Financial Blueprint: Checklist for Young Adults

Savings

☐ **Build an Emergency Fund:** Save enough cash in a separate savings account that is 3-6 months of living expenses to utilize for emergencies like losing your job.

☐ **HSA (Health Savings Account):** If you are participating in a high-deductible health insurance plan (deductibles of $1,500 single & $3,000 family for 2023), you are eligible to contribute to an HSA account which has triple tax benefits. It goes in pre-tax, grows and distributes tax-free, if used on eligible medical expenses. As you get into your golden years of retirement, medical expenses become one of your largest, so it's good to start early to build a nest egg.

☐ **IRA Savings**: Consider contributing additional funds to retirement to save and grow tax deferred.

- ☐ **Roth**: If you have earned income and meet the income limits (shown here on the IRS website), think about giving up to $6,500 in 2023 to a Roth IRA, which not only grows tax-free, but it also distributes tax-free after age 59 ½ years old, if you have owned the account for five years.

- ☐ **Traditional IRA**: If you are not eligible for a Roth IRA consider this tax-deferred vehicle. You need earned income to contribute (also eligible through spousal income) and you can fund up to $6,500 in 2023.

- ☐ **SEP IRA**: Self-employed? Open a SEP IRA, which is like a traditional IRA but has higher potential contribution limits (25% of your compensation or up to $66K in 2023.)

☐ **Defined Contribution Savings (401k, 403b, profit sharing plans etc.):** Enroll in your employer's defined contribution plan such as a 401k plan to save for retirement. If your company offers a matching contribution, make sure to contribute up to this amount, if possible, to double your contributions through this benefit. A good rule of thumb is to target 7-10% of your compensation to retirement savings. Also, these contributions will not only grow tax-deferred, but it will also lower your taxable income.

- ☐ Some plans have now started to offer Roth 401(k)s, after-tax contributions to a Roth within your 401k account. This allows individuals to make after-tax contributions without having to meet income limits. Like a Roth IRA, this grows and distributes tax-free once you are eligible (after age 59 ½ years old.) See more details on IRS website here.

☐ **Taxable Assets**: While retirement and health savings account are a priority for savings, next you should consider building your taxable assets. These assets provide more flexible access and may be taxed at a better tax rate (long term capital gains rate if held for more than a year.)

Planning

- ☐ **Track Expenses and Build a Budget:** Use your bank, an excel spreadsheet, or budgeting app (i.e. Mint, eMoney) to put together a budget and track expenses. Segment expenses into two buckets: needs (rent/mortgage, groceries, utilities) and discretionary (dining out, travel, memberships). A good rule of thumb is to target 50% of needs, 30% on discretionary, and 20% on savings (retirement/taxable savings.) Please feel free to utilize our expense excel spreadsheet or HTG has a platform (eMoney) that has comprehensive expense tracking and budgeting capabilities.

- ☐ **Assess your Debt**: Make sure to review any outstanding debt regularly and prioritize paying off higher interest loans (>6%) like credit cards before focusing on lower interest debt (<6%) like student loans.

- ☐ **Understand your Work Benefits:** Make sure to review your job's benefits package. This can include information on your company's health insurance coverage, and whether you can contribute to HSA/FSA plans. Do they reimburse expenses (tuition, commuter travel, phone bill)? Do they provide stock options, or can you contribute to an employer stock purchase plan (ESPP)?

- ☐ **Monitor your Credit:** At least once a year, pull a free copy of your credit report from sites like Credit Karma. Also, it's a good practice to freeze your credit to help safeguard against fraud. Review freezing your credit at all three agencies (TransUnion, Equifax, Experian.)

Investing

- ☐ Your portfolio's **asset allocation** should be constructed and invested to achieve your goals by assessing your time horizon, risk tolerance, and risk capacity. And not on the latest hot stock pick. Below are some priorities to think about when you are investing your portfolio:

  - ☐ **Diversification**: Make sure your investments are broadly diversified across geographic areas, sectors, securities, market capitalization etc. You do not want to put all your eggs in one basket!

  - ☐ **Time Horizon Matters**: If you have assets that you will not touch for 10+ years, you have the capacity to take on more risk and be allocated more aggressively to riskier asset classes such as equities.

  - ☐ **Relationship Between Risk and Return**: Be prepared to be able to stomach swings in your portfolio if you take on risk. How would you feel if you accounts dropped by 25%? To get higher returns, you need to be willing to weather the risk.

  - ☐ **Simplify**: Complexity can create inflexibility and limitations within your portfolio, and it can make it hard to adapt as the economic environment changes and/or life events come up (ex: job transition.) Don't overcomplicate your portfolio.

  - ☐ **Use Discipline**: Discipline is needed to overcome emotions and keep fear in check when things get bumpy. There will always be some level of short-term volatility in the markets, so it's important to view your portfolio through a long-term lens.

- ☐ **Don’t Try to Time the Market**: No one has a crystal ball and can successfully predict the markets. Not even the pros! If you try, you risk selling out at the bottom or buying in at the top.

Buying a Home

- ☐ **Save for a Down Payment:** Make sure to save for a down payment along with having funds for emergency home repairs and improvements. Aim to spend no more than 25-30% of your monthly take-home pay on your monthly mortgage payment.

  - ☐ To review potential expenses and put together a new home budget, utilize our home expense Excel worksheet.

  - ☐ HTG can help to project the financial costs and impact of renting vs. buying to help you better make this decision.

- ☐ **Use your Friends and Family as Information Sources.** Ask them what they budget for home maintenance. What surprises did they have with their first home? What would they do over again differently?

Starting a Family

- ☐ **Discuss Finances Openly with your Partner:** Are you getting married? Or in a partnership where you are starting to share finances? Make sure you discuss money openly, covering the money messages you received growing up and the financial goals you want to achieve. It’s important to better understand each’s other philosophies when it comes to money to help coordinate your monetary efforts going forward. This open dialogue will be important as you tackle decisions like buying a home, discretionary spending, savings for retirement etc.

- ☐ **Get Life Insurance**: consider purchasing term life insurance to protect your children and spouse. HTG views life insurance as an income replacement and can help perform an analysis to evaluate your insurance needs.

- ☐ **Create a Will:** Your will can be either simple or complex, but it’s important you have one to designate a guardian for your kids, determine who will be the executor to manage your estate, and lessen the length and financial burden within the courts on your family. It is helpful to establish Healthcare Proxies and Powers of Attorney at this time as well.

- ☐ **Open a 529 Plan – Education Savings**: Start to save for your children’s education by opening and contributing to a 529 plan account. This is eligible for elementary, secondary and college costs, and it has double tax benefits (federal tax) by growing tax-deferred and distributing tax-free when used on eligible education expenses. You can gift up to the annual exclusion limit ($17,000 in 2023) without gift-tax consequences. Some clients open 529s in their own names in order to begin saving for college ahead of having children as these accounts can be transferred without penalty to other family members.