APC FINANCIAL PLANNING

"An investment in knowledge always pays the best interest."
-Benjamin Franklin

Congratulations on your first paycheck and the adventures ahead of you!

We are often asked for guidance when young adults start their careers and begin receiving regular paychecks. Here's what we generally recommend:

- Establish a cash flow plan-commonly called a budget. Look at it as a business – you receive income (pay), and you spend (some necessary, some discretionary). Every dollar has an assignment or another way to say it – assign every dollar a task. There are so many tools in the marketplace to help you track your spending.
- Establish a reserve in your bank savings account equivalent to 3-6 months of spending. For example, if you determine your monthly spending is $2,500, have a goal to stash away between $7,500 – $15,000. This is a must, a cornerstone to your financial well-being. Make it a goal to have this achieved within a year if possible.
- Take advantage of your employer's retirement plan. Sign up for the pre-tax portion up to the company match, then elect the remainder to go towards a Roth component if one is available. There are many advantages to both, but the Roth option allows for growth on a tax-deferred basis and no taxes on earnings if an account has been open for 5 years. If an employer Roth isn't an option, consider contributing to a Roth IRA next, before maxing out contributions to your employer's retirement plan.
- You will need to determine how much you can afford to contribute to your retirement plan while building your reserve. You can do all the above in small chunks, so don't be overwhelmed by it. Take it in small bites, one paycheck at a time.
- If you have a credit card or two (please, no more than two), pay the entire balance off each month. Otherwise, interest will accrue at a very high rate (20%+). Don't fall into the trap of paying the minimum $25 and watching the balance get tagged with interest. It becomes, for so many, a vicious cycle.
- If you have a high-deductible health insurance plan, you are probably eligible for a health savings account (HSA). In addition to tax-free funds to pay for out-of-pocket medical expenses, this is also a very powerful tool for retirement savings if it's invested for growth. HSAs are triple advantaged if your employer directly deducts your HSA contributions from your paycheck.
- Make sure you're aware of all the employer benefits available to you and take advantage of them (group life insurance, disability, legal services, club warehouse memberships, etc.).
- When you're ready to purchase a home, cap your total monthly payment (e.g., principal, interest, property taxes, and homeowners' insurance) at 25% of your gross income.