Seven Financial Tips for Young Adults Starting Out

One of the best aspects of our jobs is walking the path of life alongside our clients. As their kids grow up, we often are asked to share financial advice for young adults just starting out. As with most things in life, the sooner we can build good habits, the better off we tend to be. Also, small habits can quickly add up!

1. **Build a budget:** First and foremost, you need to understand where your money is going if you want to make any changes. There are lots of free online budget tools and apps that can help. From here, you can build a plan and where to direct that money. Consider setting up a savings bucket for short term goals (ie: trip, car, etc.) and investing bucket for longer term goals such as house purchase or retirement.

2. **Pay Yourself First:** Having automated savings that comes out of your bank account after each pay day is a great way to build strong savings habits. Start small and then review once or twice a year to see if you can increase the amount. Any time your income goes up, we recommend your savings rate goes up by the same percentage.

3. **Keep debts in check:** The mentality of buying an item because one can afford the payment will not get many people ahead in life. Getting a new vehicle every few years and reloading a car payment can take hundreds of dollars a month out of your pocket that could be directed towards other goals. According to finder.com, the average car payment in Canada ranges between $400-$800 over 72 months. The website also suggests spending 10-15% of your disposable income on a car payment.

4. **Avoid credit card debt at all costs:** Paying 20% interest or more on credit cards will decimate your cash flow. It is paramount to try and pay this down asap. The points or rewards you can earn on a card are not worth the interest charges. Lowering credit card limits, using only one card, or even leaving your credit card at home are some steps people take to get out of debt. Another step can be to try and roll your credit card debt into a debt consolidation loan at a lower interest rate.

5. **Start investing early:** Albert Einstein called compounding interest the eighth wonder of the world. If you start saving $250 a month at 20, and earn 7% on your investments, by the time you are 60, you could amass $598,900. Compare that to starting at age 40 and you would have accrued only $122,986.
   In fact, a 40 year-old would need to save over $1,160/month to get to the same outcome as the 20 year old. Bonus tip for the young savvy savers: Investing $5,000/year ($417/month) stating at age 20 using the 7% return would hit $1 million by 60.

6. **Learn your work benefits:** Some jobs will match retirement savings (free money!), offer share purchase plans and many other perks that can help accelerate your savings goals. They may also offer employee discounts at various retailers, hotels and more to stretch out your hard-earned dollars.

7. **Protect your most valuable asset:** You are the most important asset you have. One stat from disabilitycanhappen.org states that one in four of today's people over 20 can expect to be out of work for at least a year because of a disabling condition before they reach the normal retirement age of 65. We believe that it's important to have life and disability insurance in the event of a major set back. If applicable, review your work coverage and consider additional insurance as needed. Added perk: Insurance tends to be inexpensive at a younger age.

If you can incorporate some of these strategies at a young age, we feel you will be setting yourself up for success for years to come. As always, we recommend working with a trusted advisor.

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Until next time... Invest Well. Live Well.

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