Furnishing Your Own Financial Apartment

After graduation, you can start building your financial future—one step at a time.

So, you've graduated and landed a job. Now what?

Whether you're relocating across the country or across town, making your first home your own is also a good time to start incorporating healthy financial habits into your lifestyle. If your financial house (a system in which your personal finances support you and your short- and long-term goals) has a strong foundation, the better off you will be now—and down the road.

In fact, let's think of this system as a financial apartment, for now. How did you furnish your first apartment? It may not have been glamorous, but you found a way, and it got (or is getting) you through your first time living away from home. Building your financial apartment is a lot like this. Here are five ways you can start:

1 Make a Budget to Stay on Track

Let's face it: you may not have much floor space to work with in your first apartment. Much like the square footage, you may not have an overwhelming amount of money to work with as you start your career. So, in a sense, every penny (and every square inch) really does count. By figuring out where each cent is actually going, you can establish greater control over your finances.

You may have heard the word "budget" so many times that it's lost all meaning. But having a plan to stick to will really help you control where your money goes. It's like the floor plan of your new apartment that you study while wandering through Ikea. Without it, you can accidentally buy all kinds of things that you don't really have the room (or money) for.

You should include three categories in your budget:

1) **Savings (10-20%)**
Putting away at least 10% of your salary is essential.
2) **Necessary Expenses (60-70%)**
Bills, food, transportation, monthly debt payments ... you know the drill.
3) **Nonessential Expenses (20-30%)**
Let's call this one the "live a little" category.

If you're having trouble staying in the lines on the third one, try to incorporate value spending into your budget. Here's how it works: imagine you're on a cruise around the world without access to anything in your normal life. What are the three things you miss

Key Points

- Budgeting can help you control where your money actually goes.
- Saving at least 10% of your income now can benefit you down the road.
- Try to pay off debts while creating as little new debt as possible.

the most? Concerts? Travelling? Grubhub? If it's not on the list, consider cutting it out of your monthly expenses. You'd be surprised to find out what happens when we only spend on what really matters to us.

2 Pay Yourself First

When you're moving into a new apartment, the first thing you may notice is the floor. Luckily, rugs are the key to covering messy carpet or scuffed-up hardwoods. Think of your savings as the rug in your financial apartment: it's essential, and one of the first things you should tackle.

As mentioned earlier, you should prioritize saving at least 10% of your salary. It can seem unreasonable at first glance. But time is on your side: The longer you're invested, the more time your money has to grow.

For instance, consider this situation:

You have a $30,000 yearly salary, so you save $3,000. You invest it in equities, and after one year, it's worth $3,240 before taxes and inflation (assuming an 8% rate of return).[1]

After five years, that $3,000 could be worth $4,408. And when you retire after 40 years, that small amount you put away could be worth $65,174.

You can set up direct deposit to automatically invest 10% out of your paycheck. It's easier this way—after all, you can't spend what you don't have.

Many companies offer a 401(k) or 403(b) plan to help simplify retirement savings. They often match 3-6% of the money you put in. You could call it free money, but regardless of what you call it, taking advantage of the match increases the amount you're able to save.

On the subject of taking advantage of financial perks at work, make sure you understand everything your company offers: 401(k) plans, health insurance, wellness programs, student-loan forgiveness or reimbursement, or special employee discounts. Don't be afraid to ask questions—these are important and can make a difference in your budget.

Finally, you should consider starting your emergency fund. Ideally, this fund should cover three to six months of basic living expenses (rent, bills, food) should you run into unforeseen financial trouble—but you have start somewhere, so putting away even a small amount each month will build over time.

3 Minimize Debt

So your floors are covered, and you've started moving some furniture into place. The next thing to consider is probably the walls, right? Unless every tenant before you was extraordinarily cautious, you may find some holes or dents. Your goal now is to not create more holes. Think of holes in the wall as debt: you are trying to get rid of it without making the problem worse.

Currently, 44.7 million Americans have student-loan debt totaling almost $1.6 trillion.[2] So if you graduated with debt, you're not alone. You should consider incorporating these repayments into the "necessary expenses" part of your budget. Note the minimum monthly payment you need as well as the interest payment.

If you have room in your budget to start paying a little extra each month, without sacrificing what you're able to put toward your emergency fund and retirement, it will help shrink that balance quicker. You will thank yourself later for getting it off your plate—and you'll have less added interest to pay.

Just like holes in the wall, try to avoid adding new debt. For instance, you may be considering buying a car. Consider a used car that you can offer more cash upfront for. The more you can offer now, the more you will save on interest while paying off the loan later.

It's generally a good idea to avoid any "buy now, pay later" offers that simply delay the debt. By incorporating large purchases into a budget to avoid debt now, you can keep your financial apartment's walls damage-free, and have less to worry about in the future.

4 Avoid Common Credit Mistakes

Now your walls look great, and you're ready to start decorating them. Maybe you have a theme in mind (sports, vintage, black and white, etc.). Themes are good—they can make the space feel like your own. But when you have too many conflicting themes in a small space, it can easily feel overwhelming.

Think of your credit as the themes in your apartment. It's a good thing, but you want to be selective about how much and which kinds of credit you have. If you haven't already, now is a great time to open your first credit card.

The key to using your credit card responsibly, however, is to not let it get out of control by falling behind on payments. It's a good idea to incorporate paying your credit card bill into your monthly budgeting routine to make sure it's on time. You should also try to maintain a low balance (remember, value spending), as credit card debt can accumulate easily.

Using credit wisely can help you maintain a good credit score, which has many benefits: you may qualify for lower interest rates, have a higher chance of getting approved for rental houses and apartments, and receive better car insurance rates, to name a few. The easiest way to ensure you have a high credit score is to make your payments on time. You can check your score for free through Credit Karma and Credit Sesame.

Fifty-one percent of recent college grads missed at least one credit-card payment by more than 30 days within two years of finishing school.[3] What they may have not known, however, is that one of these missed payments can lower your FICO score by 100 points and can stay on your credit report for up to seven years.[4]

In other words, credit slip-ups can stay with you and be difficult to correct, so it's much easier to stay on the right track now rather than repair issues later. Use your card responsibly and, just like your apartment's charming and coherent theme, it will benefit you.

5 Educate Yourself on Your Finances

Even when your apartment is furnished, decorated, and you're all moved in, you will quickly find out that the work is never done. Organization projects, maintenance issues, and decoration upgrades will likely keep you busy until you move out.

Likewise, you always have more to learn about your finances. Countless resources including books, podcasts, and YouTube videos exist to make your life a little easier in your first few years financially on your own.

Check out the following resources for some extra tips to keep improving your financial wellness:

Books	• "The Automatic Millionaire, Expanded and Updated: A Powerful One-Step Plan to Live and Finish Rich" by David Bach • "Hustle Away Debt: Eliminate Your Debt by Making More Money" by David Carlson • "The Broke and Beautiful Life: Small Town Budget, Big City Dreams" by Stefanie O'Connell
Podcasts	• "Worklife" with Adam Grant • "Financial Side of Life: College, Retirement and Life" (with Angie Furubote-LaRosee) • "Money For the Rest Of Us with David Stein"
YouTube Accounts	• Do It Yourself Financial Education • The Wild Wong • Patricia Keele

It's Only Temporary

Much like your first apartment, your initial income and budget are a starting point. As your career progresses, it will get easier to keep up with your monthly payments, and one day, you'll appreciate the perseverance and dedication you put into securing your financial foundation from the beginning.

Talk to a financial professional to start your financial future on the right path.

[1] Data Source: Bankrate, Investment Calculator

[2] Forbes, "Student Loan Debt Statistics in 2020: A Record $1.6 Trillion," 2/3/20

[3] Opportunity Financial, "Seven in Ten College Students Damage Credit Soon After Graduation," updated 7/28/20

[4] Nerd Wallet, "Can't Pay on Time? Here's How to Minimize the Credit Hit," 5/6/19