

# Financial management for early adults

Ages 18–23



Wealth Management

Whether you're planning for college or are just starting out in your new career, money—how to make it, how to spend it and how to hang on to at least some of it—will play an important role in your life. An RBC Wealth Management financial advisor can work with you to access the many resources available to help you manage your finances. What follows is an overview of some of the ways we can help, as well as links and information to help you get started and stay on the right financial track. Once we meet, we can focus in-depth on the areas that are most important to you.

## Budgeting basics

Knowing where your money is coming from and where it's going are essential. A budget puts all of that information in one place and helps you anticipate shortfalls, adjust your priorities and plan for the unexpected. In a nutshell, a budget records all of your income sources and all of your expenses, from rent to food to entertainment to savings.

Once you've subtracted your total expenses from your total income, you'll be able to see where you may need to generate additional income, or where you have a surplus.

Remember, a budget is a guideline to help you stay on track. You'll need to adjust it from time to time as your needs change. And if you stray from it, just refocus and remember that financial management is an ongoing learning process. It's the big picture that counts.

## Using credit wisely

A credit card can be a great tool to have on hand in case of emergency (your car breaking down in the

middle of nowhere, for example). It can also become a huge source of financial stress in a short amount of time if you make only minimum payments on the balance owed.

Should you have a credit card at all? The answer is yes, because establishing a good credit rating is a key factor in your current and future financial health. If you're in school, choose a student credit card, which offers no annual fee and often additional perks. You might also want to consider other flexible credit options, such as a credit line, which allows you to access credit when and as you need it. You pay interest only on the credit amount you draw down.

All credit is not created equal, and you may have already discovered that there are many credit companies offering tempting deals and easy access to credit cards.

If you are moving for school, you may also want to think about establishing a credit line for emergency access to funds while you are away from home. Your parents or their financial advisor can help you look at your

projected expenses and then determine a credit limit to give you an emergency financial buffer.

With all credit, the key is to keep it simple, spend only what you can afford to repay, and make all your payments on time.

## Investing—it's not just for your parents

When you're working on a degree or a new career, retirement is probably the last thing on your mind. But in this case, time is most definitely on your side, and putting as little as \$25 per month away now can generate a huge payoff (literally!) later (see the box below for the impressive numbers).

### The miracle of compound interest

A 20-year-old who puts away \$1,000 a year and earns an average rate of return of 8% a year will have \$386,505 by age 65. Waiting until age 30 to put that same \$1,000 away will generate less than half that growth, or \$172,317.

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## Your key priorities

At this stage of life, you're probably focused on a number of financial priorities. Your financial advisor can provide professional one-on-one assistance, as well as resource materials, to help in any or all of the following areas:

- Understanding your personal net worth
- Investing in stocks and bonds
- Gaining financial independence through budgeting
- Understanding your credit options and ratings
- Creating the independent lifestyle that's right for you, including the career path that will help to take you there

### Making 401(k)s and traditional IRAs work for you

Saving for your future should be a key part of any financial plan. There are some ways to save that will also benefit you today—in the form of immediate tax savings.

## 401(k) plan

The journey from work to retirement isn't made in one giant leap. It takes a lifetime of savings to steadily build your nest egg. By contributing to your company retirement plan, small contributions today can add up to a significant amount tomorrow. This is due to the advantage of tax-deferred growth. A 401(k) plan allows participants to make pre-tax contributions through payroll deductions to save for retirement. Most plans will allow participants to contribute up to 100% of their pay (not to exceed the IRS limit).

Additionally, many companies make matching employer contributions and profit sharing contributions to employee accounts. In most plans, participants have the opportunity

to direct their contributions into a variety of investment choices. In addition to reducing taxable income and allowing tax-deferred growth, a 401(k) plan may offer other benefits such as provisions that allow for hardship withdrawal or loan options.

## Traditional IRA

A tax-advantaged retirement vehicle is attractive to many individual investors because contributions grow tax-deferred. When saving for retirement, you want every investment advantage you can get—and one of the biggest is tax deferral.

Earnings on your IRA investments are tax-deferred and will accumulate faster than if they were held outside an IRA.

When you do begin to take withdrawals—usually in retirement—you will have to pay taxes on the distributions. You may, however, be in a lower tax bracket. Therefore, your total tax obligation could be less than it would have been with the taxable investment.

Ask your financial advisor for more information on these savings options.

## Protecting yourself from fraud

Fraud can take many forms, from false advertising to deceptive telemarketing and e-commerce schemes. Remember that no one is going to give you something for nothing, and “special limited time offers” and amazing cash prizes should be treated as highly suspicious. Beware of any situation where you're being asked to supply personal information or payment up front. And never give out your Social Security Number (SSN) unless you're listing it on your tax return or are signing a legitimate employment agreement. Your SSN provides access to a lot of information about you, and it should be carefully protected.

## Credit card fraud

1. Never leave your cards or purse unattended at work or in your car's glove compartment. Both are common targets for thieves.
2. If you're away on vacation, take cash or traveler's checks with you whenever possible and store your credit cards in the room safe or hotel safe.
3. Plan for what you'll need, and take only that amount of cash with you for a night out with friends (this will protect your cards and your budget).
4. Make a list of your credit cards and their numbers, and keep it in a safe place. This will be helpful if you need to report a lost or stolen card.
5. If your card is lost or stolen, immediately notify the credit card company.
6. Review your monthly statements carefully. If you notice any transactions that you did not make yourself, contact the bank or credit card company right away.

## How we can help

If you need help to determine or understand your key financial priorities and if investing your savings is a priority, your financial advisor can help. They can help you decide what kind of account is right for you—an online investing account where you make the decisions, a full-service account where investment decisions are made with an advisor, or both.

Working with you (and your parents, if you wish), your financial advisor can create a plan to meet your current financial needs, as well as your longer-term goals. They can help you plan out where you should set up a bank account if you are going abroad for school or traveling overseas, and the best methods for transferring money. And if you're leaving for college, your financial advisor can help you manage most of your financial needs online or over the phone.