

A Conversation with Beth Kobliner: Personal Finance for the Recession Generation

What advice do you have for people just starting out in this recession?

Don't let the headlines depress you into doing nothing! I know it seems impossible, but there's actually a lot you can control despite what's happening in the economy. Take charge of what you can—your spending, your savings habits, and your credit score. Sit down and do a budget. You have to know where your money is going in order to make smart changes. There are some websites that can help you do this for free, like mint.com and quickenonline.com. Once you know where your money is *really* going, you can think about where to cut back. While credit may be harder to get now, for many young people, that's probably a good thing. If you're a typical 20-something, you're carrying tens of thousands of dollars in student loans and credit card debt. Pay it off as fast as you can, starting right now. Even a few extra dollars a month can make a big difference in your debt balances; that can be empowering in itself.

With 401(k)s tanking, does it make sense to keep putting money into mine?

It may sound counterintuitive, but the best place for people to save for the future is still in a 401(k) with matching contributions (from your employer). An employer match is free money; if your company kicks in 50 cents for every dollar you contribute, you're getting an instant return of 50% on your money. That's far better than any other deal around. And if you're really fearful about losing money in the stock market after what we saw last year, remember this: Your 401(k) probably has non-stock, very low-risk options (like money market funds) that you can sign up for instead. These options haven't offered the higher returns that stocks have historically paid out, but you won't risk losing your initial investment. (It'll be eroded by inflation over long periods of time, but that's another story.)

What is a credit score and why should I care?

Your credit score is a numerical representation of your personal finance behavior so far. It's the first thing lenders look at to determine if you'll get a credit card, a car loan, or a mortgage—and if so, what interest rates you'll pay. You can get a free estimate of your score at creditkarma.com or buy the real thing at myfico.com for about \$16 per score. If your score is lower than you'd like, don't despair. Two years of on-time payments can boost your credit from “mediocre” to “above average,” and that could mean the difference between getting a loan or not.

I'm already deep in debt. What do I do?

Attack your highest-interest-rate debt first. Once that's paid off, move down the list. (Check your card or loan agreements if you don't remember what they're charging.) On average, credit cards are charging 14% right now. If you have decent credit, contact your card company and see if it will give you a better rate—just call and ask. No matter what your situation, if you're carrying big balances your goal is to pay them off as fast as possible. That's because paying off credit card debt charging you 14% interest is equivalent to earning 14% in interest after taxes—and that's a lot more than what any bank will give you.

If you have any money sitting in a savings account, use it to pay off your debt. (It's probably earning just 1% anyway, and it's a lot better to eliminate debt costing you 14% in interest than it is to earn 1%.) If you don't have any savings, at least try to pay more than the minimum your lender demands, even if it's just \$10 extra a month. Say you owe \$1,000 on your credit card. If you make only the minimum required payment every month, you'll spend more than 12 years and \$840 in interest, so that \$1,000 will actually cost you \$1,840! Paying \$10 more than the minimum each month will kill that \$1,000 debt in about three years—and you'll pay only \$255 in interest. That will save you \$585 and years of stress.

Will I ever be able to buy a home?

It's still possible, provided you've got the credit, the income, and the down payment—there are plenty of lenders out there. But even if you've got all the elements in place—down payment, great credit score, a solid enough income to handle the monthly payments—take a deep breath and ask yourself if you really want to do this. For years, home prices were soaring and everyone was told that renting was just throwing money down the drain. Nobel Prize winner Paul Samuelson warned me when *Get a Financial Life* first came out that this could become a problem, and now history has proved the wisdom of his insight. Lives change so much in your 20s and 30s that buying is not always smart. If you can't see yourself in the same place for at least three years, keep renting to save the thousands of dollars in closing fees you'll have to pay when you buy. On the other hand, if you're definitely ready to put down roots, now could be a good time—interest rates on home loans are near their all-time lows, so you may find yourself a good deal.

Can I skip health insurance?

No. No matter how healthy you are, there's always the risk you'll have an accident or get sick. If you're laid off, you can keep your workplace coverage for up to 18 months by signing up for COBRA. And brand-new rules passed in February mean the government will pick up most of the premiums—which makes this an amazing deal. If you're not eligible for any insurance through your job, or you're unemployed, at least get catastrophic coverage, which tends to be the cheapest option; it will help with the costs of the biggest medical disasters. And if you're a freelancer, look into groups like the Freelancers Union (freelancersunion.org), which may be able to get you a deal.