Smart money moves in your 20s and 30s

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Key takeaways

1. As a young adult, having a long-term mindset when it comes to your money can make a big difference in your financial security.
2. Making a budget can give you more control over your money and help ensure you're living within your means.
3. An emergency fund can provide you with some financial breathing room, so unexpected expenses don't knock you off course.

When first starting out in your career, you may find yourself celebrating the smaller victories, like being able to pay your bills at the end of the month. But building a secure financial future requires foresight and strategic planning. As you navigate your 20s and 30s, consider implementing these strategies to set yourself up for long-term success:

1. Make a budget

To get started, calculate your total monthly income by combining earnings from your primary job, freelance work, and any side hustles, then subtract the amount you pay in taxes. If your income varies from month to month, use an average to establish a reliable figure. Next, review your bank and credit card statements to monitor and categorize your monthly expenses.

One popular approach to budgeting is the 50/30/20 rule, where 50% of your monthly income goes to necessities, like rent and groceries; 30% goes to discretionary expenses, like vacations and eating out; and 20% goes to savings and debt repayment.

2. Build an emergency fund

Setting aside cash for unplanned expenses can give you peace of mind knowing you can handle costly bumps in the road without accumulating debt. Keeping this money separate from your everyday checking account can help you avoid the temptation to dip into it for non-emergency expenses.

Aim to stash three to six months' worth of expenses in a high-yield savings account. If a three-month emergency fund seems like a lot, remember you don't have to set it all aside at once. You'll be surprised how quickly even small deposits can add up to a significant amount.

3. Prioritize student loan payments

If you're among the third of young people with student loans[1], incorporating those payments into your money plan can help reduce stress. To effectively manage your loans, start by identifying how much you owe on each one, including their balance, interest rate, and whether they're a public or private loan.

Many federal loans are eligible for repayment plans, such as:

- Graduated repayment plan: lower immediate payments that increase every two years
- Income-driven repayment plan: payments capped based on your income and family size

For private loans, you can reach out to your lender to ask about repayment or modification options.

4. Don't ignore your credit

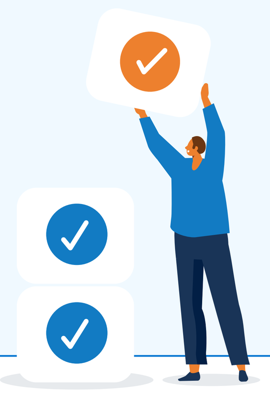
Maintaining a good credit score can have numerous benefits, including lower interest rates on debts such as credit cards and car loans, as well as reduced insurance premiums. Moreover, a strong credit history can help simplify the process of renting an apartment and may even be a factor in employment background checks.

Among the most important factors that go into your credit score are your history of on-time payments and your credit-utilization ratio (the amount of available credit that you're using). To help boost your score, set up auto-payments for at least the minimum amount owed on your credit cards, student loans, and any other debt you may have.

- **Start saving for retirement**
  Retirement may seem like a distant reality at this point in your career, but the earlier you start saving, *the better*. The money you save now may benefit from compound growth, meaning you'll earn interest on your interest, resulting in exponential growth over time.
- **Consider a life insurance policy**
  As you build wealth, you might consider purchasing a life insurance policy, especially if you have dependents, shared debt, or own a business. A life insurance policy can help provide peace of mind that your family has financial protection, even in a worst-case scenario.

What you can do next

- Once you've built up your emergency fund, you can redirect the money that was going into that account to your retirement savings or accelerate your debt repayments.
- Reassess your finances at least once a year. As you start earning more money and make progress toward paying down debt, you can start to plan for other financial goals.
- Talk to a financial professional to explore more ways to set yourself up for long-term financial success.



[1] https://www.washingtonpost.com/education/2022/05/22/student-loan-borrowers/

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