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Personal Finance in Your 20s

FOR
DUMMIES®

Learn to:

- Budget and develop a savings program
- Establish a firm financial footing whether you're in school or a post-graduate
- Manage loans and debt
- Make informed investment strategies

Eric Tyson, MBA

Author of Personal Finance For Dummies and Investing For Dummies



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Building a Solid Personal Finance Foundation in Your 20s

You're finished with school and entering the workforce. You want to make sure you create a firm foundation for your personal finances. Keep the following in mind when you start:

- ✔ **Get a checkup:** Just as you benefit from a health checkup, be sure to get a checkup on your finances to ensure that you're making the most of your money and your financial decisions.
- ✔ **Determine what you need with transaction and savings accounts and evaluate which banks and other financial firms offer accounts that best meet your needs.** Be on guard for high fees that erode your savings.
- ✔ **Celebrate the savings habit.** The earlier in life you're able to save money regularly, the smaller the portion of your income you'll need to save to accomplish a given goal. Scrutinize your current spending so that you know where your money is going and you can identify what to do about it.
- ✔ **Be on the lookout for spending reduction opportunities.** Regularly saving money, especially on a modest income, is challenging. I present many ideas for reducing your spending, but ultimately, how you cut your spending is a matter of personal preference.
- ✔ **Understand good and bad debt.** Debt can be a useful tool to enable the purchase of real estate or other valuable assets. Avoid consumer debt, such as on credit cards and auto loans. Consumer debt tends to be costly, and the interest isn't tax-deductible.

Grasping with Finances and Daily Living in Your 20s

Getting a paycheck and having a job requires more responsibility. Be sure to consider these important points when you're encountering finances in your 20s:

- ✔ **Know and manage your credit score.** Your *credit score* is a number which quantifies for lenders how likely you are

to repay debts. Periodically access your credit reports, which you can do for free, and understand the steps you can take, as needed, to boost your credit score. Also take steps to protect your identity.

✔ **Consider all options before deciding to rent or buy.**

Renting and sharing living space can be both economical and fun if you avoid the pitfalls. Buying and owning may make sense if you see yourself staying put for an extended period of time.

✔ **Communicate with your partner about money.** Money is often a source of friction in relationships. Thinking about money and planning how to manage it upfront with loved ones is usually time well spent.

Protecting Yourself and Your Income

Insurance plays a significant role in protecting your interests, including your health, your income, your property, and so on. Make sure you insure the following:

✔ **Your health:** Though you may feel that you're not likely to need it, having health insurance is wise. With a properly designed plan, you can contain the cost and get needed coverage.

✔ **Your income:** Even if you have no dependents, you depend on your income, so you should have long-term disability insurance. And if you have dependents, you may need life insurance, too.

✔ **Your possessions:** Insurance on your car, home, and other valuable possessions protects those assets from loss and protects you from lawsuits. Beware, though, of small-stuff policies that aren't worth buying.

Praise for Eric Tyson

“Eric Tyson is doing something important — namely, helping people at all income levels to take control of their financial futures. This book is a natural outgrowth of Tyson’s vision that he has nurtured for years. Like Henry Ford, he wants to make something that was previously accessible only to the wealthy accessible to middle-income Americans.”

— James C. Collins, coauthor of the national bestseller *Built to Last*; former Lecturer in Business, Stanford Graduate School of Business

“*Personal Finance For Dummies* is the perfect book for people who feel guilty about inadequately managing their money but are intimidated by all of the publications out there. It’s a painless way to learn how to take control.”

— National Public Radio’s *Sound Money*

“Eric Tyson . . . seems the perfect writer for a *For Dummies* book. He doesn’t tell you what to do or consider doing without explaining the why’s and how’s — and the booby traps to avoid — in plain English. . . . It will lead you through the thickets of your own finances as painlessly as I can imagine.”

— *Chicago Tribune*

“This book provides easy-to-understand personal financial information and advice for those without great wealth or knowledge in this area. Practitioners like Eric Tyson, who care about the well-being of middle-income people, are rare in today’s society.”

— Joel Hyatt, founder of Hyatt Legal Services, one of the nation’s largest general-practice personal legal service firms

More Bestselling For Dummies Titles by Eric Tyson

Investing For Dummies

A *Wall Street Journal* bestseller, this book walks you through how to build wealth in stocks, real estate, and small business as well as other investments.

Mutual Funds For Dummies

This best-selling guide is now updated to include current fund and portfolio recommendations. Using the practical tips and techniques, you'll design a mutual fund investment plan suited to your income, lifestyle, and risk preferences.

Taxes For Dummies

The complete, best-selling reference for completing your tax return and making tax-wise financial decisions year-round. Tyson coauthors this book with tax experts David Silverman and Margaret Munro.

Home Buying For Dummies

America's #1 real estate book includes coverage of online resources in addition to sound financial advice from Eric Tyson and frontline real estate insights from industry veteran Ray Brown. Also available from America's best-selling real estate team of Tyson and Brown — *House Selling For Dummies* and *Mortgages For Dummies*.

Real Estate Investing For Dummies

Real estate is a proven wealth-building investment, but many people don't know how to go about making and managing rental property investments. Real estate and property management expert Robert Griswold and Eric Tyson cover the gamut of property investment options, strategies, and techniques.

***Personal Finance
in Your 20s***
FOR
DUMMIES®

by Eric Tyson, MBA

*Author of Personal Finance For Dummies and
Personal Finance For Seniors For Dummies*



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Wiley Publishing, Inc.

Personal Finance in Your 20s For Dummies®

Published by
Wiley Publishing, Inc.
111 River St.
Hoboken, NJ 07030-5774
www.wiley.com

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Published by Wiley Publishing, Inc., Indianapolis, Indiana

Published simultaneously in Canada

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Library of Congress Control Number: 2010942179

ISBN: 978-0-470-76905-8

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1



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About the Author

Eric Tyson is an internationally acclaimed and bestselling personal finance author and speaker who operates one of the Web's most popular personal finance sites at [www.eric tyson.com](http://www.eric Tyson.com). He has worked with and taught people from all financial situations, so he knows the financial concerns and questions of real folks. Despite having an MBA from the Stanford Graduate School of Business and a BS in economics and biology from Yale University, Eric remains a master of "keeping it simple."

He figured out how to pursue his dream after working as a management consultant to Fortune 500 financial-service firms. Eric took his inside knowledge of the banking, investment, and insurance industries and committed himself to making personal financial management accessible to all.

He is the author of five national bestselling financial books in Wiley Publishing's *For Dummies* series, including books on personal finance, investing, mutual funds, home buying (coauthor), and real estate investing (coauthor). His *Personal Finance For Dummies* won the Benjamin Franklin Award for best business book of the year. An accomplished personal finance writer, his "Investors' Guide" syndicated column, distributed by King Features, is read by millions nationally, and he was an award-winning columnist for the *San Francisco Examiner*.

Eric's work has been featured and quoted in hundreds of local and national publications, including *Newsweek*, *The Wall Street Journal*, *Los Angeles Times*, *Chicago Tribune*, *Forbes*, *Kiplinger's Personal Finance*, *Parenting*, *Money*, *Family Money*, and *Bottom Line/Personal*; on NBC's *Today Show*, ABC, CNBC, PBS's *Nightly Business Report*, CNN, and FOX; and on CBS national radio, NPR's *Marketplace Money*, Bloomberg Business Radio, and the Business Radio Network.

Eric's Web site is www.ericTyson.com.

Dedication

This book is hereby and irrevocably dedicated to my family and friends, as well as to my counseling clients and customers, who ultimately have taught me everything that I know about how to explain financial terms and strategies so that all of us may benefit.

Author's Acknowledgments

I hold many people accountable for my perverse and maniacal interest in figuring out money matters and the financial-services industry, but most of the blame falls on my loving parents, Charles and Paulina, who taught me most of what I know that's been of use in the real world.

I'd also like to thank Rocky Shepard and all the good folks at King Features for believing in and supporting my writing and teaching.

Many thanks to all the people who provided insightful comments on this book, especially and including Ben Popken and Maria Bruno.

And thanks to all the wonderful people on the front line and behind the scenes at my publisher, Wiley Publishing, especially Erin Mooney, Mike Baker, and Chad Sievers.

Publisher's Acknowledgments

We're proud of this book; please send us your comments at <http://dummies.custhelp.com>. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

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Introduction

Your late teens and 20s are such an exciting time. During this period you're experiencing some dramatic changes in your life, exploring new endeavors, making your way in the world, trying new things, and meeting new people.

But as with anything else in life, your teens and 20s can be a scary time as well. Maybe you've experienced a failed relationship and a broken heart. Maybe you have to deal with a difficult boss or a job you don't like — or perhaps you're in danger of losing your job.

And then there are the money issues. Most of you are out of the nest and out from under your parents' wings, and your 20s are when you experience firsthand earning your own money and paying your own expenses. This isn't true for all twenty-somethings, of course, because some folks still live at home or have some financial dependence on their folks — maybe that's why *they* bought you this book! No matter your living situation, your 20s can be a challenging time, but this friendly guide can help make your 20s a bit smoother.

About This Book

Based on my experiences teaching classes, counseling clients, writing articles and books, and corresponding with friends, family, and people through my Web site, I've discovered how important having healthy and strong personal finances is. With that in mind, I designed and wrote this book to help you begin to lay a strong financial foundation. Your 20s are the best time to start.

I've worked with and taught people from all financial situations, so I know the financial concerns and questions of real folks just like you. Believe it or not, I first became interested in money matters when, as a middle school student, my father

was laid off and received some retirement money. I worked with my dad to make investing decisions with the money. A couple of years later, I won my high school's science fair with a project on what influences the stock market.

In my 20s, I worked hard to keep my living expenses low and save money so that I could leave my job and pursue my entrepreneurial ideas. I accomplished that goal in my late 20s. My goal in writing this book is to give you lots of tools and information to help you get your personal finances in order so you, too, can meet your goals and dreams.

I also wrote this book to protect you; to watch your back. Hucksters out to separate you from your hard-earned money know an easy mark when they see one and being young and, therefore, less experienced makes you a target. The information and advice in this book can help you identify and steer around common pitfalls and bad deals before you get hit.

Conventions Used in This Book

To help you navigate the waters of this book, I've set up a few conventions:

- ✔ I use *italics* for emphasis and to highlight new words or terms that I define.
- ✔ I use **boldface** text to indicate the action part of numbered steps and to highlight key words or phrases in bulleted lists.
- ✔ I put all Web sites in `monofont` for easy identification.

What You're Not to Read

I organized this book so you can find information easily and easily understand what you find. And although I'd like to believe that you want to pore over every last word between the two yellow-and-black covers, I actually make it easy for you to identify "skippable" material. *Sidebar*s — the shaded boxes that appear here and there — include helpful information and observations but aren't necessary reading.

Foolish Assumptions

No matter what your current situation is — whether you're entering the job market right after school, graduating college with or without student loans, living with your parents, or living on your own — I thought of you as I wrote this book. I made some assumptions about you:

- ✔ You want expert advice about important financial topics — such as getting a financial checkup, budgeting, paying off some debt, boosting your credit score, or investing — and you want answers quickly.
- ✔ Or perhaps you want a crash course in personal finance and are looking for a book you can read cover to cover to help solidify major financial concepts and get you thinking about your finances in a more comprehensive way.
- ✔ Or maybe you're just tired of feeling financially frazzled and want to get better organized and on top of your money matters.

This book is basic enough to help a novice get his or her arms around thorny financial issues. But readers who are a bit more advanced in financial matters will be challenged, as well, to think about their finances in a new way and identify areas for improvement.

How This Book Is Organized

This book is organized into six parts, with each covering a major area of your personal finances. The chapters within each part cover specific topics in detail. Here's a summary of what you can find in each part.

Part 1: Building Your Foundation

In this part, I start with the basics. First, I help you conduct a financial checkup. My checkups help you answer important questions. In this part, I also discuss getting the right bank account for your situation, budgeting, strategizing about how to spend less and save more, and paying down debts and loans. Get these things right, and you're well on your way to a healthy financial present and future!

Part II: Grown-up Stuff

After you're out and about in the real world, you have to deal with a host of new issues. You have your credit reports and credit score, which can impact your ability to borrow money and the interest rate you're charged. You should take steps to protect against identity theft, for which you're at a greater risk. You'll be making housing commitments, most likely through a rental and possibly with roommates. And you may be saving money to buy a place to call your own. If you fall in love and merge your finances with another, though you may have opportunities for personal growth, you could get burned, too. I address all these topics and more in this part.

Part III: Earning More (And Keeping More of What You Earn)

If you're like most young people, your biggest asset is likely your future income-earning potential. That's why the first chapter in this part deals with making the most of your career. As you earn money, whether from employment or investments, you'll get hit with taxes, so I also address how to intelligently and legally reduce your tax bill. Last but not least, I explain how to make wise investments and construct and manage a portfolio in the years ahead.

Part IV: Insurance: You're Not as Invincible or Independent as You Think!

When you're young, you generally enjoy good health and don't have many financial obligations and commitments, so you don't need as much insurance, either in type or amount, as a middle-aged person with a family does. That said, you probably need more insurance than you may realize. Everyone needs health insurance, and if you're working, you should have disability coverage as well if you depend on your own income. If you drive a car, you need proper auto insurance, and you should

have some coverage on where you live, too. This part details what insurance policies and features you need and how to get the best deal on each.

Part V: Your Information Diet

You're awash in information and advice. Most of it revolves around selling you something, especially through advertising, which increasingly is merged with content and advice. In this important part, I discuss various information sources and expose the truth and warts of each. Hiring some professional help may make sense for you, so I also explain what to look for (and look out for) in the folks you may employ.

Part VI: The Part of Tens

In this fun part, I present some lists of ten-somethings that can help you with your finances. Among the topics covered in this part are ten ways to save on car expenses and ten things more important than money.

Icons Used in This Book

The icons in this book help you find information you need:



This target flags strategy recommendations for making the most of your money.



This icon points out information that you definitely want to remember.



This icon marks things to avoid and points out common mistakes people make when managing their finances.



This icon alerts you to scams and scoundrels who prey on the unsuspecting.



This icon tells you when you should consider doing some additional research. Don't worry — I explain what to look for and what to look out for.

Where to Go from Here

This book is organized so you can go wherever you want to find complete information. Want advice on maximizing your credit score, for example? Go to Part II for that. You can use the table of contents to find broad categories of information or the index to look up more specific topics.

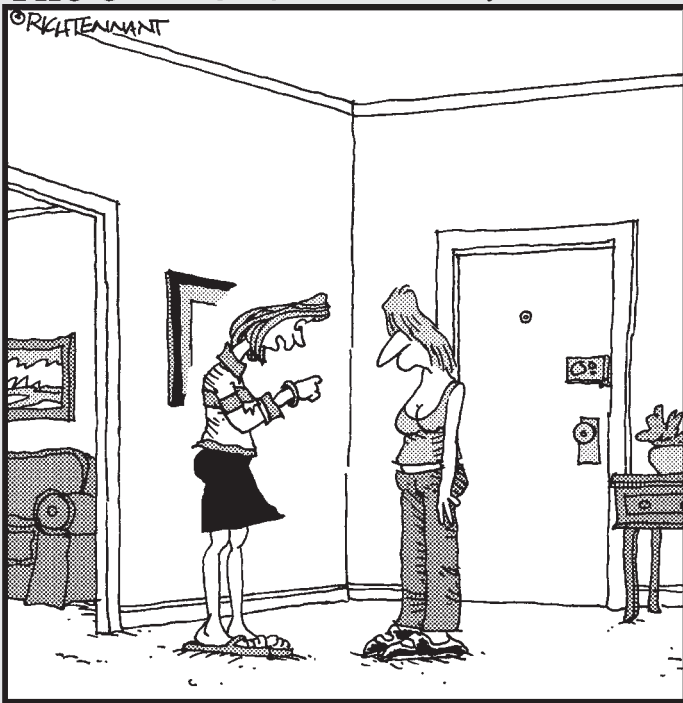
If you're not sure where to go, you may want to start with Part I. It gives you all the basic info you need to assess your financial situation and points to places where you can find more detailed information for improving it.

Part I

Building Your Foundation

The 5th Wave

By Rich Tennant



“It’s a financial alert bracelet. In the event I overdraft, it gives first responders a history of my spending habits and financial goals.”