Top Financial Mistakes to Avoid In Your Twenties

Managing your money is challenging for everyone, no matter your age, stage of life, education level, career, etc. The increasing costs of living, rising levels of personal debt, and the ability to shop whenever and wherever we want on our computers or phones make it even more challenging.

It's so easy to make financial mistakes when we already have so many other responsibilities and priorities. Life is so busy, after all, and even with the best intentions, we don't have much spare time to look after our money after working and spending time with our family and friends.

The good news is that you can always learn and recover from your mistakes! Mistakes happen all the time, after all, but there are some that can have bigger impacts than others.

The top five financial mistakes that are relevant to everyone at every stage of life are the following:

- Not having a budget or, just as bad, consistently overspending
- Living on credit or getting into too much debt
- Not having an emergency fund
- Not doing financial planning
- Making financial decisions out of fear or pressure

If you are recently graduated or just starting out in your career, budgeting, planning and saving for the future may be new concepts for you and hard to envision. Your financial life can be quite complex and challenging, and you are bound to make some mistakes. Of course, trial and error are part of learning. When money is involved, you want to make as few mistakes as possible. Indeed, being money-wise in these earlier years can really pay off in later years.

As with everything in life, the more you know, the better off you are. So, I urge everyone to educate themselves as much as they can. It may seem overwhelming in the beginning but, the more you practice, the easier it will become.

The first financial mistake that many young people make is to rely too much on their parents. Money can add tension to any relationship, even one between a parent and their child. It’s important as you get started on your path to financial independence that you don’t fall into the bad habit of relying too heavily on your parents. If you’re in financial trouble, it’s important to know that you can turn to your parents if you need to because we all need a support system. Consistently relying on your parents to help you financially, however, is both risky and irresponsible.

Your primary focus at this point in your life needs to be on creating an independent, stable financial situation, and you can’t do that if you constantly turn to your parents for financial support. Regardless of whether you live at home or have started living independently, you should focus on creating a budget, clearly defining your short and long-term financial goals, paying your own bills, and starting to save for both emergencies and retirement.

Another common financial mistake that young people make is to ignore their student loans. With an increasing number of women seeking higher education, more women in their twenties have what can sometimes seem like a crippling amount of student debt. It’s important to remind yourself that this debt is an investment in your future and that you will, eventually, pay it down.

What you cannot do, at all costs, is to simply ignore your student loans and not pay them back. In doing so, you risk damaging your credit score, and the lower your credit score, the more it can impact you, like if you want to rent, buy a house, take a loan or buy a car, for example. When you have a lower credit score, the interest rates charged to you will be higher.

The best way to start is to stay organized; know how much you owe on each loan, if you have multiple; know exactly what is due each month, and how to submit payment. Ideally, before you leave school, have an action plan in place as to how you will repay your student loans. Your budget will likely be very tight, but at the very least, you should pay the minimum amount and make additional payments if your budget allows.

The next most common financial mistake I’d like to highlight is not maximizing your retirement contributions. When you are young and just starting out in life, retirement is a long way away. You may be inclined to defer saving for retirement because it just doesn’t seem like a priority.

But, when it comes to retirement, time is your best asset. The more time you have, the better you can grow your money and the more goals you can fulfil because you always have the benefit of the power of compounding, essentially the act of adding interest on interest, which helps grow your wealth over time.

Most experts recommend that you set aside at least 15% of your annual earnings for retirement. If your budget doesn't permit, you may start by putting aside 5% of your income for retirement and gradually raise this amount until you reach your desired amount.

The reality is that you cannot achieve any of your financial goals, be they something as simple as buying new work clothes or something larger like a car, if you don't save. Saving early matters but, unfortunately, many young people defer saving because the future seems so far off. Just like with your retirement savings, the sooner you start, the more you benefit from the power of compounding.

One really important component of saving is to build an emergency fund. Ideally, you should have an emergency fund of 3-6 months' expenses. It doesn't need to be as large when you are first starting out, but everyone needs to have an emergency fund if something unplanned happens, like losing your job or having to replace a lost or damaged phone, for example.

The last common financial mistake I'd like to discuss is that many young women delay getting insurance, generally because they are healthy and don't believe they need it. For most young women, getting insurance is not top of mind. The reality is that young people are not invincible, and the last thing you need in life right now is unplanned medical debt, for example. There are many different types of insurance that protect you from the worst-case scenario, from life to car, house, dental, vision, disability, pet insurance, and so much more. Remember that insurance needs to be purchased BEFORE you need it! You are better off to be safe than sorry.

Theoretically, your best premiums and lowest monthly payments are when you are healthiest. As with anything you purchase, do your research to find the best policy with the lowest premium. You can build monthly insurance payments into your budget so that you are prepared for the unexpected.

To summarize, there are numerous financial traps that we will all face over our lifetimes. One might argue that you're much more susceptible to these traps when you are younger. Your twenties are an exciting time of your life and, when money is involved, you want to make as few mistakes as possible, so being money-wise now will pay off in the future. Indeed, the more you know, the prepared you will be, so educate yourself as much as you can now.

And thank you to all our listeners! Keep joining us, and we will continue to bring more informative episodes.

An Investor Education and Awareness Initiative of Aditya Birla Sun Life Mutual Fund.