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Essential Financial Steps for Young Workers

Six Things to Do Within Your First Five Years on the Job

By **LINDSAY GELLMAN**
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Things are really taking off for Chris Rightmire of Ewing, N.J. The 22-year-old graduated from the College of New Jersey in May and has begun work at his first full-time job, as a social-media coordinator at Princeton, N.J.-based Resound Marketing. Mr. Rightmire has been socking away cash since high school, when he worked as a janitor, and has amassed about $10,000 in savings, he says. His current monthly take-home pay is about $2,400, and he keeps living expenses low.

WSJ Radio

Lindsay Gellman tells WSJ's Hank Weisbecker the 'to do' list of financial decisions young adults should have in mind.

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But Mr. Rightmire has his financial work cut out for him: His savings will come in handy as he begins payments on his roughly $10,000 in student loans in the coming months, he says. And, on the advice of a friend in financial services, he's thinking of opening a Roth IRA rather than taking advantage of the Simple IRA that will soon be available to him through work.

For 20-somethings who have recently landed a first job, the logistics of financial independence can seem daunting. But "it is never too early to start laying a solid [financial] foundation for your future," says Suzanna de Baca, vice president of wealth strategies at Ameriprise Financial . Here are some things young workers should be sure to take care of within the first five years of starting out:

Set a budget. Financial experts such as Kimberly Foss, a wealth adviser in Sacramento, Calif., recommend writing down your financial goals with pen and paper. They sink in better this way, Ms. Foss says. Then enter them into an app, such as Intuit 's Mint, for tracking, she says.

Return to your goals every six months to update them and re-evaluate your progress, say experts. During the summer months, ask yourself whether you're on track for savings goals you set at the start of the year, says Michael Kitces , a Columbia, Md.-based financial adviser. Similarly, re-examine your spending, he says. Is it in line with what you'd planned?

Save for emergencies. Financial advisers recommend setting aside enough cash for three to six months of living expenses in case you lose your job or become unable to work. But Ms. Foss recommends boosting your emergency fund even further and socking away 12 months of expenses. Don't dip into the fund unless there's a true emergency, she says.

Take stock of debt. Look at any outstanding debt (such as student loans or credit-card debt) and evaluate not only whether you're on track to pay it off in the desired time frame, but if you might benefit from consolidation or refinancing if applicable, Mr. Kitces says.

Think about retirement. A rule of thumb is that you should be working your way up to saving about 15% of your salary for retirement, says Judith Ward, a senior financial planner at T. Rowe Price Group . The 15% figure includes individual and employer-based plans, and employer contributions, she says.

As soon as you can afford to bump up your contributions, do so, Ms. Foss says. But if that's not possible, make sure you're contributing at least enough to get any employer match, so that you're not leaving money on the table, she says. If a plan isn't offered through your workplace, consider opening a Roth IRA account, which allows savings to grow tax-free, experts say.

Manage risk. Evaluate your insurance, including homeowners/renters, auto, You might be better off having less withheld for taxes and directing those dollars to your 401(k).

And don't forget to track tax-deductible expenses, like charitable donations or mortgage interest, Ms. de Baca says.

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