Financial Wellness

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Starting Out: Begin Funding for Your Financial Security

Congratulations! You've graduated from school and landed a job. Your salary, however, is limited, and you don't have much money (if any) left at the end of the month. So where can you find money to save? And, once you find it, where should this cash go?

Here are some ways to help free up the money you need for current expenses, financial protection, and future investments -- all without pushing the panic button.

Get Out From Under

For most young adults, paying down debt is the first step toward freeing up cash for the financial protection they need. If you're spending more than you make, think about areas where you can cut back. Don't rule out getting a less expensive apartment, roommates, or trading in a more expensive car for a secondhand model. Other expenses that could be trimmed include dining out, entertainment, and vacations.

If you owe balances on high-rate credit cards, look into obtaining a low-interest credit card or bank loan and transferring your existing balances. Then plan to pay as much as you can each month to reduce the total balance, and try to avoid adding new charges.

If you have student loans, there's also help to make paying them back easier. You may be eligible to reduce these payments if you qualify for the Federal Direct Consolidation Loan program. Though the program would lengthen the payment time somewhat, it could also free up extra cash each month to apply to your higher-interest consumer debt. The program can be reached at 800-557-7392.

What You Really Should Buy

How would you pay the bills if your paychecks suddenly stopped? That's when you turn to insurance and personal savings -- two items you should "buy" before considering future big-ticket purchases.

Health insurance is your first priority. Health care insurance is now also mandatory under the Affordable Care Act. If you're not covered under an employer plan, look into the new state or national health insurance exchanges, which offer a variety of coverage options and providers to choose from. You may also qualify for a subsidy if your taxable income is under 400% of the federal poverty level.

This financial planning overview for those just entering the workforce offers tips on saving, budgeting, insurance, and paying off student loans.

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Life insurance is the next logical step, but may only be a concern if you have dependents.

Disability insurance should be another consideration. In fact, government statistics estimate that just over 25% of today's 20-year-olds will become disabled before they retire. [1] Disability insurance will replace a portion of your income if you can't work for an extended period due to illness or injury. If you can't get this through your employer, call individual insurance companies to compare rates.

Build a Cash Reserve

If you should ever become disabled or lose your job, you'll also need savings to fall back on until paychecks start up again. Try to save at least three months' worth of living expenses in an easy-to- access "liquid" account, which includes a checking or savings account. Saving up emergency cash is easier if your financial institution has an automatic payroll savings plan. These plans automatically transfer a designated amount of your salary each pay period -- before you see your paycheck -- directly into your account.

To get the best rate on your liquid savings, look into putting part of this nest egg into money market funds. Money market funds invest in Treasury bills, short-term corporate loans, and other low-risk instruments that typically pay higher returns than savings accounts. These funds strive to maintain a stable $1 per share value, but unlike FDIC-insured bank accounts, can't guarantee they won't lose money. [2]

Some money market funds may require a minimum initial investment of $1,000 or more. If so, you'll need to build some savings first. Once you do, you can get an idea of what the top-earning money market funds are paying by referring to iMoneyNet, which publishes current yields. Many newspapers also publish yields on a regular basis.

Shopping for the Best Credit Card
Extensive lists of the latest low-interest rate cards in the United States are available at consumer websites such as Bankrate and Cardtrak.

Build Your Financial Future

Some long-term financial opportunities are too good to put off, even if you are still building a cache for current living expenses.

One of the best deals is an employer-sponsored **retirement plan** such as a **401(k) plan**, if available. These tax-advantaged plans allow you to make pretax contributions, and taxes aren't owed on any earnings until they're withdrawn. What's more, new Roth-style plans allow for after-tax contributions and tax-free withdrawals in retirement, provided certain eligibility requirements are met. Another big plus is direct contributions

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from each paycheck so you won't miss the money as well as possible employer matches on a portion of your contributions.

Don't underestimate the potential power of tax savings. If you invested $100 per month into one of these accounts and it earned an 8% return compounded annually, you would have $146,815 in 30 years -- nearly $50,000 more than if the money were taxed annually at 25%. 3 Bear in mind, however, that you will have to pay taxes on the retirement plan savings when you take withdrawals. If you took a lump-sum withdrawal and paid a 25% tax rate, you'd have $110,111, which is still more than the balance you'd have in a taxable account.

If you're already participating, think about either increasing contributions now or with each raise and promotion.

If a 401(k) isn't available to you, shop around for **individual retirement accounts** (IRAs), both traditional and Roth, at banks or mutual fund firms. In 2016, you can contribute up to $5,500 to traditional IRAs or Roth IRAs. Generally, contributions to and income earned on traditional IRAs are tax deferred until retirement; Roth IRA contributions are made after taxes, but earnings thereon can be withdrawn tax free upon retirement. Note that certain eligibility requirements apply and nonqualified taxable withdrawals made before age 59½ are subject to a 10% additional federal tax.

Stop Waiting for the Next Paycheck

Beginning your working life with good financial decisions doesn't call for complex moves. It does require discipline and a long-term outlook. This commitment can help get you out of debt and keep you from a paycheck-to-paycheck lifestyle.

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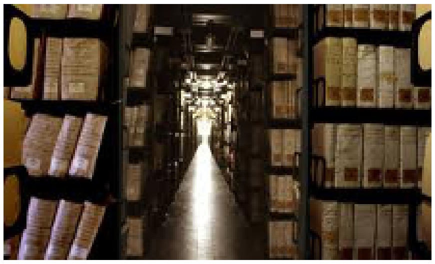

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Source/Disclaimer: 1 Source: Social Security Administration, Fact Sheet, March 2014. 2 An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.3 This hypothetical example is for illustrative purposes only. It does not represent the performance of any actual investment.