FINANCIAL PLANNING IN YOUR 20s

JNBA FINANCIAL ADVISORS

It is never too early to begin thinking about and establishing a solid foundation for your financial future. In your 20s, there are important early steps that should be taken, and when addressed early in life, can create healthy financial habits for when the stakes get a little higher approaching retirement. Use this guide to help you get started.

FINANCIAL POSITION

- ☐ Establish a budget and keep an appropriate financial record system to track your income, expenses, assets, and liabilities. Mint.com is a free online resource to consider using.
- ☐ Build a liquid emergency fund of 3 to 6 months of living expenses in a cash or cash equivalent account (e.g., money market account, CDs).
- ☐ Develop a plan for paying off your student loans if you have them. Consider prioritizing paying off the higher interest rate loans at a faster rate, while paying the minimum on lower rate loans.
- ☐ Develop a list of short-term and long-term financial goals and prioritize them.
- ☐ If one of your goals is to purchase a home, determine how much house you can afford and save a minimum of 20% down payment to avoid private mortgage insurance. This should be separate from your liquid emergency fund.
- ☐ Build a good credit score. Being young is a disadvantage to your credit score because the length of your credit history counts for 15% of your FICO score. However, 35% of your score depends upon your payment history which is why it's important to pay your bills on time every month. Another 30% of your credit score is based on the amount you owe in relationship to your credit limit. Keep balances low on your credit cards, even if you pay them off in full each month. Check your credit score at least once a year and check your credit history by visiting AnnualCreditReport.com (reviewing your credit history is free, viewing your actual credit score typically is not).

RETIREMENT SAVINGS

- ☐ Start saving for retirement.
- ☐ Do you have a company retirement plan such as a 401(k), 403(b), etc.? Is there a company match? Ensure you are contributing at least enough to get the full company match. Increase your contribution annually with the goal of working up to maximizing your 401(k) contribution ($19,000 year under 2019 limits).
- ☐ Consider contributions to a Roth IRA (maximum of $6,000 per year under 2019 limits) if you don't have a company retirement plan or want to diversify among accounts with differing tax treatments. A contribution to a Roth IRA is not deductible on your tax return, but money distributed from a Roth IRA generally comes out tax free at retirement.

INVESTMENT MANAGEMENT

- ☐ Learn more about investing. Read a book on investing to educate yourself on the basics.
- ☐ Determine your risk tolerance which is the amount of risk you are willing and able to take with your investments. Fill out a risk tolerance questionnaire for a base score. This will be helpful in order to determine an allocation for your company retirement plan.
- ☐ Understand your time horizon for your investments to make sure accounts are invested consistent with your time frame for using them.
  - Retirement would be a long-term goal and assets could be invested more aggressively, depending on your risk tolerance, given the longer time horizon.
  - Purchasing a home would be a short-term goal and assets should be invested more conservatively to ensure the cash is available when needed.
- ☐ Ensure all investments you own are properly diversified among different assets classes.
- ☐ Periodically rebalance your investments to maintain your chosen allocations.

RISK MANAGEMENT

- ☐ Make sure you have proper medical insurance coverage. Current law allows most children to stay on their parent's medical insurance until age 26.
- ☐ Put proper property and casualty insurance in place and review with your agent annually. This includes renter's or homeowner's insurance and automobile coverage. Also purchase an umbrella (excess liability) policy.
- ☐ Ensure you have short-term and long-term disability coverage in place. This may be provided by your employer or you may need to purchase a private policy.
- ☐ Understand the amount of life insurance you have provided through your employer. Review your individual circumstances to determine if you should purchase additional life insurance.

ESTATE PLANNING

- ☐ Consider your estate planning needs. Make sure you have a Power of Attorney and Health Care Directive in place. Determine if you need a Will. If you are married and have children, you should have one in place.
- ☐ Confirm all beneficiary designations reflect your current wishes. This includes but is not limited to life insurance policies, company retirement plans, IRAs, etc.
- ☐ Consider adding TOD (transfer on death) instructions on brokerage or taxable accounts

TAX PLANNING

- ☐ Contribute to your employer retirement plan not only to save for retirement but also to decrease your federal taxable income.
- ☐ If you prepare your own taxes, ensure you are taking all allowable deductions.
- ☐ If you owe taxes or receive a refund, consider changing tax withholding on your wages.