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Graduates need to stand on their financial feet

Hundreds of thousands of university and school graduates will be joining the Australian work-force over the next three months, and now is the time to ensure they are able to stand on their own financial feet, according to Adelaide based financial strategist Theo Marinis.

"Parents don't do their children any favours by mollycoddling them. It is important that they teach them about their financial responsibilities – and opportunities," says Theo.

"The obvious starting point is to work with your graduate to draw up a budget. This is the fundamental tool of adult financial life. Once it is known what money is coming in (after super, after tax, after HECS/HELP, union or social club fees) sufficient funds then need to be allocated to cover every-day living expenses – and short to medium term savings.

At the micro level, most grads are going to need an adult wardrobe, footwear and probably a gym membership; but what they think they will spend their dollars on is more likely to be a car or an overseas holiday. A budget will help reality sink in.

It is also my firm view that the graduate should pay board. This could either be directed into Mum's super fund or (if the family already has addressed the issue) into the Government approved Home Deposit Savings Scheme via their superannuation, available from January 1, 2018. In my estimation, on average, the tax benefits on the $30,000 limit will produce savings of around $12,000, so it is well worth it.

Health Insurance is a vexed topic. Young people feel invincible and are reticent to spend their money on it, which is why the government taxes them after age 30 if they don't buy at least a basic cover. I would recommend a basic level of cover if the expectation is for private treatment, otherwise they should be prepared to wait in the very long public queue for health care if something goes wrong.

As part of the budgeting guidance process (and I recognise this is a hard sell) it would be great if parents can persuade their graduate to put a few extra dollars into superannuation – to start building an awareness of what can be achieved within this important savings environment. If their income is below $38,000, the government will still contribute up to $500 pa for the first $1,000 contributed, so free money may also help to get into the habit of saving.

I would also encourage grandparents looking to gift money to consider making a lump sum contribution to a grandchild's super fund, as lump sum benefits compounding over a lifetime can have a substantial impact on superannuation savings.

Make sure that the graduate also takes advantage of the insurance options within their superannuation fund, specifically Income Protection (or Salary Continuance). This is particularly important for young people who may find themselves unable to work due to illness or injury, but who may also have credit card or personal loan responsibilities. It is recommended that they also have at least 'one unit' of life insurance, and whilst it may sound morbid, it is important (while they have no financial dependants) that they make their parents 'binding' nominated beneficiaries of their super fund (rather than nominating a friend from school as a joke).

My principal message to parents – now that your child has graduated – is to take steps to guide them to financial independence. It is a vital piece of their education, and one which is not taught by institutions." Theo said.

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