Millennials and Money: Ten Wise Financial Planning Moves for Gen Yers

As busy as they are building careers, starting families and carving out a niche in the world, the importance of financial planning early in adulthood apparently isn't lost on the 20- and 30-somethings who comprise Generation Y. Indeed, 39% of Millennials admitted in a 2014 survey by Fidelity Investments that they worry about their financial future at least once a week.

"People [in the Millennial generation] know they should be doing something [about their finances], they just need direction," explains certified financial planner Sophia Bera, 30, founder of Minnesota-based Gen Y Planning, referring to the massive generation of roughly 70 to 80 million people born between the late 1970s and mid-1990s. "They're paralyzed by the paradox of choice — how much they should be saving and investing, what type of life insurance they should have, those kinds of things. There are so many options out there, it's difficult to know where to begin."

Rather than fretting so much about the future, people in their 20s and 30s have the power to start shaping it now by getting proactive with their finances. As young adults, Millennials already have time on their side — time to save toward short- and long-term goals, time to invest to build their net worth, time to pay off debts, and time to plan for, and work toward, a prosperous future, right through retirement. Here are a few suggestions for getting started while time is still on your side:

1. Get a handle on income and expenses. How much of your take-home pay do you use to cover necessary expenses like housing, food, utilities, loan repayment and the like, and how much is leftover for other worthy pursuits? To start tracking your expenses and your spending habits, find a free budgeting tool such as those found on www.mint.com. It'll help determine just how much money you have to invest, to save and to spend.

2. Set goals and start saving toward them. Funding a major purchase such as a home a car, a vacation or even a grad school education — and doing so without taking on a crushing amount of debt — takes cash and it takes planning. Once you figure out roughly what it will cost and what you have to spend (see #1 above), your next steps are a) commit to setting aside a certain amount per month or per paycheck toward that goal; b) establish a savings account to house the money you set aside; and c) set up an automatic deposit into that account.

3. Become a well-informed investor. History tells us that one of the best ways to grow your money and increase your net worth is by building a diversified investment portfolio of stocks, bonds, mutual funds, exchange-traded funds (ETFs) and the like. And the earlier you start, the more time your money has to grow. For people in their 20s and 30s, Bera favors investments such as ETFs because their relatively low expenses (fees charged to investors, mainly) allow more of your money to work to generate growth.

4. Put money in a just-in-case fund. Bera recommends keeping three to six months worth of expenses in a savings account to cover the unexpected and maintain financial flexibility, whether it's to pay a medical expense, to fill the void from a lost job or maternity leave, to fund a move across country, etc.
5. Take steps to reduce debt. Student loans, car loans, credit card balances, a mortgage — a person's debt burden can quickly become problematic, resulting in a lower credit score, which reduces borrowing power, and mounting interest, which makes it difficult to keep up with payments, causing issues with creditors. So commit not only to regularly pay down the debt you already have, but to avoid incurring too much additional debt.
6. Be shrewd about which credit cards you use. While it's wise to minimize the debt your incur, credit cards can work for you by supplying additional purchasing power, along with perks such as points or miles toward travel. Bera recommends finding a card that combines lower interest rates and fees with a robust rewards program. To compare cards, check out www.bankrate.com.
7. Investigate life insurance. Once you get married or have kids, life insurance becomes an important consideration. But what kind of policy (term, whole, variable or universal life) and how much coverage to buy? Complement your own research with guidance from an insurance agent or financial planner (see #10 below).
8. Start saving for retirement. As distant as retirement may seem, setting aside even a small amount each month in some kind of retirement savings vehicle, be it a 401(k), traditional or Roth IRA (individual retirement account), or pension, can make a huge difference in your ability to retire on your own terms, and to live comfortably once you do. The earlier you start saving for retirement, the better chance you'll have to call your own shots financially later in life.
9. Get educated. When it comes to planning your financial future, a little research goes a long way. Bera suggests going online to read financial blogs aimed at Millennials. Sites such as Mint.com and Bankrate.com also offer a wealth of resources on a wide range of topics relevant to Millennials
10. Find an ally, get a financial plan. For a minimal investment of time and money, it's worth finding a certified financial planner to answer your financial questions and provide a formal financial plan to get you where you want to go in life. CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals are trained specifically to look out for your best financial interests and offer recommendations based on an analysis of your financial situation. To find one in your area, visit the Financial Planning Association's national database at www.PlannerSearch.org.

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