

Common Financial Mistakes to Avoid When You're Starting Out

In a matter of weeks, many young adults will graduate from college or a technical school with hopes of entering the workforce soon afterward. Once they do, it will be the first time many of them enjoy a regular paycheck. Here are a few mistakes to avoid when income starts rolling in:

Not saving for retirement

This one mistake can end up costing you hundreds of thousands of dollars over the course of your lifetime. Even if you only save one percent of your income, over the next 30 to 40 years of your career, the interest earned on that savings (especially if it's in a Roth IRA) really adds up. Retirement is one of the most difficult things to save for, because immediate needs and wants feel much more important. However, saving early can be the difference between retiring comfortably at 55 and needing to work an extra 5 or 10 years.

Living on credit cards

The benefit of credit cards is that they allow you to delay paying for items until weeks after the purchase (when the credit card bill comes due). The downside of credit cards is that they allow you to delay paying for items until weeks later. The trouble with the flexibility that credit cards provide is how easy it can be, especially for inexperienced consumers, to forget to keep track of their purchases, resulting in some damaging "sticker shock" credit card bills. If you choose to use credit cards, monitor your current card balance frequently and never buy anything you haven't budgeted for. Most importantly, pay off your balance every month.

Buying too much car

Avoiding this mistake can save you hundreds each month, and not just in lower car payments. New cars often cost more to insure than used cars, and they sometimes have a higher interest rate on the loan as well. If you're worried about the cost of upkeep on an older vehicle, buy a certified pre-owned car that is only a few years old from a licensed dealership. You get the benefits of a modern car without worrying about ending up with a lemon.

Not setting financial goals

Thinking ahead about your finances is difficult for young adults who haven't had to plan their money on their own before. Do you want to own a home in the next 5-10 years? How about get married? Have children? Write down your life goals for the next decade or so and then determine the financial goals that go along with them. This simple planning step will help you avoid needing to dig into your emergency fund in order to cover closing costs or an unexpected wedding expense.

Not starting an emergency fund

Speaking of an emergency fund, starting one should be every young adult's first financial goal. Even if you start out saving to set aside just enough to cover three months of expenses, it creates a stress-relieving buffer in your bank account.



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