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GETTING GOING

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Keeping Your Financial Footing at 22 -- So You Can Buy That House at 32

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First, do no harm.

As soon as you graduate and land a job, you are supposed to move quickly to build up an emergency reserve, buy a house, fund your employer's 401(k) plan and open an individual retirement account. Worthy goals? Certainly. Realistic? I don't think so.

My advice: If you're just out of school, don't worry too much about saving for retirement and buying a house -- and instead strive mightily to stay out of debt.

• **Piling up trouble.** I am not saying all debt is bad, and I am not arguing that folks in their 20s, if they have the money, shouldn't purchase homes and fund 401(k)s.

But it strikes me that, for most of us, our initial working years are about learning to live within our means, pay the bills on time and stay out of financial trouble. How do you know you are succeeding? If you aren't piling up credit-card debt and taking on big auto loans, you're probably on the right track.

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STARTING BEHIND

Many folks in their 20s and early 30s are struggling with debt.

• Annual college borrowing is up 85% over the past five years.

• Among young adults who graduated with debt, 34% have sold possessions to make ends meet.

• Almost 60% of households headed by someone under age 35 have installment debt, such as auto or student loans.

Sources: AllianceBernstein; College Board; Federal Reserve

Make no mistake: Debt is a big issue for folks in their 20s. According to the College Board, an association of schools, colleges and universities, 73% of graduates from four-year nonprofit private colleges had student loans outstanding, with $19,400 typically owed.

Once kids get into the work force, this debt can cause a heap of financial stress. New York's AllianceBernstein Investments recently surveyed college graduates between ages 21 and 35. Among those who graduated with debt, 42% said they were now living paycheck to paycheck, versus 24% of those who graduated debt-free.

And the problem isn't just caused by student loans. Almost a quarter of undergraduates have credit-card balances of $3,000 or more, according to a study by Nellie Mae, the college lender in Braintree, Mass. After graduation, those credit-card balances can easily balloon, as kids struggle to get by on skimpy paychecks. Tack on a car loan or lease and you could be looking at big trouble.

To be sure, adults under age 35 are carrying less debt than folks in their 40s and 50s. But they also have smaller paychecks, so meeting their monthly obligations can be tough.

Consider some data from the Federal Reserve's 2004 Survey of Consumer Finances. The Fed asked families with debt whether they had been at least 60 days behind on any of their payments over the prior year. The answer was "yes" for 13.7% of households headed by someone under age 35, up from 8.7% in 1995. Older adults, by contrast, were less likely to report difficulty making their debt payments.

• **Staying in shape.** With any luck, your post-college financial struggles will ease as you approach age 30 and start getting some decent salary increases.

Indeed, this is when you should be looking to buy your first home and start seriously saving for retirement. And, no, you won't be late to the party.

The typical first-time home buyer is age 32, according to the National Association of Realtors, based in Chicago. Similarly, surveys by the Investment Company Institute in Washington suggest people typically start investing in mutual funds in their late 20s or early 30s, with their first investments often made through 401(k) or similar employer-sponsored retirement plans.

But if you're going to buy the house and start funding the 401(k) in your late 20s or early 30s, you've got to reach that age in reasonable financial shape. What does it take? Here are five tips.

• Don't expect to live like your parents. It took them 25 or 30 years in the work force to achieve their current standard of living. If you're eating out as often as they do or taking equally extravagant vacations, you're probably spending too much.

• By leasing or borrowing, you could likely drive a car that's almost as fancy as your parents'. Moreover, the tab might seem pretty manageable, with a 48-month $20,000 auto loan costing maybe $480 a month.

Problem is, you will be setting yourself up for big insurance bills and you will be lavishing all this money on a depreciating asset. A better strategy: Buy the clunker -- and put the $480 a month toward a house down payment.

• Handle credit cards with care. I aim to put everything on my debit card, partly because I get cash back on my purchases. Using a debit card also makes me a more careful spender, because I know the money is coming straight out of my checking account.

What if you prefer to use a credit card because you earn, say, frequent-flier miles? Try this trick: Every time you use your card, subtract the sum from your checking-account balance. That way, when the monthly credit-card bill arrives, you know you will have enough to pay off the entire bill.

• While carrying a credit-card balance is foolish, don't necessarily rush to pay off student loans. The interest rate may not be that steep, and the interest should be tax-deductible. Instead, if you have spare cash, put enough in your employer's retirement plan to get the full matching contribution and then earmark the rest for a house down payment.

• Mooch off Mom and Dad. Moving home for a few years after college may crimp your lifestyle, but it should also bolster your bank balance.

In fact, make sure your parents know just how thrifty you are. Maybe that will elicit some parental admiration -- and maybe also a little help with the down payment on your future abode.

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