HIGHTOWER
Westchester

First Year Checklist

Congratulations! You landed your first job and a new title, "Adult in Charge". With that official title comes the pressure of knowing what to do with your first paycheck, and all the ones thereafter. Figuring out how to manage your personal finances can be challenging as there's no a one-size-fits-all plan. Keeping that in mind, we've put together a step-by-step guideline of things to consider once you enter the workforce so you're starting out on the path that makes sense for your individual circumstances.

At Home – Part 1

Step 1: Set Financial Goals

Before you build your budget, you have to set some financial goals. These goals can be short-term (taking less than five years to plan – think vacation or new car), long-term (taking 10-15 years to plan – like paying off your student loans or saving for retirement), or something in between. If you're stuck on where to start, read our blog, "How Do I Create Financial Goals…And Stick to Them?". You'll find tips on everything from how to define your goals to how to monitor your progress.

Once you have your financial goals on paper, you should prioritize them by their importance to you. By ordering your goals based on their significance, you can determine the amount of time it will take for you to save for them.

Please keep in mind that these goals should be reasonable for you to achieve. It's ok to dream big and fantasize about having your own private jet one day, but when it comes to putting pen to paper, you want your financial goals to be realistic and attainable. Remember to look at your income and expected income to help determine whether your goals could qualify as "attainable".

Step 2: Build Your Budget

Now that you have a clear idea of your goals, it's important to understand how you're doing financially so you can achieve them. First, evaluate your current finances by assessing how much money and debt you have. You also want to know where your money is located– these details will help you understand the big picture of your finances, as well as the minutiae.

Next, you want to apply your financial goals to your current financial plan. You already prioritized your goals in order of importance, so now you can work on building a budget that can help you reach them. You can start by adding up all your income, including your salary, dividends, and interest, and making a list of all your expenses for the next three months. Spend five minutes a day recapping every purchase you have made, and eventually it will become a habit.

This process may seem a bit overwhelming and tedious, but you can lighten the load by splitting your expenses into two lists: fixed expenses and discretionary spending. Fixed expenses include rent, utilities, and groceries, whereas discretionary spending includes the likes of hobbies and entertainment. At the end of each month, total your purchases for each category. You also want to add an estimate to account for unusual expenses, like gifts for the holidays or car maintenance. You can then create an average for each category based on the totals. Based on these averages, note where you have a choice in spending. What qualifies as a "want" instead of a "need"? Prioritize your "needs" over your "wants" and create a budget you can realistically stick to. You don't have to do away with the "wants" completely, just be smart about which ones you want to hold on to. One way to help keep some of your "wants" is to do your research. For instance, if taking a trip somewhere is a "want", you can still take that trip, you just may want to look at cheaper alternatives for flights and hotels or come up with ways to not spend as much money on food and excursions each day you're away. For more helpful ways to save on travel, read our blog "Top Money-Saving Travel Tips".

Overall, your budget should lead you to spend less than what you're earning; however, you should monitor your budget consistently enough to adjust for new circumstances that may present themselves. We recommend that you check-in with your budget after each financial quarter: note any changes in your expenses or your income, and adjust appropriately. If you would like more guidance on how to create a budget, read our blog, "Help! How Do I Create A Budget?".

When creating your budget, you should also think about your credit score. If you pay off your credit card monthly, you positively impact your on-time payment history and your credit utilization rate (the amount you use over your total available credit). These monthly payments makeup roughly 65% of your FICO credit scoring calculation, and a lower credit utilization rate shows creditors that you can be trusted to pay back your loans.

Step 3: Save for Emergencies

Once you've reconciled your budget with your goals, it's time to start the most dreaded financial action: saving for the worst. While no one wants to think about emergencies, things will happen that are out of our control, and if you don't have a rainy-day fund, unexpected events can reverse your progress.

To escape that fate, we recommend opening an emergency savings account with six months of living expenses. You can accomplish this by setting aside any of your financial windfalls, like tax refunds, yearly raises, and bonuses.

You can't prepare for a sudden illness or an unexpected job loss, but by having an emergency savings account you know your financial goals won't be completely derailed and your stress levels won't go through the roof.

Step 4: Pay Off your Debt

Perhaps even more daunting than saving for emergencies, paying off debt is an essential component of financial health. Yes, this includes student loans. You should try to pay off your debt as soon as possible. The less debt you have, the more financial autonomy you gain.

In order to figure out what you should pay off first, you must know the interest rate of each investment. If your student loans have the highest interest rate, you should pay off your student loans first. By addressing the debt with the highest interest rate, you prevent yourself from being beholden to high interest later, which can accumulate tenfold over time. Paying off your debt also strengthens your credit score because it demonstrates that you're a responsible debtor.

Step 5: Open Accounts that Reflect your Goals

Open a checking account and a savings account, and plan how much of your assets should go in each account according to your new budget. This may require a bit of research, as there are so many different options available from both online and brick-and-mortar banks. The best place to start is to figure out what you expect from your checking account. Are you someone that needs to go to a bank teller often or never at all? Do you want to use any ATM without paying fees? Do you want to have your checking and savings accounts all under one roof?

Savings accounts at brick-and-mortar banks typically tend to have lower interest rates compared to online banks, but their advantage lies in their in-person experience of convenience and bank tellers. Savings accounts at online banks usually offer higher interest rates, but you have to be comfortable with solely transferring money into your savings account instead of depositing a check at a branch. Online bank transactions can also be untimely in nature, but these banks usually offer low to no fees. Online banks also tend to have higher ATM fees, so if you rely on ATMs, you may want to opt for a brick-and-mortar account.

There are plenty of options to suit your needs, it's just a matter of figuring out what those needs are.

Step 6: Automate your Savings

It's also a good idea to automate your savings account. Decide what's the most you can afford to contribute monthly to your savings, so you don't have to worry about organizing manual transfers. You can also find apps that focus on creative ways to save, like adding any spare change to your savings account.

If the thought of a higher monthly contribution stresses you out, don't worry, you could always alter your contributions to a lesser amount on a weekly basis so the impact isn't as great. For example, instead of contributing $100 once a month to your savings, you could contribute $25 a week. Over time, you can reassess how much you can save and decide whether you should increase the amount or duration of the contribution.

At Work – Part 2

Step 1: Complete your W-4 Form

The W-4 form informs your employer of what percentage of your paycheck you would like to withhold for income tax. If you complete the W-4 form correctly, you'll be able to pay your taxes without overpaying. Use this IRS Withholding Calculator, to decide how much of your paycheck you should withhold for income tax. Still not sure what withholding you should choose? Don't hesitate to consult your accountant for advice.

Step 2: Save for Retirement

If the company you work for offers a retirement plan as part of your benefits package, you should definitely enroll in it. What investments you choose is up to you based on how you'd like to manage the account, actively or passively. If you want to choose the investments and just let them play out, then you may be better off choosing a Target Fund based on your age, which is considered passive account management. If you want to choose each investment and actively manage your account, you can do that too.

If you're lucky enough to work for an employer that offers to match retirement contributions, you should try to max out the match. Your employer's match acts as a 100% return on your investment, ending at the match limit. We also recommend choosing a Roth 401(k) or Roth Individual Retirement Account (IRA). Roth accounts are sponsored by the employer, and contributions made to them use post-tax dollars, so once you reach retirement, your withdrawals will be tax-free. If you can afford it, you should attempt to max out your annual contribution limit.

Also, the earlier you start saving for retirement, the better. If your retirement savings have more time to grow, compound interest will work in your favor. Compound interest is when the interest earned on your account is reinvested and earns interest. It can accelerate the growth of your retirement savings, but it needs time to grow. By saving for retirement early, you could not need as much money as you thought to retire, thanks to compound interest.

Step 3: Insurance Coverage

When choosing a health plan, you have to figure out what your needs are. Do you always go to in-network physicians? Do you want the flexibility to see whatever doctor you'd like? Do you need surgery in the near future? All of these questions need to be considered before choosing the most appropriate plan for you.

One option is to use a Health Savings Account (HSA) in conjunction with a high deductible health plan. A high deductible health plan helps you save money off monthly premiums, while an HSA has a triple tax benefit. This means that contributions to your HSA are tax-deductible, your investments grow tax-free, and withdrawals covering certain healthcare charges can be taken out tax free. With that said, HSA's do require a bit of effort on your part in the form of submitting claims. If you know that organization is not your forte, this may not be the most appropriate option for you.

Closing Thoughts

Plotting out your financial roadmap isn't what most people would consider "fun". It definitely takes time, commitment, and careful consideration but with time management skills, and a bit of research, you'll be able to prepare yourself for the near term.

We suggest revisiting your goals and budget on an annual basis or around any large life events as things may change over time. Keep in mind that it's never too early to start working with a financial advisor to create a more in-depth holistic financial plan.

The road to progress is not linear; it's a twisty trail full of ups and downs. You just need to hold on for the ride—and always wear your seatbelt.

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