20 smart things to do with your money in your 20s

A checklist of savvy pointers for your third decade

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CANSTAR

Your 20s

Your twenties often involve a series of firsts: your first 'real job', first foray into the rental market, and let's not forget, your first taste of financial freedom.

From being scolded for spending too much on avocado breakfasts to being labelled a generation that would rather travel the world than settle into a 9-5, Australians in their twenties can get a bad rap when it comes to planning ahead. With historically low interest rates, slow wage growth and escalating housing prices in many areas, today's market can be a challenging one for young people to start building their wealth.

Yet it's worth the effort, as these are years that can set you up to pay off your home earlier, retire at a younger age and enjoy greater financial freedom later in life. So besides cutting back on coffee purchases and putting away the backpack, what financial steps can you take during your twenties to start building a solid foundation for your future? Here are 20 of our top financial 'to-dos' for this pivotal decade of your life. Remember, your future self will thank you.

1. Spend less than you earn

This might seem like a no-brainer, but if you learn to spend less than you earn from an early age, then reaching your financial goals will likely be much simpler.

Getting into the habit of saving some money every pay, instead of living paycheck to paycheck, can help you build the savings to make those big purchases - like a house or car - instead of spending all your income on smaller items bought on impulse. Canstar's Group Executive (Financial Services) Steve Mickenbecker advises it is worth trying to put aside 10% of your take-home salary where possible to allocate towards savings.

This isn't always easy - you might not be able to go out to dinner whenever the mood strikes, or jet off to that distant friend's destination wedding. But it doesn't mean always missing out. You can have a social life without it costing you an arm and a leg. Why not try replacing dinners and breakfasts with a walk in the park or a picnic? The important thing here is learning to budget, and having the discipline to stick with it.

2. Tackle credit card debt

One of the golden rules of financial planning is often to clear your most expensive debts first. That's likely to be your credit cards - high-interest credit card debts can be a real financial drain.

A debt of $2,000 could take you more than 10 years to pay off and cost you an additional $1,709 in interest, if you paid only the minimum repayment amount and made no further purchases on the card. (This takes into account a credit card interest rate for purchases of 16.80%, a minimum repayment of the greater of $25 or 2.5% of the outstanding balance and a credit card with no annual fee).

If you can't eliminate your debt entirely, consider a balance transfer or switching to a low rate credit card. A balance transfer will allow you to transfer the balance of your credit card to a new credit card from a different financial institution with little or no interest for anywhere from 12-24 months. Make sure you consider fees for the cards as well as interest when comparing and be aware each application you make is added to your credit file, meaning it might not be a good idea to switch too often. Both options could allow you to reduce the amount you are paying in interest, enabling you to clear that credit card debt faster.

3. Reduce your HECS-HELP debt

The HECS-HELP Loan Program is designed to enable Australians to further their education after high school and pay the fees back afterwards. Once you leave university and take up full-time employment, money will be deducted from your weekly pay to recoup the debt once you earn over a certain amount.

While the loan is 100% interest-free, it is subject to inflation, meaning your debt can increase slightly each year. HECS-HELP loans are also considered a debt for all intents and purposes, meaning it could affect your borrowing power for things like a car loan or mortgage.

Although it may seem convenient to let your HECS-HELP repayments drag out, it's a smart move to pay your HECS off in your twenties if you can. Of course, as always it's best to clear your most expensive debts first, so ranking your debts in order could be a great place to start.

4. Start an emergency fund

Do you have any savings for emergencies? If not, this should be a priority.

Ideally you want to build up enough savings to cover three to six months of expenses - that's rent or mortgage, groceries and electricity in case you are ever between jobs for that long. You may even choose to put aside enough to cover six to 12 months.

This may seem like a lot of money, so start with making sure you have at least $1,000 in the bank to cover routine emergencies like car repairs, and then grow your emergency savings from there.

5. Track your spending

Keeping tabs on your spending will help you find exactly where your money is going. This can help you identify the areas you need to change in order to make financial headway and improve your finances.

ASIC's TrackMySpend app is a helpful, free tool to record your everyday expenses you may wish to consider. In fact, one in ten people now use a mobile app to track their spending, according to ASIC's Australian Financial Attitudes and Behaviour Tracker report.

6. Create a budget

A budget is the cornerstone of a financial plan. In fact, ASIC tells us about half of Australians who have a budget mostly stick to it. Budgeting tends to make managing personal finances easier and can help make sure your needs, both short- and long-term, are being fulfilled before your wants.

Try Canstar's budget planner calculator to get you started.

7. Set a savings goal

Setting a successful savings goal is about playing the long game. Assess your short and long-term financial goals and build a plan that allows you to achieve both.

Once you get past the daydreaming phase you'll want your savings goals to be more concrete. Goals can be set using the SMART acronym, which means setting goals which are specific, measurable, achievable, realistic and trackable. For each goal, estimate what it will cost and calculate how much you would need to save each month to achieve them.

And to hold yourself accountable, it's important to write your savings goals down. These can be the master blueprints for your future financial success.

8. Consider a term deposit or high interest savings account

If you have a short-term savings goal in mind, such as saving for a house within a certain timeframe, you might consider opening either a term deposit or an online savings account.

There are pros and cons to both you should be aware of.

Term deposits can provide a great level of certainty in terms of the rate of interest you will earn. They are also a simple option and are relatively low maintenance. Generally you wait for your investment to mature and instruct your institution on what to do with your money at the end of the period.

Meanwhile, online savings accounts generally offer quick access to your money if you need to withdraw it suddenly - making this a useful option for something like your emergency fund. Although there is a level of uncertainty about how your rates will perform over time with this type of account, it can come with some perks such as little to no minimum deposit required to open an account and bonus interest if you deposit a nominal amount each month.

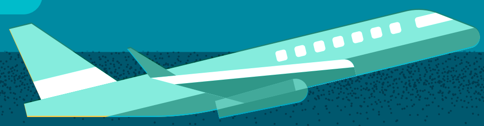
You can read the pros and cons, the interest rates and the fees attached to both term deposits and online savings accounts here, to help you decide which one you should go for. Be sure to look out for Canstar's 5-Star Rated products to help you get the most out of your savings.

If you are interested in building your wealth over the longer-term, your twenties could be a good time to consider an investment option that, although will involve a degree of risk, may deliver higher returns over time.

9. Set up recurring, scheduled transfers into your savings account

Think about paying yourself – or rather, your savings account – first thing every time you get paid. That way, you can 'trick yourself' into saving what you would have otherwise spent.

For example, if you get paid on a Tuesday, schedule a recurring transfer on Wednesday to send a portion into your savings account. This way you can start your week with your savings already safely tucked away.



10. Travel smart

A lot of people enjoy travelling in their twenties before they have too many responsibilities or commitments that make it harder to jet off, such as full-time jobs, significant others or children.

But as the government's Smart Traveller website says accurately: if you can't afford travel insurance, you can't afford to travel.

Travel insurance cover is a must if you want to make the most of that relaxing, refreshing or stimulating overseas trip you've planned so carefully. Remember, as with any type of insurance, the details are everything. Be sure to read the insurer's product information or supporting documentation in choosing the right policy for you.

Remember, accidents or unexpected illnesses can happen to anyone. So think about protecting yourself with travel insurance from unexpected costs when you're on holidays.

Compare Travel Insurance

11. Think about staying at home longer

Building your nest egg early can help get your financial plan off on the right foot. Staying at home with your family for a few extra years could help you save your hard-earned cash to buy your own home, instead of paying someone else's mortgage through rent.

Surprisingly, despite the much-reported 'housing affordability crisis', a recent report from the Commonwealth Bank of Australia (CBA) found the average age of first home buyers has remained relatively consistent for the past few decades, meaning millennials are still buying homes at a similar age to their Baby Boomer counterparts. And, according to a report by the Commonwealth Bank of Australia, this is in part thanks to millennials choosing to live at home a little longer.

"My husband and I moved in with his parents during the lead up to the birth of our daughter after previously renting in the suburbs of Brisbane. The experience has been a joy, although I understand it's not for everyone. For us it honestly feels like home.

The move has allowed us to save a few hundred dollars a week in rent, but it has also helped us make more room in our life for our creative projects. These often result in future paid work, but the initial creation requires time, headspace and the freedom to not have to work full-time.

It has allowed us to spend more discretionary funds on creative projects like recording music professionally and setting up our new business. These are things we might not have been able to afford if we were still renting.

I've found millennials are generally very savvy with money - I know another three couples in their twenties doing exactly what we're doing. We've lived through the GFC and have seen our parents in previously stable jobs get made redundant or see their investments substantially decrease in value, so we're conscious of our finances. Living at home longer can be a great way to get a head start, no matter what your dreams are."

Stephanie Cluff, co-founder of natural beauty company [Briobox]

12. Avoid additional fees on your home loan

When saving for your nest egg, keep in mind deposits under 20% of the purchase price of your new home could incur lender's mortgage insurance (LMI).

LMI is an insurance policy that protects the lender from financial loss in the event that the borrower can't afford to keep up their home loan repayments. It is a one-off, non-refundable fee paid at loan settlement.

There are plenty of factors that could affect the cost of lender's mortgage insurance, as the cost is based on your level of perceived risk as a borrower. Some factors include the size of the loan, your deposit amount, whether you are an investor or owner-occupier and your employment status.

To give you an idea of the LMI cost, we've used the LMI calculator available through one of Australia's largest lender's mortgage insurance providers, Genworth, creating hypothetical calculations for a first home borrower in New South Wales based on different deposit amounts (different LVRs).

How much is Lender's Mortgage Insurance?

Cost of property	5% deposit	10% deposit	15% deposit
$300,000	$7,610	$4,077	$2,219
$400,000	$12,768	$6,912	$3,842
$500,000	$15,960	$8,640	$4,803
$600,000	$25,707	$13,176	$6,630
$700,000	$29,992	$15,372	$7,735

Source: Quotes taken from Genworth LMI calculator, as at 7 June 2017. Premiums listed are for first home buyers to a loan term of up to 30 years.

13. Consider first home buyers' incentives

On top of government-offered incentives for first home buyers - such as exemptions on stamp duty under a certain purchase price in some states and First Home Owner Grants for owner-occupiers buying or building a new home - many banks offer sign-up promotions for first home buyers that could be worth consideration.

Click here to check out some of the current promotions we found.

14. Think ahead about your retirement plan

It's never too early to think about your retirement plans. If you already have some savings to spare, you could consider contributing that pot of extra money straight into your superannuation fund. Alternatively, you could ask your employer to put some of your take-home pay directly into your super account through salary sacrificing. Extra contributions could significantly boost the amount you will retire on, especially since your super keeps on growing with compound interest. Check with your accountant or other professional advisor if you would like advice on your personal circumstances.

Mr Mickenbecker advised young people in their twenties to consider looking for a super fund that allowed them to invest in riskier growth options such as property and shares.

"These growth options can deliver higher returns over the long-term, and with decades to go before you retire time is on your side," he said.

While we're on the topic of planning ahead, you could easily find yourself with multiple super accounts in your twenties if you've worked in multiple jobs while studying and kickstarting a career. It is worth making the time to consolidate your super by moving it all into the one fund – you'll likely pay lower fees and it can be far easier to manage.

Read how finance expert and editor of Money Magazine Effie Zahos came to realise putting an extra $50 a fortnight into super could make a difference of more than $100,000 at retirement.

Read Here

15. Own your car outright

Assessing and eliminating debt can be a crucial aspect of managing personal finances, and failure to do so could overshadow other positive effort you're putting in. Car loans are one pesky high-interest debt that may be detrimental to your finances. It is what we call a 'bad debt' given a car is an asset that generally depreciates in value over time, in contrast with taking out a home loan that is more likely to increase your assets or net wealth.

By the time you reach your twenties, many of you will have had your licence (and car) for a few years. That means you could be well on your way to paying off your car loan - and if not, it's time to start!

In the meantime, to make sure you've got a good value car loan, with the lowest possible interest rate, check it against some of the car loans Canstar has compared and their respective interest rates below.

Compare Car Loans

16. Save on comprehensive car insurance

It's no secret that comprehensive car insurance can be expensive. On top of that, Canstar Research found insurance premiums for those under the age of 25 jump by an average of $380. Nevertheless, having car insurance could be a much cheaper option than the alternative. If you're in an accident and your car is damaged, the cost to fix even a minor scratch can be significant. The good news is there are a few things you can do to reduce your premium.

Firstly, shop around. Prices and value can vary significantly between insurers. For Canstar's most recent car insurance Star Ratings report, we considered thousands of quotes across 51 insurers to determine the car insurers offering outstanding value. While our definition of value isn't solely based on the price of the policy, it's an important factor. Aim to get quotes from a handful of different insurers to make sure you're not paying more than you need to. You can compare car insurance by clicking on the link below.

Compare Car Insurance

Secondly, consider any discounts - online or otherwise - that insurers offer. Many insurers offer savings to shoppers who obtain a quote and subsequently purchase their insurance policy online. Some insurers will offer as much as $50 cash off, while others can offer a flat 10% discount.

17. Think about private health insurance

While we're on the topic of insurance, taking out private health insurance in your twenties could be worth considering for several reasons.

Typically, you'll no longer be covered by your parents' family policy when you turn 25, or earlier (18 to 21 years old) if you stop full-time study or graduate, get a full-time job, get married, or get into a de facto relationship. [Check with your parents' health insurer for details], as all policies differ slightly. If you don't have private hospital cover you may also be subject to [The Medicare Levy Surcharge (MLS)]. The MLS is an additional charge applied to Australian taxpayers who have an annual income over a certain amount and do not have private hospital cover.

On top of the MLS, you have until 1 July after your 31st birthday to take out an adequate level of private health insurance (hospital cover). If you don't, for every year following this you will incur a 2% surcharge on your health insurance premiums if you choose to take out hospital cover in the future. This is known as [Lifetime Health Cover Loading].

This can add up to a total surcharge of 70% once you reach the age of 65, but does not increase further beyond this point. The LHC Loading surcharge is removed after you have held an adequate level of private health insurance for ten consecutive years.

Statistically, teenagers and young adults are the most likely age group to end up in hospital. The Australian Institute of Health and Welfare (AIHW) reports 27.5% of people who visited the emergency department in 2015-16 were aged 15-34 years old.

Hospital cover policies can put you ahead of the public system (Medicare) queue if you need to go to hospital. With hospital cover, you also get to choose what doctor treats you at the particular hospital recommended by your health fund, and you have greater flexibility on the timing of your surgery or treatment.

You can compare health insurers with Canstar here.

18. Consider negotiating a raise

Despite the best financial planning, strictest savings plans and disciplined budgeting, you might find at times you still come up short. If this is the case you could consider asking your employer for a pay rise.

If you've been employed in the same position for some time without a pay increase, you may find your pay has fallen below the market average due to inflation. Similarly, any further qualifications you've gained may be taken into account when asking for a higher salary.

Remember, the best way to prepare for asking for a raise is to do your research and be prepared. Base your request off market research and examples of your strong performance - 'needing more money' is not a good enough reason for your employer to give you a raise.

19. Establish a positive credit rating

With the Federal Government expected to mandate positive credit reporting by mid-2018, it would be wise to start thinking about building a positive credit rating. It can be easy to find yourself paying regular bills that 'little bit late', so why not set up a payment program to build a record of consistent and timely payments?

It's also wise to be careful of the number of new credit accounts you open, and to pay off your outstanding debt as quickly as possible. These are all steps that can improve your credit rating by demonstrating your reliability when it comes to repaying your loans. In turn, this could make it easier for you to access finance when you need it and potentially result in you being offered a cheaper rate.

20. Protect your income

Losing your income can have a significant impact on your finances. For people in their twenties without alternative income streams like property or stock investments, a nine-to-five can be their livelihood.

So it could be a good idea to insure your income in case disaster strikes.

If something like illness or injury renders you unable to work for an extended period of time, you could find it difficult to pay for things like rent, bills and food. Taking out income protection insurance could provide you with a monthly benefit that equals up to 75% of your monthly income, allowing you to cover your daily costs.

By taking out a policy when you're young and healthy, you reduce the likelihood of having exclusions or loadings (i.e. higher premiums) applied to your policy due to health issues that could arise at any given time, or of being completely denied cover.

According to Canstar's comparison tables, an 18-27 year-old male in an office-based job seeking $2,000 per month of coverage can take out a policy for as little as $35 a month when purchasing cover through an advisor. Comparatively, a 58-62 year-old male requiring $5,500 per month of coverage would have to pay at least $415 a month.

Compare income protection insurance for 18-27 year-olds

Thank you

We hope this guide has armed you with some extra insights to build healthy habits while also enjoying your twenties.

We are Australia's biggest financial comparison site, so make sure to visit us along your journey whenever you need a hand making financial decisions with confidence.

What I Wish I Knew About Money In My 20s

While nothing replaces learning about money through experience, it can be helpful to hear insights from people who've been around the block before us. So, we asked a collection of wise folk who've already travelled through their second decade to look back and share their biggest financial regrets.

"I jumped headfirst into self-employment, operating as a sole trader, but failed to take advantage of the many offerings offered by the 'sharing economy'. As a result, I ended up following a more traditional business set-up model, including office rental and buying a work vehicle before I could really afford it. Unsurprisingly, this thrust me into a place of debt, uncertainty, and at times massive anxiety.

The irregular cash flow that comes with flying solo in business is enough of a stress without crippling overheads. But hang on, embarking on a life of self-employment was meant to be fun! Where were the carefree days of pursuing my passion that I had so frequently imagined? So I downsized, I sold my car and broke my lease. I joined a car sharing service and rented a hot desk on a casual basis out of a shared office space. And it immediately freed me up to enjoy the process of being my own boss."

Reece Carter, naturopath, media personality and author of The Garden Apothecary

"If I could go back to my younger self, what would I say? "Do what Darren is doing and salary sacrifice some of your pay." Twenty years may have passed but I haven't forgotten the decision I made when I was a wet-behind-the-ears graduate trainee for one of the major banks.
My first day involved a financial planner discussing the merits of popping extra cash into super when I was about 21. Who cares about super when you're that young? I certainly didn't but my good mate Darren did. He was quite happy to put away $50 each pay. When I think about it now, it really wasn't much of a sacrifice – a cup of coffee a day.

To this day I wonder how Darren's super is doing compared with mine. A quick play around on the superguru.com.au calculator shows putting an extra $50 a fortnight into super will make a difference of $103,925 at retirement. According to the experts at the Association of Super Funds of Australia, a comfortable retirement for a single person requires about $43,538 a year. Looks like Darren will be living it up for 2.3 years longer than me!"

Effie Zahos, finance expert and editor of Money Magazine's 2017 super edition.

“I was a struggling journo in Brisbane when I entered my twenties and there was plenty of temptation to spend my meagre earnings on (cocktails, music, eating out!). I was lucky enough to land a job as a ministerial adviser in the Goss Government in Dec 1989 and my salary doubled. What I should have done then was keep a percentage of each salary payment and dumped it into an account that I couldn’t raid. I deeply, deeply regret not getting into the property market earlier - especially living in Sydney now where property prices are ridiculous. So my message - swap the martinis for a mortgage and reap the financial rewards that flow from having a position on the property ladder.”

Liza Jayne Loch, Managing Director and Alpha Female, Alpha Consult.

“I wish I realised family and friends don’t know anything. So many of us at a young age take the advice of “Uncle Doug who knows a bit about property” or “a mate of a mate whose dad is an accountant”.

There is a wide world of independent financial advice out there and plenty of original and unique ideas to learn from. If Uncle Doug really knew about real estate, he would have a big investment property portfolio and be living off the passive income, rather than struggling along paying off his own mortgage. Take advice from family and friends with a grain of salt and educate yourself to get ahead.”

Tim McIntyre, Editor News Corp Australia’s MoneySaverHQ

“I was always very business driven and spent my twenties focused on growing my business through hiring and everything else that comes with establishing a start-up. In retrospect I wish I’d balanced this with learning more about finance and taking action to set myself up and create longevity. If I’d invested some of my savings to buy property and get a start in the stock market, I’d now be in a position to leverage off that wealth”.

Gina Lednyak, founder of L&A Social and former NSW Telstra Young Business Woman of the Year winner.

Checklist – 20 pointers for your 20s

We've compiled this checklist to help you put the foundations in place so you can work towards entering your twenties a step ahead.

Task	
1. Monitor your spending to make sure you're ahead after payday	☐
2. Start to pay down your credit card debt	☐
3. Reduce your HECS-HELP debt	☐
4. Build an emergency fund	☐
5. Find the right tool to track your spending	☐
6. Create a budget	☐
7. Set a savings goal and record it to make it count	☐
8. Consider term deposits or high interest savings accounts on offer	☐
9. Set up recurring transfers into your savings account	☐
10. Consider travel insurance whenever holidaying	☐
11. Weigh up the pros and cons of staying at home longer	☐
12. When taking out a home loan avoid additional fees where possible	☐
13. Consider first home buyers' incentives	☐
14. Look into making extra super repayments	☐
15. Clear your car loan	☐
16. Shop around if taking out comprehensive car insurance	☐
17. Consider private health insurance and how it could save you	☐
18. Ask for a raise if warranted	☐
19. Establish a positive credit rating	☐
20. Do your homework to see if income protection could benefit you.	☐