How Millennials Can Get Off to a Good Financial Start

Doing the right things at the right time may leave you wealthier later.

Provided by Jill Gleba

What can you do to start building wealth before age 35? You know time is your friend and that the earlier you begin saving and investing for the future, the better your financial prospects may become. So what steps should you take?

Reduce your debt. You probably have some student loan debt to pay off. According to the Institute for College Access and Success, which tracks college costs, the average education debt owed by a college graduate is now $28,950. Hopefully, yours is not that high and you are paying off whatever education debt remains via an automatic monthly deduction from your checking account. If you are struggling to pay your student loan off, take a look at some of the income-driven repayment plans offered to federal student loan borrowers, and options for refinancing your loan into a lower-rate one (which could potentially save you thousands).[1]

You cannot build wealth simply by wiping out debt, but freeing yourself of major consumer debts frees you to build wealth like nothing else. The good news is that saving, investing, and reducing your debt are not mutually exclusive. As financially arduous as it may sound, you should strive to do all three at once. If you do, you may be surprised five or ten years from now at the transformation of your personal finances.

Save for retirement. If you are working full-time for a decently-sized employer, chances are a retirement plan is available to you. If you are not automatically enrolled in the plan, go ahead and sign up for it. You can contribute a little of each paycheck. Even if you start by contributing only $50 or $100 per pay period, you will start far ahead of many of your peers.[1]

Away from the workplace, traditional IRAs offer you the same perks. Roth IRAs and Roth workplace retirement plans are the exceptions – when you "go Roth," your contributions are not tax-deductible, but you can eventually withdraw the earnings tax-free after age 59½ as long as you abide by IRS rules.[1,2]

Workplace retirement plans are not panaceas – they can charge administrative fees exceeding 1% and their investment choices can sometimes seem limited. Consumer pressure is driving these administrative fees down, however; in 2015, they were lower than they had been in a decade and they are expected to lessen further.[3]

Keep an eye on your credit score. Paying off your student loans and getting started saving for retirement are a great start, but what about your immediate future? You're entitled to three free credit reports per year from TransUnion, Experian, and Equifax. Take advantage of them and watch for unfamiliar charges and other suspicious entries. Be sure to get in touch with the company that issued your credit report if you find anything that shouldn't be there. Maintaining good credit can mean a great deal to your long-term financial goals, so monitoring your credit reports is a good habit to get into.[1]

Do not fear Wall Street. We all remember the Great Recession and the wild ride investments took. The stock market plunged, but then it recovered – in fact, the S&P 500 index, the benchmark that is synonymous in investing shorthand for "the market," gained back all the loss from that plunge in a little over four years. Two years later, it reached new record peaks, and it is only a short distance from those peaks today.[4]

Equity investments – the kind Wall Street is built on – offer you the potential for double-digit returns in a good year. As interest rates are still near historic lows, many fixed-income investments are yielding very little right now, and cash just sits there. If you want to make your money grow faster than inflation – and you certainly do – then equity investing is the way to go. To avoid it is to risk falling behind and coming up short of retirement money, unless you accumulate it through other means. Some workplace retirement plans even feature investments that will direct a sizable portion of your periodic contribution into equities, then adjust it so that you are investing more conservatively as you age.

Invest regularly; stay invested. When you keep putting money toward your retirement effort and that money is invested, there can often be a snowball effect. In fact, if you invest $5,000 at age 25 and just watch it sit there for 35 years as it grows 6% a year, the math says you will have $38,430 with annual compounding at age 60. In contrast, if you invest $5,000 *each year* under the same conditions, with annual compounding you are looking at $596,050 at age 60. That is a great argument for saving and investing consistently through the years.[5]

Citations.

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