

How to start saving for your future in your 20s



If you do things right in your 20s, you can lay the foundations for a solid financial future and set yourself up for life. Here's how to put some sound plans in place to give yourself more choices about how you live your life in the years ahead.

Get budgeting

It might seem obvious but getting into the habit of budgeting when you're young is one of the best ways to boost your future financial wellbeing.

Start by tracking what money you have coming in (your income) and going out (your expenses). It's important to understand where your money is going and what proportion you're spending on essentials, like rent, food and utilities; and non essentials, like entertainment and clothes.

Practise mindful spending

No matter what your financial situation is at the moment, this is an ideal time to learn savvy spending techniques. Practising mindful spending is an easy way to 'trick yourself' into saving money. And when you do need to buy a big ticket item, do your research, shop around and, where possible, look out for seasonal sales to help stretch your hard earned dollars further.

If you get in the habit of doing all of this from an early age, saving money will become second nature; you'll start to put money away for your future without even thinking about it, which could benefit you in the long term.

TIP: It's a good idea to have a separate emergency fund, for when life throws you a curve ball.

Compound your interest

When you're in your 20s, your budget is usually pretty tight and there are plenty of other demands on your income. But if you can spare a few dollars from your pay, it can make a big difference later on.

By starting to save in your 20s, you have a great opportunity to maximise the growth potential of compound interest. This means that you not only earn interest on whatever funds you deposit into your savings account but you also earn interest on that interest. It's extra money, without the extra effort.

One of the simplest ways to make compound interest work is to 'set and forget'. Establish a direct and automatic transfer from your everyday account to your savings account, so you don't have to do anything to make your money work harder for you.

Watch your super grow

Superannuation is compulsory in Australia for most employees, which typically means you're in the fortunate position of being able to start financial planning for your retirement.

So, rather than thinking of super as a burden, think of it as an easy way to save for retirement while you're young. It can be tax effective and harnesses the benefits of compound earnings.

Ditch personal loans and credit card debt

It's easy to over extend your finances when you're young and starting out in the workforce. In your 20s, your social life can often dictate your expenses and even become unconscious spending habits. Add to this your existing debts and the high cost of everyday living; and your expenses can build up, making it tempting to take out loans. But falling into credit card debt at an early age can quickly spiral into an unhealthy financial future.

If you do have any spare cash at the moment, it may be a good idea to prioritise debt repayments.

- Write down all the money you owe.
- Rank each debt in terms of the interest rate on the amount.

Payday loans and credit cards generally have higher interest rates, so you should prioritise paying them off first.

Insure yourself

While you'd like to think you'll be healthy and happy forever, chances are you'll need medical assistance at some stage in life, including retirement. If you're thinking about taking out private health insurance, there are incentives to doing so while you're young.

If you take out hospital cover after your 31st birthday, you'll have to pay a lifetime health cover loading on top of your insurance premium.

Learn to invest wisely

While you're in your 20s, retirement isn't just around the corner, which means you have more flexibility with your finances than someone in their 60s who may be planning to leave the workforce in a few years.

With fewer financial responsibilities, you may be in a position to take a few more risks with your investments – if things don't work out, you'll probably have time to fix them or ride out the market highs and lows.

Start early and consider talking to a financial adviser about choosing a mix of investments that will bring you gains you feel comfortable with, like the stock market, cash or perhaps property, depending on your financial investment style.

This works out to be an extra 2% on your premiums for every year you've waited. That's a big financial incentive to invest in your future health, right now.

Other insurance types, like life or income protection insurance, can cover you if you can no longer work to support yourself or your loved ones.

Further information

For further information please contact Everalls Wealth Management on 02 6232 4561 or info@everallswealth.com.au.

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