Starting your career right

Financial steps to take in your first job

Insurance and personal savings—two items you should consider before considering big-ticket purchases.

Congratulations! You've graduated from school and landed a job. Your salary, however, is limited, and you may not 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 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 plan 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.

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 may consider "buying" before future big-ticket purchases.

Health insurance may be considered high priority. If you're not covered under an employer plan, look into the 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. You can find more information about your options at *healthcare.gov*.

Life insurance is typically the next logical step, as it can protect your lifestyle, legacy and wealth transfer.

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Disability income insurance should be another consideration. In fact, government statistics estimate that just over 25% of today's 20-year-olds will become disabled before reaching age 67.[1] Disability income 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 six to twelve months' worth of living expenses in an easy-to-access "liquid" account, which includes a checking or savings account.[2] 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.

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 potential opportunity is an employer-sponsored **retirement plan** such as a **401(k) plan**, if available. These plans allow you to make pre-tax contributions, and taxes aren't owed on the contributions and earnings until they're withdrawn. What's more, 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 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 a 6% return compounded annually, you could have $100,451 in 30 years.[3] Bear in mind, however, that you will have to pay taxes on the retirement plan savings when you take withdrawals.

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

If a 401(k) isn't available from your employer, consider shopping around for a traditional and/or Roth **Individual Retirement Account** (IRA), at banks or mutual fund firms. For 2018, you can contribute up to $5,500 to a traditional IRA, Roth IRA or a combination of the two. 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 if all requirements are met. Nonqualified taxable withdrawals made before age 59½ are generally 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.

[1] Source: Social Security Administration, *Fact Sheet—Social Security.*
[2] Source: UBS Chief Investment Office Americas Global Wealth Management White Paper, "Managing a Liquidity strategy", 2018.
[3] This hypothetical example is for illustrative purposes only. It does not represent the performance of any actual investment. It assumes a monthly contribution of $100 and a 6% average annual total return compounded monthly. Your investment results will be different. Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed. Tax-deferred amounts accumulated in the plan are taxable on withdrawal, unless they represent qualified Roth distributions.

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