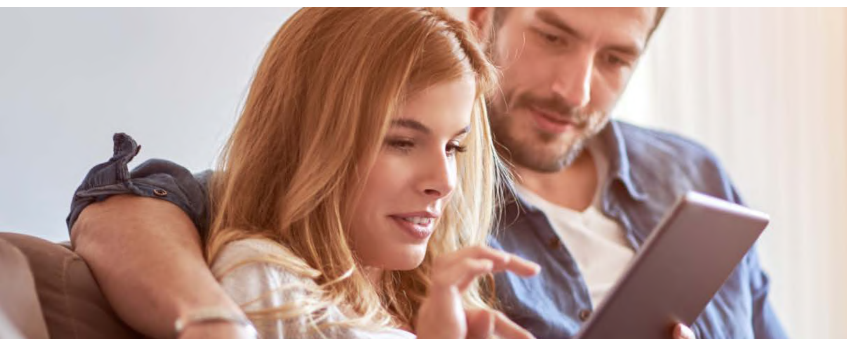
Northwestern Mutual

Finances in Your 30s: A Start-to-Finish Guide

From saving for your first home to investing in your future.



When you were in your 20s, it was probably all you could do to keep to a budget and live on a starter salary. But now that you're in your 30s, you're probably starting to get a leg up on all the goals you've set for yourself and what that means for your finances.
That might mean growing in your career, moving in with someone, starting a family or gearing up to buy a home.

But no matter how much your income has grown, there are still five basic things you can do with your money: save, spend, grow, protect and give it away. As you navigate to new life stages, your priorities are going to shift, so now's a good time to check in on where you are with your finances in these five categories — and move toward your goals with confidence.

5 WAYS TO MAKE THE MOST OF YOUR MONEY

SAVE YOUR MONEY

Create an Emergency Fund. First, have an emergency fund for unexpected expenses like car repairs, surprise vet bills and other costs you can't predict. A good rule of thumb is to have, at the very least, one month of your take-home pay (or that of the highest earner in your household, if you're part of a couple) stashed away.

If you already checked that box in your 20s, then it's time to get ambitious: Start working your way up to having six months saved. Make sure that money is in an account that's easily accessible and where your cash won't go down in value — a high-yield savings account does the trick. Remember, you should leave that cash untouched unless an emergency strikes.

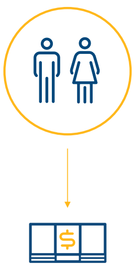
COULD YOU COVER A $400 EMERGENCY EXPENSE?

of Americans would have to **borrow money**, **sell something** or use their **credit cards** to **cover a $400 unexpected expense.**

LIST OTHER SAVINGS GOALS YOU HAVE.

At this stage in life, you're starting to have more competing goals to save for. Maybe you're trying to pay for a wedding, a new car or your first home. Give yourself a timeline for reaching these goals and calculate how much you'd have to set aside to reach them; you may have to make some adjustments depending on how realistic that number feels.

Speaking of buying a home, odds are good this is the decade you'll be taking the plunge into homeownership: Zillow research finds that the median home buyer is 36 years old. Because this is likely to be one of the biggest purchases you ever make, here are five things to keep in mind.



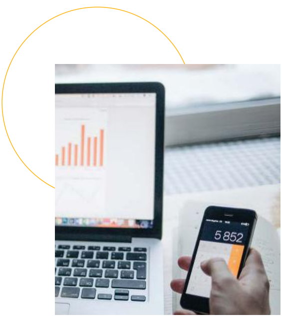
5 THINGS TO KNOW WHEN BUYING A HOME

- Aim to spend no more than 30 percent of your take-home pay on your mortgage and related expenses, like taxes and insurance.
- When trying to determine how much house you can afford, remember the other hidden costs of homeownership. This includes not only taxes and insurance, but also things like homeowners association dues, repairs and regular maintenance.
- Put down at least 20 percent on your home so you can avoid having to pay private mortgage insurance.
- Make sure your disability income and life insurance policies are in place in case something happens and you're unable to pay the bills.
- Most lenders require a credit score of at least 620. Your credit score not only determines whether you qualify for a mortgage, it can also help determine the interest rate you'll pay. The higher your credit score, the lower the rate you're likely to pay.

START TO INVEST

This decade of life is a great time to dip your toes into investing, especially if you need a little help trying to reach one of those aforementioned goals, whether that's the home you want to buy in five years or a retirement you want to fund in 30 years. (Retirement is a big one — more on that to come.)

You don't need a lot of money to start investing. If you're not contributing yet to your company's 401(k) plan, you could start putting away as little as 1 percent of your paycheck toward retirement. Or you could put aside $25 to $100 a month into a brokerage account that has no or low account minimums, and invest in the markets via stocks, bonds, mutual funds and other types of investments. It's important to note that investing carries some level of risk, including the potential to lose the principal amount you started with, so make sure you get educated about the investing basics before you get started.



SPEND YOUR MONEY

BUILD → AND STICK TO → A BUDGET.

In your 20s, your budget may have been allocated toward all of the necessary stuff and none of the fun stuff (or vice versa!). But truth is, you can have both if you create a budget, especially now that your income is growing. If you've never had one, here's an easy way to categorize your expenses.

Fixed costs are the bills and expenses you have that don't tend to vary much from month to month. They can include your mortgage or rent, car payment, cell phone bill, utilities, day care costs, or monthly insurance premiums. It can also include any minimum payments due on debt.

Financial goals include what you're saving for (your kids' college, your dream vacation, etc.) as well as any money you're putting toward paying down debt faster (extra you put toward student loans and credit card bills, for example).

Non-monthly costs include those expenses that aren't monthly, but that you'll have to pay at some point throughout the year, like school tuition, holiday travel, annual insurance premiums or quarterly taxes. Although these costs don't occur regularly, you should be regularly saving an amount each month to cover them when they do arrive.

Flexible spending is what you spend each month on costs that tend to fluctuate. These can include discretionary expenses like entertainment and clothes, as well as regular costs that aren't always consistent, such as what you spend on food or gas.

If you're looking for an easy-to-follow spending number

And remember that your budget isn't static; it'll have to to stick to in order to ensure you're not going over budget, use your flex spending number as your guide. Take your total monthly take-home pay and subtract your fixed costs, financial goal contributions and your non-monthly savings amount. What's left is how much you have available each month for flex spending. If you find you're consistently going over this number, then you may need to adjust one or more budget categories to ensure you're living within your means.

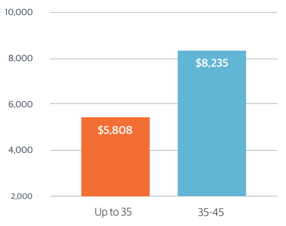
shift as new milestones arrive — in particular, having kids. The USDA estimates that raising a child under 2 years old costs middle-income parents about $12,680 a year — expenses that may require you to adjust your budget pretty dramatically.

PRIORITIZE YOUR DEBT.

If you accumulated debt in your 20s, now's a good time to tackle it, especially if you carry high-interest credit card debt. This can be tackled strategically. You have to pay the minimum required for each card, of course. But if you have the cash to spare, pay extra toward the credit card with the highest interest rate. When that one is paid off, you can then apply the extra money toward the next highest interest rate card, and so on. Set a goal to pay off all your credit card debt within five years.

You may also still be carrying student loans. If you want to pay that debt down faster, consider putting more toward your monthly payment (just make sure to let your loan provider know any extra payments should be applied to your principal, not to advance your next payment). If you want to lower your monthly payments or interest rate, it may be worth looking into alternative repayment plans or refinancing. Just be aware that if you refinance federal loans, you're privatizing them, which means you may lose some of their special features.

THE AVERAGE
CREDIT CARD DEBT IN THE U.S.



Average debt in America. ValuePenguin 2016

GROW YOUR MONEY

One of the ways to help your money grow, particularly if you have a long-term goal you're trying to reach, is to make sure you start investing as soon as possible so you can take advantage of compound growth. This is especially true for a goal like retirement that is many decades away.

As your salary grows, it's also a good idea to increase your retirement contributions. For example, if you make $75,000 a year, have 30 years until retirement and save 5 percent of your salary for retirement, you'll have a respectable $439,700 at retirement (assuming you see a hypothetical 6% annual rate of return, your investment is compounded monthly and you see a 3 percent increase in salary each year). But if you raise your contribution by 1 percent each year until you reach 15 percent, you'd have about $1.1 million.

Here's another tip: If your employer offers a retirement plan with a company match, contribute at least enough to earn that match — it's literally free money that you should take advantage of. Although retirement is still a long way off, being serious about it now will give you more flexibility to live the life you want when the time comes.

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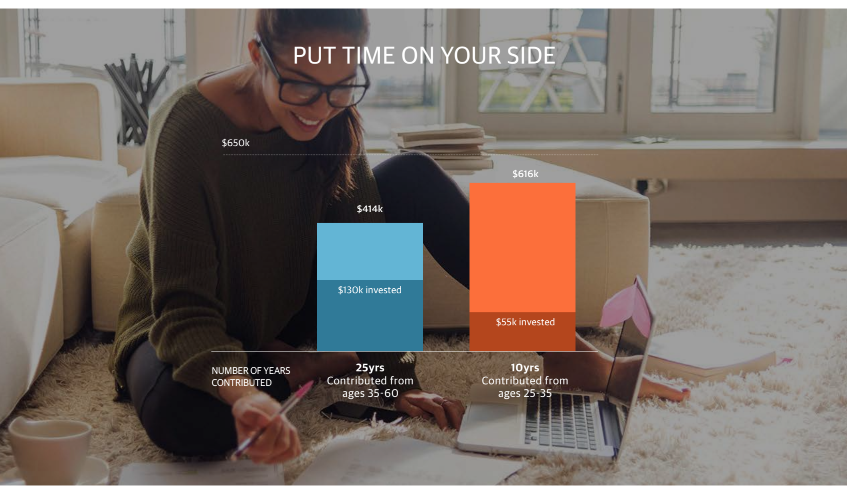

PROTECT YOUR MONEY

Disability Insurance: Most of us know someone who's had to take time off work due to injury and illness. When you're unable to work, it puts your lifestyle in jeopardy. Your ability to earn a paycheck is your biggest asset, so it's important to protect it.

Begin by checking in with your employer to see what type of disability insurance is offered, and what percentage of your salary it covers. If the coverage falls too short of what you'd need to cover your lifestyle and expenses, then consider buying private disability income insurance. This way, you won't need to dip into your savings or investments if you're unable to work for a period of time.

Life Insurance: Term life insurance and permanent life insurance each offer different features for protecting your family should something happen to you. Term offers protection over a specific period of time, is affordable, satisfies a temporary need and provides a tax-free death benefit. Permanent life insurance offers long-term protection and a tax-free death benefit, and it also accumulates cash value that you can tap into if you need to. It's common for people in their 30s to have a combination of both types.

1 OUT OF 4
employees will be disabled for three months or more at some point during their career.[1]

Estate Plan: If you have any assets that would need to be managed in the event of your death, then you need an estate plan. Even if you don't have a spouse or children, having a basic estate plan in place will help ensure your wishes are on record if you're unable to make health or financial decisions for yourself. (Also, now is a good time to talk with your parents about their plans, if you haven't already.)

IF NOTHING ELSE, MAKE SURE YOU HAVE THESE THREE DOCUMENTS IN PLACE:

A **health care directive** that gives instructions to your doctors about how much medical intervention you'd want in case you can't communicate it.

A **durable power of attorney for health care** that identifies who will make health care decisions on your behalf if you cannot.

A **durable power of attorney for finances,** which identifies who will manage your personal financial affairs if you become unable to do it yourself.

Beyond that, it may be a good idea to set up a will or a trust, especially if you have minor children who would need to be cared for. It's also important to have beneficiary designations up to date on your financial accounts so your money gets transferred to whom you intend.

As unromantic as it may seem, making plans to protect your money also provides a good opportunity to talk money with your spouse or significant other. What kind of debt are you each carrying? How do you like to spend your money? What are your big goals together? How should you commingle your money? These are all questions that will help you decide how to best come up with a roadmap to manage your money together.

On the flip side, if you and your partner decide to part ways, be sure to get help from a financial professional before beginning to detangle your finances. It's a common mistake to underestimate the value of assets like 401(k)s, a home or stock options.

GIVE YOUR MONEY

One of the most rewarding things you can do is support causes or issues you care deeply about. Consider budgeting for giving; if it's part of your financial plan, you can remain charitable while still meeting your other financial priorities. For tax purposes, it's also important to document all your donations with a receipt from the charity that includes the name, date and donation amount. It's critical recordkeeping for your taxes, and can help you give more strategically.

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1. U.S. Social Security Administration Fact Sheet, February 2013

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