Financial Tips for Young Professionals

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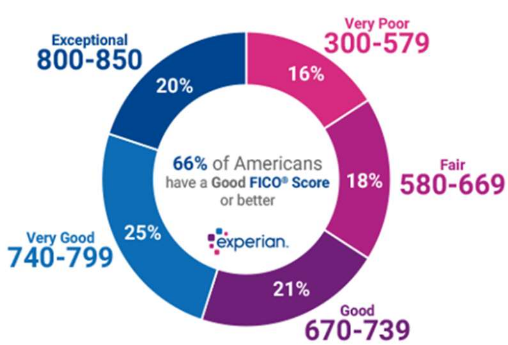
When you first leave college and begin your career, there is a lot to figure out: from creating a budget to managing debt and navigating the confusing world of workplace benefits, not to mention saving for retirement. It can be confusing and even overwhelming, but Daintree Advisors is here to help. To get you started, here are our top 8 financial tips for young professionals:

1. **Keep enough cash in your bank account in case of emergency.**

The first thing you want to do when you start receiving regular paychecks is to open a savings account and set aside enough money so that you have enough saved that you can maintain your current lifestyle (pay rent, student loan payments, utilities, food, gas, etc.) for 3-6 months. Before you invest in anything, you should build up this emergency fund in case of unexpected occurrences like the sudden loss of employment, medical expenses, or car repairs. It may take a bit of time to accumulate that level of savings but get started right away and make regular deposits so it will be there in case you need it.

2. **Use credit cards wisely and know your credit score.**

Although a credit card is not ideal to pay for emergency expenses, credit cards can be very helpful to have. There are plenty of rewards that you can benefit from that are not available to you if you stick to using a debit card. For example, some credit cards have bonuses when you first sign up or offer benefits if you spend a set amount in the first several months while others have travel benefits. Take the time to review all the possible credit card rewards available to you and take advantage of them whenever possible. On top of the rewards, credit cards offer a level of fraud protection that is not available with most debit cards. Lastly, and maybe most importantly, having a credit card helps you build your credit so that when it comes time to buy a house or get a loan, you will be eligible for more favorable terms. However, it is essential that you keep up with your payments to keep your credit score high.



As a primer on credit scores: they range up to 850 and the higher your score, the better your terms will be on a loan, mortgage, and other credit cards. As mentioned above, the key to building your credit is to keep your revolving balance low so you can pay what is due in full each and every month and make your payments on time. Remember that if you miss a payment, it will “ding” your credit score.

3. **Weigh the pros and cons of buying versus leasing a car.**

As you gain more independence, it may be time to lease or buy your own car. Similarly to credit cards, whether you choose to buy or lease a car, will depend on your own lifestyle and your individual needs. While you will have to decide for yourself what works best for you, here are some pros and cons for each for you to consider:

PROS		CONS
Drive a car for its most trouble-free years Can drive a new, nicer car Predictable monthly payments	LEASING	End up paying more Mileage/condition restrictions You do not have a car at the end of the lease
No mileage / condition limits Ability to sell or trade in when you want Can get more value out of the car by using it longer	BUYING	Higher down payment and monthly payments Long-term maintenance costs Eventually, you will be driving a very outdated model

4. **Refinance high interest student debt.**

If you have a lot of debt, you are not alone! But if you have several private loans, you may want to consider refinancing so that you pay one bill each month (rather than several) and, most likely, reduce your interest rate. While you want to get the lowest interest rate possible, make sure the monthly payment amount is one that you can afford. Ultimately, it is better to have a higher interest rate with a payment that you can afford right now because you can always refinance in several years when you have a higher income and can make larger monthly payments. Before you move forward with this, remember that timing is critical! As soon as you refinance, your first payment will be due immediately so wait until your grace period is near its expiration before refinancing.

5. **Maximize your Roth IRA contributions each year (if eligible).**

Because contributions to a Roth IRA go in after tax, you are paying those taxes now, at the start of your career, when you are likely earning less income than you will when you are in your 60’s. Essentially, this means that by investing in a Roth IRA now, you will be saving on taxes in the long run. Plus, you can withdraw 100% on the cash you put in (not the appreciation or income) and you can withdraw up to $10,000 for a first-time home purchase, qualified education expenses, and qualified expenses related to a birth or adoption. If you can set aside money into a Roth IRA, especially if you can contribute the maximum amount ($6,000 per year for anyone under 50 years old), it will greatly benefit you when you reach retirement age.

6. **Understand the group insurance benefits by your employer.**

If you are over 26 years old or if your parents are not willing/able to continue your coverage under their plan, you definitely want to sign up for health, dental, and vision insurance through your employer. Your employer might offer you the choice between a High Deductible Health Plan (HDHP) and a Preferred Provider Organization (PPO), so much like leasing/buying a car and choosing a credit card, this is going to be a choice that you will make based on what works best for you and your individual situation. The HDHP will have a lower premium but has a higher out of pocket cost when medical issues arise. In addition, many employers offer life insurance as a standard benefit (typically one year's salary) which can be much more cost effective than obtaining life insurance on your own and you will probably be able to sign up for additional years at a reasonable cost (you should consider getting enough life insurance to cover the cost of your outstanding student loans, if you have any). Lastly, you may want to consider signing up for disability insurance as it is fairly inexpensive and will be extremely valuable should you become unexpectedly disabled and unable to work.

7. **Contribute enough to your 401k to get the employer match (if applicable).**

401ks are the most common retirement vehicle offered by employers, many of which offer a 4%-6% match. Ideally, you should make the maximum contribution you can afford to make, to maximize any match (note: as of June 2021, the cap on annual 401k contributions is $19,500 per year). In other words, if your company matches 100% up to 5% of what you contribute, you will want to contribute at least that 5% to get the full employer match. Also, make sure to ask your employer if they offer a Roth 401k which has the same future tax benefits of the Roth IRA.

8. **Consider an HSA to save for figure medical expenses.**

A Health Savings Account (HSA) is an account set up by your employer that is similar in nature to a 401k but is intended to be used for medical expenses. You are only eligible to contribute to this account if you are enrolled in a High Deductible Health Plan. As an individual, you and your employer can contribute up to $3,600 or up to $7,200 for a family plan to be used for future medical costs. One of the advantages of an HSA is that the account is not subject to "use it or lose it", like with a Flexible Spending Account (FSA). Instead, the money accumulates in the account and carries over year to year. What you really want to do, if you are able, is leave the money in the HSA and pay for your medical expenses out of pocket because the money in the HSA can be invested for the future and the balance will continue to grow significantly over time. Plus, these accounts have a "triple tax advantage" and what that means is that money goes into the account without being taxed, the earnings are untaxed, and withdrawals for medical expenses are also tax free.

We wish you all the best as you start your career and we hope you find these tips helpful. If you have questions or would like additional information, please contact us at info@daintreeadvisors.com.

Suggested Resources: *Daintreeadvisors.com, Nerdwallet.com, and Credible.com*