

Tips for Managing Money in Your 20s

Have you ever been bemoaning your financial affairs with friends or family, and said, “I wish they would have taught us about student loan debt/how interest works/budgeting (insert financial term here)”?

You’re not alone. Americans have relatively low levels of financial literacy. According to the FINRA Financial Capability Surveyⁱ, [only around 34% of adults](#) can answer a survey of five personal finance and basic economics questions correctly.

Typical Young Adult Financial Responsibilities

As you’re getting started in your adult life, we have a few tips to share on managing money. Starting good financial habits now will serve you well through the rest of your life.



Bills

You might have been paying your way for a while now, but the sticker price of independent living can be shocking. Between rent, utilities, groceries, car payments, insurance, and a little bit of fun money, you might start referring to payday as paycheck exchange day.

Student Loans

According to information collated by EducationData.org, nationally, student debt is approaching \$1.7 trillion. The average student loan debt for a 2021 graduate is around \$36,900, with estimated monthly payments of \$433ⁱⁱ.

This seems like one heck of a financial burden as you start your adult life, especially as the average salary for a new graduate is around \$50,000ⁱⁱⁱ, which means that there are plenty of young folks out there earning significantly less (or more).

Saving for Milestones

In addition to paying for everyday life, you also have #goals. You might have dreams of buying your own home or car. Or perhaps you and your boo are ready to tie the knot. Whatever your goals are, they’re probably going to require some savings on your part.

Preparing for retirement

Most Americans are woefully unprepared for retirement. According to research from Northwestern Mutual, 21% of Americans have no retirement savings at all and 35% of Baby Boomers only have between \$0-25,000 in retirement savings^{iv}.

If you start saving early, you can save a smaller percentage of your paycheck and still build up a comfortable nest egg by the time you're ready to retire. If your employer offers a 401(k) plan, think about participating and taking advantage of any available contribution matches. If you don't have access to a 401(k) or want an additional retirement account, you could consider opening an IRA.

3 Money Management Tips for Young People (or Anyone)

The good news is that it's never too late to start practicing money management skills, and the earlier you start, the better off you'll be in the long run. Some of the practical tips you could consider include:

Set a budget

Budgeting might seem like common sense, but millions of Americans live well beyond their means. According to a database compiled by the Federal Reserve Bank of New York, American consumer debt increased by \$87 billion in just the prior quarter, reaching \$14.35 trillion in Q3 of 2020^v. Consumer debt includes credit cards, car loans, student loans, mortgages, and other housing debt.

You can avoid the debt trap by comparing your monthly income to your monthly expenses. You can plan when to pay your bills, so you don't overstretch yourself during a pay period every month. Budgeting for bills that only come up every other month or once a year can help you prepare for larger expenses before they happen. And, once you know that all of your bills are paid, you know how much you have left to save and to use for fun.

Another top tip in budgeting is paying more than the minimum required payment if you have credit card debt. Better yet, try to pay the total monthly balance for at least one card. Making the minimum payment won't help you reduce or pay off your balance.

Put money in an emergency fund

What would you do if you lost your job unexpectedly or had an unplanned expense such as car repairs or a medical bill? According to the Pew Research Center, only 47% of Americans have enough of an emergency fund to cover three months of expenses^{vi}. A joint Marketplace-Edison research poll shows 59% could not pay an unexpected \$1000 expense^{vii}.

Hosea Chang, Chief Operating Officer of online retailer, [Hayden Girls](#), explains:

"If I could tell my 20-year-old self anything about managing money, it's that your ability to earn money isn't always something you can control. There are going to be times when through no fault of your own, you won't be able to generate income, so you need to save some to get you through these periods. Rainy days happen, but if you handle your money right, they don't have to be disasters."

Depending on whom you ask, it's recommended to keep three to six months' worth of expenses in a savings account. Creating a financial safety net can reduce stress, especially while you're navigating a global pandemic that's had a dire effect on employment.

Start investing

When you're first starting out, and money might be a little tight, investing might sound like more risk than you're willing to take on. However, while you might not want to jump into day trading, you might want to consider investing.

Roger Senpai, founder of the [Senpai Blog](#), elaborates:

*"I'm in my 30s now, and while I've been pretty good with my money for the most part, **the one thing I regret is not learning how to invest sooner.** The more time you allow your investments to grow, the more money you'll have for retirement. I wish I started in my early 20s. Even if I added just a tiny portion back then, I wouldn't have to put away as much as I would now."*

If your employer has a 401(k) plan, think about joining, especially if your employer matches contributions. You can also consider individual retirement accounts (IRAs) to save for retirement independently.

Another option to consider is a taxable personal investment account. There are plenty of options available to research before making the best choice for your financial needs.

Whether you're just starting out or want to get your finances in order, taking time to review your situation and commit to better money decisions can help you get yourself set up for a more financially secure life.

ⁱ <https://www.usfinancialcapability.org/results.php?region=US>

ⁱⁱ <https://educationdata.org/average-student-loan-debt-by-year>

ⁱⁱⁱ [https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/average-starting-salary-for-recent-college-grads.aspx#:~:text=Average%20Starting%20Salary%20for%20Recent%20College%20Grads%20Hovers%20Near%20%2451%2C000,-Starting%20pay%20has&text=Recent%20college%20graduates%20in%20the,Colleges%20and%20Employers%20\(NACE\).](https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/average-starting-salary-for-recent-college-grads.aspx#:~:text=Average%20Starting%20Salary%20for%20Recent%20College%20Grads%20Hovers%20Near%20%2451%2C000,-Starting%20pay%20has&text=Recent%20college%20graduates%20in%20the,Colleges%20and%20Employers%20(NACE).)

^{iv} <https://news.northwesternmutual.com/2018-05-08-1-In-3-Americans-Have-Less-Than-5-000-In-Retirement-Savings?printable>

^v <https://www.newyorkfed.org/newsevents/news/research/2020/20201117>

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^{vi} <https://www.pewresearch.org/social-trends/2020/04/21/about-half-of-lower-income-americans-report-household-job-or-wage-loss-due-to-covid-19/#many-adults-have-rainy-day-funds-but-shares-differ-widely-by-race-education-and-income>

^{vii} <https://www.marketplace.org/2020/05/05/covid-19-economy-anxiety-paychecks-working-hours/>