



Planning Tips for Financial Life Stages: Early Savers

You're young. You might be single, in a committed relationship or newly married. You may even be starting a family of your own. Perhaps you have recently landed your first "real" job with a decent salary and benefits. It's a very exciting time in your life and you want to begin to enjoy the fruits of your labor.



While attaining a good job may tempt you to go out and buy that brand-new sports car you've always dreamed of or the biggest house you can afford, you may want to hold off on any new purchases and instead work to develop good financial habits that will benefit you throughout your financial lifetime. The following are some tips that may assist you in getting started on the right foot.

Prepare a Budget

Getting a handle on your spending habits will help you to determine where you can cut expenses and how much you can save on a regular basis. You can get started by tracking all of your expenses for a month or two and then taking a hard look at the results. You will be able to analyze your expenses and determine what are discretionary versus nondiscretionary. You may even realize that you're spending more than you thought on

some discretionary items that you can do without, freeing up funds to add to your savings instead.

Understand the Pitfalls of High-Interest Credit Card Debt

Carrying a balance on your credit card is usually very expensive because the interest rate on most credit cards is very high — sometimes as much as 20% or more. While having a credit card is convenient and also a great way to establish credit history, it's important to pay off the balance every month. If you've already slipped into carrying credit card debt, make it a priority to pay it down as quickly as possible. Freeing yourself of the interest charges will allow you to save more over time. Only use your credit card for purchases you know that you can pay for when the statement comes. It may be helpful to view the interest charges you'll incur on items you can't pay for immediately to be an increase in the



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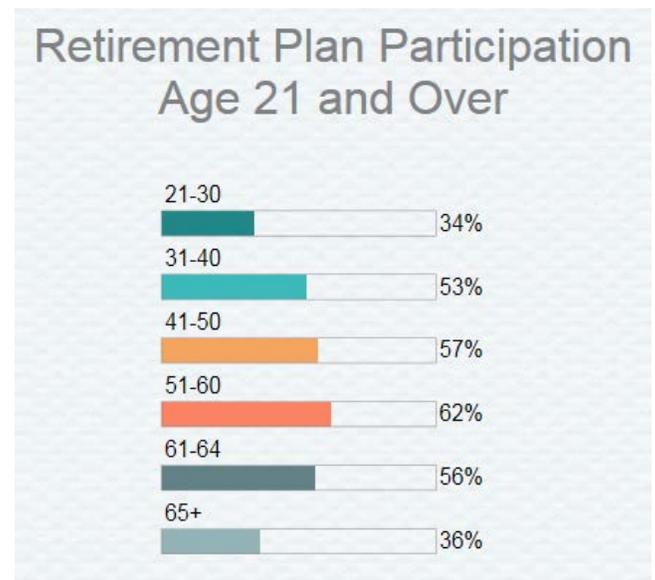
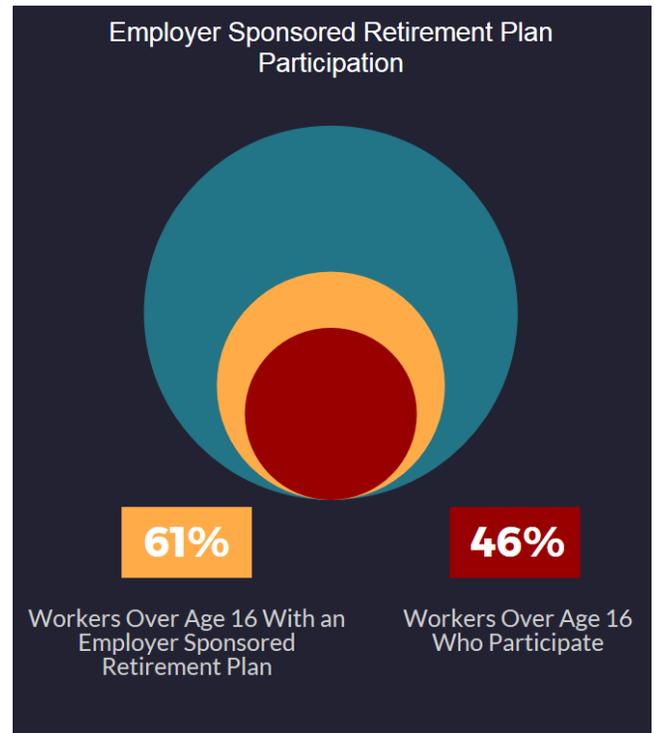
price of what you are buying, thereby making the item more expensive and less desirable.

If you always pay your credit card balance in full, consider a credit card that has a rewards program that will compensate you in the form of cash back, airline miles or discounts on everyday purchases you make.

Pay Yourself First

If your employer offers a retirement (401(k) or other) plan, enroll in it as soon as you are eligible. Doing so will allow you to “pay yourself first,” whereby funds are diverted from your paycheck directly into the retirement plan. This will help you to avoid the temptation that comes with having the funds deposited into your checking account with the rest of your net paycheck where they are easy to access and spend. You’ll also be taking advantage of dollar cost averaging, whereby you commit to a set dollar amount to invest from each paycheck and as a result, you purchase more shares when the price of your selected investment is low and less shares when the price is high, resulting in a lower average cost per share than the average price per share for that investment over the same time period

In addition, the funds will begin to compound tax-deferred, which is a very powerful way to accumulate savings over time. For example, if you invest \$5,000 a year earning 6% per year starting at age 25, you’ll have about \$820,000 at age 65. If you wait until age 45 to begin investing and invest \$5,000 a year earning 6% per year, you’ll only have about \$195,000 at age 65. The key is starting early so that your funds have more time to compound, resulting in a larger amount at retirement.



Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012, www.ebri.org



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Take Advantage of Employer Matching Contributions

In determining how much to contribute to an employer-sponsored retirement plan, check to see if your employer matches a certain portion of your contributions to the plan. You'll want to contribute at least as much as the employer will match. You can then increase your contributions over time, such as quarterly, annually or when you receive a pay raise.

Save Outside of Your Employer Retirement Plan

It's also important to save for other things such as an emergency fund (generally, 3-6 months' worth of living expenses is recommended) or even your first home purchase. Paying yourself first also works well for other types of savings vehicles. Consider having a portion of your paycheck deposited directly into a Roth IRA or even a taxable savings account. Again, having the funds diverted before your paycheck hits your checking account will help you to keep a disciplined approach to saving rather than spending the funds.

Enlist the Help of Financial Professional

The investment choices in your retirement plan or other account can be overwhelming. Most employer retirement plans allow several different investment alternatives. Investment accounts such as Roth IRAs and taxable accounts generally offer an even larger selection of investment alternatives. A financial advisor can help you to choose an asset allocation strategy that will align your investment choices with your financial goals.



A HSA is another arrangement for depositing pre-tax dollars into an account, but the HSA funds are only available to pay for medical expenses. You can contribute to HSAs only if you are enrolled in a high-deductible health insurance plan.

While the FSA requires that you spend the entire balance of your account each year ("use it or lose it"), the HSA balance is allowed to be carried over tax-deferred from year to year, even into retirement. As long as the funds in the FSA are used for qualified medical or dependent care expenses, they are tax-free. The HSA funds must be used for qualified medical expenses to be withdrawn tax-free.

Enroll in Disability Insurance Coverage

Your employer may also offer disability insurance benefits. Disability insurance is important to have in case of any unexpected illnesses or injuries that prevent you from being able to work. While it's not pleasant to think about these situations, it's important to prepare for them nonetheless.

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Disability insurance is a must for anyone who relies on earned income to live. If you become disabled, the insurance benefits will provide an income stream to replace your earnings. No matter how young you are, accidents and illness can happen and you should be prepared.

Consider Life Insurance Protection

Your employer may offer life insurance benefits as well. Many young people may feel it's not necessary to have life insurance. However, while it's not as common for young people to die unexpectedly, the reality is that untimely deaths do occur. Life insurance benefits offer a way to pay for funeral costs and other debt that you might have at the time of a premature death.

Additionally, if you have a family of your own, you will probably want to provide for them after you're gone. Life insurance is a great way to do so. A financial advisor can assist you in determining the appropriate amount of life insurance for your particular situation and goals.

Consider a 529 Savings Plan or Coverdell Education Savings Account

If you have already started a family and you're looking to save for your children's education expenses, consider contributing to one of these tax-advantaged accounts. Your contributions can grow tax-deferred and distributions will be tax-free if used for qualified higher education expenses. In addition, your state may offer an income tax deduction for contributions to the in-state 529 savings plan.

As you can see, there are many strategies you can begin to utilize at a young age that will help you to develop good financial habits for life. For more information on any of these or other financial strategies, please consult your Benjamin F. Edwards & Company financial advisor. ■

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