

## 5 Things You Should Be Saving For In Your Twenties

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### Keeping debt low

While debt may have been part of your experience from graduating high school into your first job, this load will only slow you down in achieving your life goals. Next on your list may be a wedding, vacation, down payment for a house, kid's college fund for your kids, retirement saving, and the list goes on and on. If you haven't done so already, eliminate all of your consumer debt. This includes credit cards, car loans, and student loans. This should be your first priority and of equal importance to building an emergency fund (see below).

To eliminate debt in the most effective way, make a list of the smallest to the largest balances due and pay them off, in that order. By putting all of your extra money toward paying off debt, and having the mindset that you'll never use debt for everyday expenses, you should be able to eliminate your debt and move on to funding life's more "fun" goals.

### Building an Emergency fund

What's the use of saving for retirement when you have no money to pay for a broken furnace? If you are constantly putting these expenses on credit cards, you are getting nowhere fast.

When you save money, you have to make sure your priorities are in the correct order, and an Emergency Fund is top of the list. You should aim to have 3-6 months of expenses in liquid cash, and possibly more if you are of a nervous disposition. I know in our house, even though both my wife and I

have full-time jobs, we maintain a fund equal to six months of expenses. I would be ok with three, but when it comes to having a sound night's sleep, my wife needs to have six. Who am I to argue with that?

Your Emergency Fund should also be funded related to your income. If you are paid on a 100% commission basis, then your Emergency Fund should be larger to allow for months which have smaller commission checks. If only one member of your family works and you have children to support, a larger fund will allow room for a job loss and a period of time with no income. Remember, an Emergency Fund is not an "Unforeseen-but-budget-able Expenses, Vacation-because-life-is-too-much, or I-overspent-this-month" fund, but is only to be used when something unexpected happens.

### Living within your means

This goes hand and hand with eliminating debt and having an Emergency Fund. You will never reach your financial goals if you live beyond your means.

The important tool that will help you consistently achieve this goal is maintaining a budget. I see people cringe when they read that word, but a budget need not be constrictive. Keep in mind that you have earned the money, so it's up to you how you spend it. If you want to go out to lunch everyday then do so, but understand that it may take you longer to save up for your home down payment. There are some wonderful Internet resources that will help you track your expenses and make sure you are living within your means, but make sure

to pay yourself first. Giving to others that are less fortunate and then saving for your future should always be your top priorities.

### Buying long-term disability insurance

When you start your first job, be sure to review all the benefits and insurance offered to you. One that you should never pass up is Long Term Disability. Even if you have to buy the insurance yourself, it is very important you consider it a priority. The Senate Finance Committee reports that 70% of people between the ages of 35 and 65 will become disabled for three months or longer and 90% of these occurrences will take place outside of work. While your Emergency Fund will be able to support you for a short period of time, having long term disability insurance in place is crucial in preventing long term financial hardship should you become disabled.

### Starting saving for retirement

If you haven't heard already, compound interest is a fantastic tool that the 20-something generation is in a great place to utilize. Once you've paid off your consumer debt, established an Emergency Fund, you can start saving for the long term.

If you were to save \$400 each month from age 25 through 65 and receive an average of 8% annual return on your investments, your savings would grow to approximately \$1,400,000. On an inflation adjusted level, with inflation being 3.5%, this would be equivalent to \$515,000 in today's dollars. If you were to wait until you were 35 to start saving this amount, your savings would only

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be roughly \$300,000, adjusted for inflation. If your financial situation is set up with these considerations starting in your 20's, you can make the most of compound interest. The longer you wait, even by a couple of years, the greater the chance that you won't have as much saved.

When you're a "20-something", it's the best time to establish a strong foundation for your financial future. Build it insufficiently and your finances will not be strong in position.

Protect yourself by purchasing inexpensive insurance, eliminating debt, and saving a cash cushion in order to build a successful financial future.

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For more helpful tips and tools to help you make the most of your personal financial situation, please visit the Consumer Information section of the NAPFA website at [www.NAPFA.org/Consumer](http://www.NAPFA.org/Consumer)