Financial Tips for Librarians

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Introduction

Booking a vacation villa in Provence or some other hot travel destination in Europe may have to wait another year. The sinking economy has touched everyone. On the plus side, librarians still enjoy stable employment, plenty of career opportunities, and generous employment benefits. This solid foundation will help individuals cope with difficult economic issues. Add in a strong dose of financial literacy and librarians are well-positioned to manage the present situation and prosper over the long run.

Survival in the Recession

In the current recession, some librarians may encounter short-term difficulties. By changing priorities and reducing expenditures family finances can improve. Cost-cutting on little things such as twice-a-day stops at a premium coffee shop for a mocha latte can add up to big savings, as much as forty dollars a week.
Other strategies can improve cash flow as well: property owners may find more favorable interest rates on mortgages; withholding for taxes may be reduced if the amount withheld exceeds requirements; and a smaller car with lower operating expenses can save bundles of cash.

Payoff of student loans is another area of concern at least for some younger librarians. Common advice is for monthly payments on a college loan, after graduation, not to exceed 10-15 percent of monthly income. If loan repayments are too much of a burden, a consolidation of student loans with a single lender may help some students reduce monthly payments.

Focus on the Long Run

Even in a tough economy, the best advice is to stay focused on the long run. After years of service, it’s possible to build at least modest wealth, when income and benefits are combined.

Indeed, for many librarians, income earned over a full working career is often well over a million dollars. For example, a librarian earning on average $39,000 a year over the past 35 years would have received $1,365,000 in income.

But income by itself doesn’t guarantee financial security. Just ask stock brokers in the recent Wall Street meltdown. What counts is savings. Widely accepted guidelines say to save more, save over a long period of time, and take advantage of compound interest. A better outcome is often achieved by deferring taxes on savings put into retirement accounts.

### Ways to Build Wealth

- Start saving early in life
- Match employer’s contribution to retirement plan
- Grow wealth with Stocks
- Achieve security with fixed-income investments
- Keep investments well diversified
- Take advantage of tax-deferred savings
- Build wealth with compound interest
- Divide investments among many different kinds of assets

Employers Ready to Help

Retirement plans make up a large portion of the assets owned by librarians. Since participation in retirement plans is more or less automatic, other independent savings are not as much of a concern.

A major consideration is the kind of retirement plan an employer offers. Is it a defined benefit plan, a defined contribution plan or a combination of both? Unfortunately, defined benefit plans are not offered by private employers as much as in the past, but many government-employed librarians still enjoy this benefit.

Defined benefit plans are a fairly secure investment, since ultimate payback is set by a pre-determined formula. The formula usually takes into account the number
of years of service, highest salary earned (over a few years of highest earnings) and a special equation. In case of an early exit, a librarian can often "cash out" from the plan, but may incur some cost such as loss of employer's contribution. Money withdrawn from employer defined benefit plans can also be transferred by a process called direct rollover to an Individual Retirement Account (IRA) or other qualified plan.

In the case of defined contribution plans, such as 401(k), 401(a), 403(b) and 457 plans, ups and downs in the financial markets come into play, and the employee is responsible for making investment decisions. Stocks and bonds, common investments in these types of plans, are well understood, but the risks involved vary immensely with differing investment strategies.

Advice for Everyone
- Know your net worth
- Account for inflation when saving
- Avoid credit card interest

Saving and Investing

Since librarians do not earn high incomes, certain individuals may feel pinched, if they invest too much money in retirement plans or other kinds of savings. Still, a savings rate of 15 percent or more of gross income leads to very positive growth in wealth. Implicit in this guideline is cost sharing for retirement plans with the employer contributing upward toward 50 percent of the total. Even in economic hard times, never pass up the opportunity to receive the matching employer contribution.

Many good choices exist for saving money in small amounts. Certificates of deposit are a common vehicle for saving any amount. And Series I bonds sold by the U.S. Treasury in amounts as low as fifty dollars will fit any librarian's budget.

Few librarians are well-schooled in investing and how Wall Street works. But learning the basics goes a long way towards assuring a sound financial future. Investing always incurs risks. Does one buy stocks or bonds? Well, both. How should assets be allocated between stocks and bonds? A common rule-of-thumb is to put more money in stocks early in one's career and then lean more toward bonds and cash equivalents later in life.

Other assets owned by librarians, such as homes, personal property, and personal savings provide a cushion along the way. In a modern world filled with so many uncertainties, these same assets also provide a nice foundation for living. The choice between owning real estate and renting is a difficult one for many librarians. But with real estate prices dropping and home mortgage interest rates at very low levels, 2009 may offer great opportunities for librarians to buy homes, condos or other real estate. Still, librarians should remember that the primary benefit from home ownership is stability in the cost of housing services and the investment aspect is very secondary.

Good Books on Personal Finance
Effect of Type of Employer and Place of Employment

Salaries for librarians vary considerably. The type of employer and regional salary differences can affect compensation in a big way. These facts are well documented, but what happens when retirement contributions are factored into the compensation package is less often understood. For example, a university library may contribute 13.0 percent to employee retirement accounts, but a nearby public library may only offer 6.935 percent. This is a huge difference and, over time, the special librarian at the university, in this example, builds considerably more financial assets than the librarian working at the public library. One caveat: this is less important if low retirement contributions from the employer are offset by higher salaries or other significant benefits.

Salary differences related to type of employer and place of employment also impact long-term financial security in a more subtle way. In this case, the issue is Social Security. Under the current formula, both the employers and the employees contribute 6.2 percent of an employee's gross income to the Social Security Trust Fund. Since the final amount of a librarian's retirement income from Social Security depends, in part, on the amount contributed to the system, a librarian who receives higher wages fares much better.

Financial Goals

Librarians are more likely to achieve success, when financial goals are in place. Net worth, the difference between assets (what you own) and liabilities (what you owe), is a useful measure of progress. Understandably, net worth depends on individual circumstances and especially the number of years spent accumulating wealth. A 2009 report of consumer finances by the Federal Reserve Board shows a median net of worth of $120,300 and an average net worth of $556,300 for all U.S. families. The report helps librarians take stock of how they stand relative to others in the country.

Librarianship is an exciting and satisfying profession. Paying attention to personal finance can help beat the recession and lead to building wealth as well.