Starting Out on Your Own: Personal Finance Tips for Young Adults

Have you ever taken $40 out of the ATM and a few hours later asked yourself where that money went? Or, do you use your debit card to make purchases but don't keep track of them…and then wonder how your balance got so low?

While everyone can benefit from learning about money management and taking a more hands-on approach with their finances, young adults — including those just starting a career or a family and others still in high school or college — have plenty to gain by learning to be smart about money, and a lot to lose by making uninformed decisions.

"As a young adult, even if you don't have or earn a lot of money, the financial decisions you make today can affect your lifestyle now and for years to come," said Luke W. Reynolds, Chief of the FDIC's Community Outreach Section. "The good news is you don't need to be a finance expert to take charge of your financial future. A few basic concepts can go a long way."

Here are a few tips to get you started.

Create a personal financial plan that will make it easier to boost savings and control spending. "It isn't how much you *make* that's important, it's how much you *keep*," said Paul Horwitz, an FDIC Community Affairs Specialist. Start by keeping track of what you earn and what you spend and where.

Then take a sharp look at how much you spend on optional purchases, such as restaurant food and entertainment, and instead put some of that money to work for your future by saving or investing it.

"The key is to make some hard decisions about 'needs' versus 'wants,'" added Horwitz, "because every dollar we spend on something we don't really need is a dollar we don't have to save or spend on something we do need."

What steps can you take?

- Open a savings account and regularly add to it. Also "pay yourself first" with a set percentage of every dollar you get going to savings. "Set a realistic savings goal and remember that even $5 or $10 a week can add up over time," Horwitz explained.
- Arrange with your employer to automatically transfer some of your earnings to a savings or investment account.
- Build up an emergency savings fund you can use to pay for major, unforeseen expenses.
- Consider a separate account to save for big-ticket purchases, such as a new TV or bicycle, instead of charging them on a credit card and paying the money back over a long time with a lot of interest.
- Limit the amount of money in your wallet or purse and in your checking account, so you're less likely to spend it. Only carry a credit card when you plan to use it. Also do your best to limit regular living expenses, such as food, transportation and utilities.

Reynolds also advised that young adults protect against financial loss by making sure they have proper insurance (such as life, health and property insurance) and then reviewing the coverage at least once a year.

Start saving for both short-term and long-term goals, including retirement, even though that may be many years away. "Thanks to the miracle of compound interest, even a small sum of money saved regularly at a young age can quietly grow to a surprisingly large sum over the years," said Reynolds. The sooner you begin saving, the easier it will be to reach your financial goals, which may include buying a home, owning a business or retiring, instead of having to save a high percentage of your income at an older age.

And if you are working, "it makes so much sense to start, on the very first day, to put money into a retirement savings plan, especially if your employer will match part of your contribution, which is like getting free money," said Alberto Cornejo, an FDIC Community Affairs Assistant.

Keep your banking and bill-paying costs down. Comparison shopping for financial services can save you from paying unnecessary fees. A good strategy is to open a basic, low-cost checking account at a bank and pay attention to your balance so you don't spend more than you have in the account and pay high fees for overdrawing it.

"Maybe you can download an 'app' to your phone to help you track all money that comes in and out of your account or you can request electronic notifications when your balance drops to a certain level. Of course, you should always maintain a register to help you monitor your balance," said Reynolds. "Another way to save money is to avoid fee-based overdraft programs and instead ask your bank to cover any shortages by linking your checking account to a savings account."

Build a good credit record. As you pay your own bills and debts, you are building a credit record. Credit reporting companies collect information on your history of paying debts, which is used to prepare credit reports and credit scores that reflect your creditworthiness. In general, the better your credit history and credit score, the better your chances of borrowing money at lower interest rates. Your credit history may also be considered when you apply for a job, an insurance policy or an apartment.

A good credit score will be particularly important when you decide to buy a house.

One of the best ways to build and maintain a good credit record is to pay all bills and other debts on time. To do that, avoid charging more on your credit card than you can pay off in full by the due date each month. If you can't afford to pay that much, at least be sure to pay the minimum due, consistently and on time, to avoid late fees and a bad mark on your credit record. And if you cannot qualify for a regular credit card, you may consider a no- or low-fee secured credit card, for which you would keep cash in a deposit account that would serve as collateral.

Also obtain a free credit report once every 12 months from each of the three nationwide credit reporting companies at www.annualcreditreport.com. Review each report, correct any errors and check for suspicious activity that may indicate you are a victim of identity theft.

Stay safe online. Banking or conducting other personal business online can be a convenient way to handle your finances, but you need to take precautions. Among them: Install and automatically update antivirus software and firewall protection on your computer. Never give your Social Security number, credit or debit card numbers, personal identification numbers or any other confidential information in response to an unsolicited e-mail, text message or phone call, regardless of who the source supposedly is.

"Also, ignore online 'friend' invitations from people you don't know, because these may be covers for fraud artists," cautioned Michael Benardo, Chief of the FDIC's Cyber Fraud and Financial Crimes Section. Likewise, he said, be careful about the profile and contact information you post on social-networking and employment-related Web sites, because in the wrong hands it can lead to identity theft and other crimes. For more guidance on how to conduct banking and other business online, see the Winter 2009/2010 ***FDIC Consumer News*** at www.fdic.gov/consumers/consumer/news/cnwin0910.

Keep important cards and numbers safe. Most experts suggest you carry in your wallet or purse only the plastic cards (ATM, debit, credit cards) you truly expect to use soon. Don't carry your Social Security card, either.

Also, don't leave your birth certificate or documents with your Social Security number unprotected at home, at school or anywhere else.

If you need to buy a car, consider the best way to pay for it. Understand the difference between buying and leasing a car. The Federal Reserve Board has published a guide called "Keys to Vehicle Leasing," online at www.federalreserve.gov/pubs/leasing. If you're thinking about borrowing money to pay for a car, see our tips in the Summer 2007 ***FDIC Consumer News*** (www.fdic.gov/consumers/consumer/news/cnsum07/auto.html).

If you're renting a house or apartment, consider whether it's time to buy. Once you start earning a steady income, and you expect to stay in your community for a number of years, you may want to consider owning your first home. To learn more about homeownership and if it is right for you, consider talking to a HUD-approved counselor (start at 1-800-569-4287 or www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm).

Always keep learning about how to handle your money. Start at www.fdic.gov to find consumer information from the FDIC, including back issues of ***FDIC Consumer News.*** Visit www.mymoney.gov to find financial education resources and tools from more than 20 different government agencies and Web sites.

"Many young people find learning about money fascinating because of the power it gives them to achieve their dreams," concluded Reynolds. "And anyone can get this power just by creating an action plan, the sooner the better."

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