How Life Stages Affect Investing

Young people need to start thinking about investment options as soon as they graduate from high school or college and enter the working world. After all, one never knows when an emergency is going to happen, and you need to have some liquid assets at your disposal. Sadly, the first thing that comes to the mind of most people is a traditional savings account, and though this may work in the beginning, it should not be used for very long as the interest rates on savings accounts now average at most banks less than 3% per year. This may sound like a good deal when you first start working and don't have more than a few hundred dollars a month to save, but you need to look to the future and the changes that may take place in your life.

As a new college graduate, probably the first life change that is going to come your way is buying your own car, or if you've been one of the lucky ones to already have one, a newer car. This, of course, takes money unless you walk into a great deal where you need no down payment, just your old car to trade. You will probably also want your own place, and if you're fortunate enough to have parents who are not adverse to still having you live at home, think about staying there until you can buy your own home, even if it's only a townhouse or mobile home to start. These, also, cost money, so you need to think bigger than that 3% a year savings account. The best way to work your way up from that savings account is to use it until you have enough money in it to convert it to either a CD or a money market account. Keep in mind that the CD requires a wait until it matures, usually a minimum of 3-5 years for the best rates, so unless you are willing to wait that long, you may want to consider a money market account instead. Many banks and credit unions offer these with as little as a $1,000 investment, and you can add to it without opening a new account. Additionally, you are allowed to make up to three withdrawals a month without facing a penalty.

As a new working adult, you also need to plan for retirement, and the best way to do that is through a company sponsored 401K Plan or if that isn't available, an IRA. Naturally, a 401K Plan is going to be the better investment because your company is going to match your contributions in some way - it's generally either 25%, 50%, or 100% matching up to 6% of your pay. These plans also allow you to save on a before tax basis, which means you pay less taxes on your earnings. With an IRA, though there are no employer matching contributions, you are allowed to claim up to $4,000 currently as an IRA contribution if you're under the age of 50, and $4,500 for those over the age of 50. Remember, both of these are long-term investments, intended for your retirement as a supplement to Social Security and either a supplement or replacement for your pension. The good thing about a 401K Plan instead of a pension plan is that it can be taken with you when you leave the company and rolled over into another company's 401K Plan or into an IRA. With a traditional pension plan, if you leave the company before you are vested, you lose your pension totally.

Once you marry, these investments become more important, and you will see the true benefit of everything that you have chosen. Remember, start with the savings account, upgrade to the CD or money market, and always contribute to a 401K or IRA Plan. If you start when you are young, when you retire, you will be able to enjoy the things that you have worked so hard to achieve, including sending your children to college, and maybe even helping the grandchildren through some rough spots that their parents can't. Don't look at savings as cutting into your spending money, look at it as an investment in your future and that of the family you will eventually have

About the Author

Richard Callaby is a Independent Computer Consultant, Writer, Author, Speaker and Instructor. More articles from this author and many other authors on personal finance can be reached at http://www.econtentking.com/Category/Finance/6.