in most states), and even local taxes in some places like New York City. Sadly, you don't get this money back—these fees pay for public schools, police and fire protection, highways and other infrastructure, the military, and various other government functions. You'll also have some of your paycheck deducted for Social Security (6.2%, up to a ceiling) and Medicare (1.45%). These federal programs provide income and healthcare to retirees, people with disabilities, and others, and they'll assist you in your old age or if you become disabled. Social Security deductions might show up on your pay stub as F.I.C.A (Federal Insurance Contribution Act) or O.A.S.D.I (Old-Age, Survivors, and Disability Insurance).

This "pay-as-you-go" system makes sure you don't suddenly owe a whole year's worth of taxes and costs on April 15th. But the taxes withheld from your paycheck are only an approximation of what you'll actually owe in taxes. You still need to figure it out exactly, and file your taxes each year—usually by mid-April—and either pay the difference, if you underestimated, or receive a refund (yay!) if you overestimated. Filling out IRS forms is another area in which you might want help from someone with experience to double-check your math.

Thankfully, you have a way to determine just how much your employer withholds. The W-4 form (probably in your new employee packet) lets you

Scrimp...And Save!

It can be hard to imagine spending less, but small sacrifices can really pay off in the long run.

DAILY COFFEE

Item: Fancy cup of daily coffee = **$4**

Replacement: Cheap cup of diner coffee = **$1**

Yearly savings: $3 x 365 = **$1,092**

WEEKLY NIGHT OUT

Item: Night out drinking with friends = **$60**

Replacement: Night in with friends and a bottle of wine = **$20**

Yearly savings: $40 x 52 = **$2,080**

MONTHLY CAR LEASE

Item: Cool car lease = **$499/month**

Replacement: Econo-car lease = **$199/month**

Yearly savings: $300 x 12 = **$3,600**

Pay It Off Now!

If you only take one piece of advice away from this Commentary, let it be this: Pay off your credit card, in full, each and every month—it's the #1 best gift you can give your future self. You avoid paying interest, stay out of debt trouble, learn to budget, and earn a great credit score that will yield benefits all your life.

choose a number of "allowances," and this tells your company how much to set aside from each paycheck for taxes. If you choose a higher number, you'll take home more with each paycheck, but may owe at tax time; choose a lower number and you'll take home less money in each paycheck, but you'll owe less at tax time (and might even get a refund). Good to know: You can revisit your choices and update your W-4 form at any time if you change your mind.

Area #2: Health Insurance

No one plans to get sick or injured, but life happens, and getting really sick can wipe out a lot of savings. Health insurance isn't cheap, but it mitigates a lot of that risk. When your company offers you health insurance, they're signing up to cover some of your health care costs, which can help it become more affordable for you. But before it can take effect, you have to pick a plan.

Your employer will typically have a small set of basic health care plan options for you to choose from. These usually involve trade-offs: the higher your monthly premium (what you pay), the more of your costs will be covered when bad things happen (your coverage). One way to reduce coverage, and therefore lower your monthly cost, is by increasing the deductible, the yearly maximum that YOU pay in covered healthcare costs each year before the insurance company has to pay anything. A higher deductible will lower your monthly premium, which can be helpful in any year in which your healthcare costs are low, while still keeping you covered for expensive emergencies.

Other things to consider: 1) Make sure the plan you choose covers any physicians, treatments, or medications you currently use. 2) Evaluate any add-on plans your company offers—such as vision, dental, or disability insurance—to see if they're right for you. Remember that you can review health care choices every year, since plan costs and terms sometimes change. This can be complicated stuff. Once again, we strongly recommend getting advice from an experienced friend or family member. In fact, you may be able to avoid all of this (at least for a few more years) if you can stay on your parents' health insurance. Paying your share of their family plan may be cheaper than your other choices.

Area #3: Retirement

Retirement is for old people, right? Sure. But if you can set aside a small portion of today's salary, that savings can spend decades earning interest and multiplying in value, which can make a big difference when you do finally retire. The government supports many programs for making this easy, saving you taxes on that earned interest along the way, and many companies offer plans that actually pay you extra money (on top of your salary) toward retirement savings. So it's worth investigating your options, which may include 401(k) plans, profit-sharing, pension, and stock option plans. Here are two key concepts worth understanding.

Company "matching." Your company may match some of your retirement account contributions up to a limit—so for every dollar you contribute to, say, the company's 401(k), they might contribute 50 cents or even a dollar. This

8 STEPS TO MASTERING YOUR MONEY

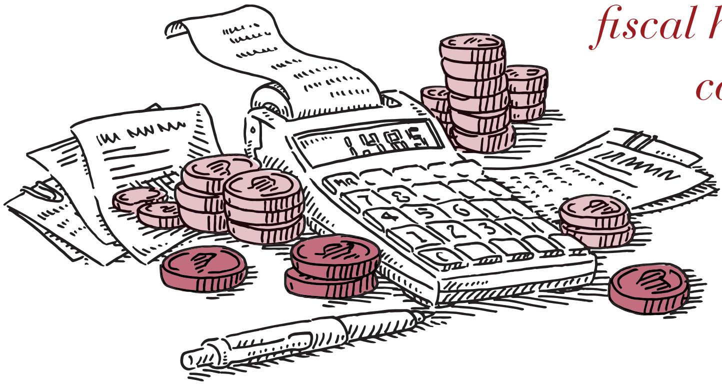
1. Find a trusted parent, aunt or uncle, or friend who's been in the workplace for a couple of years, to help you avoid making rookie mistakes.
2. Don't treat your credit card like a bank—use it only for what you need and can afford now, and pay it off every month. It's incredibly easy to get into credit card debt trouble... and even harder to get out of.
3. Review the new employee packet with HR and with your trusted friend/family member—there are some important decisions you need to make in there, like retirement and healthcare choices.
4. Create a budget, including student loans and other debts and essentials like utilities. Skip the tempting perks and live as frugally as you can..."future you" will thank you!
5. Save something for retirement. Take full advantage, if possible, of 401(k)s or any company-matching plans, stock options, and profit-sharing—this is free money!
6. Learn to save. Set something aside toward building up a cash emergency fund—stuff really does happen!
7. Build a good credit score—it's really, really important. Always be on time paying all your bills, including credit cards and student loans.
8. Good luck...This stuff is hard! Don't be afraid to reach out with any questions.

is extra money given to you on top of your salary, so if you can possibly do it, put in as much money as the company is willing to match. Ka-ching!

Tax deferral. Up to certain limits, money that goes into tax-deferred retirement funds today is not taxed today. (So if you earned $50,000 and managed to put $5,000 into a retirement fund, you'd only pay income tax on the remaining $45,000.) Sure, you're taxed in your 70s when you take the money out, but only after the money has grown and compounded for decades, tax-free, in your retirement account.

Managing your budget

Between what the government is withholding for taxes and your required and voluntary contributions (e.g. for healthcare, social security, and retirement), it can be hard to imagine how you're going to be able to pay your rent. This is why it's really important to set up a budget you can manage. We have a helpful form for this: Just search "general budgeting" on www.mcraecapital.com. It starts by figuring out your fixed costs: things like rent and utilities, phone bills, transportation, and groceries—all the bills you HAVE to pay. If you have student loans, include those too, as you'll need to start paying down those balances right away—after the grace period expires, usually six months after graduation.



Getting into good fiscal habits early can reap big benefits over time.

Once you've estimated all your fixed monthly costs, subtract that from your net paycheck. What's left over is your disposable income, the amount you can spend each month without going into debt. If that doesn't cover the lifestyle you want, your choices are to increase your income (e.g. with a second job or overtime) or to cut your costs (See the *Scrimp...and Save!* sidebar). To add one final wrinkle, we advise setting something aside from each paycheck to build up a rainy day emergency fund—a few bucks a week until you reach about six months worth of salary, which will prepare you for emergency spending if you need it.

Why this is all worthwhile

Establishing good fiscal discipline builds the foundation for a lifetime of financial success. Developing a budget and good spending habits frees more of your paycheck for investment and growth. Making good choices on insurance and withholdings will minimize risks and keep nasty expensive surprises at bay. And paying your bills on time builds a credit history (and a fluctuating numerical "credit score") that becomes critically important when you start looking to buy a car or house, and banks are deciding whether you're a good risk.

Building and keeping wealth doesn't happen by magic. It's the result of a long-term commitment to smart planning, solid discipline, and good decision-making. The paperwork isn't fun, and the "good" choices might seem painful in the short run, but getting into good fiscal habits early can reap big benefits over time. "Future You" will thank "Present You" a thousand times over.

McRAE CAPITAL MANAGEMENT, INC.

MCRAE CAPITAL MANAGEMENT HAS A WEALTH OF INVESTMENT INFORMATION FOR YOU.
If there's ever anything we can help you with, please don't hesitate to give us a call.

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