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Practical Steps to Protect Your Financial Stability as a Young Adult

Moving out of the family home and facing life head-on is an inevitable part of growing up. While exciting, this period of your life can be particularly stressful on your wallet. Young people who enjoy financial stability engage in a variety of smart habits, from tracking their spending to paying off debt. Here are some smart steps that you can take to protect your financial health for today and the future.

Safeguard Your Loved Ones

Making smart financial decisions is good for you, but it's also good for your family members. Many young adults think they don't need life insurance. While you may not yet have a spouse or children, there are several good reasons to buy a policy now. First of all, funerals can cost up to $10,000, and a life insurance policy will prevent your family from footing the bill if you happen to die unexpectedly. If you're one of the 43 million Americans with student loan debt, life insurance will keep your loan balance from landing on your parents if you pass away.

If you have a spouse, children, or a mortgage, life insurance is a no-brainer. Plus, your life insurance premiums will be cheaper if you lock in a policy while you're young and healthy! Depending on your current responsibilities, an affordable 20-year life insurance policy may be beneficial. This type of policy is recommended to people with young children or debts and mortgages that will be paid off within 20 years. It's also a great option for people on a tight budget.

Automate Your Savings

Although retirement may be decades away, start saving now. Making regular, relatively small investments over many years will help you wind up with a substantial balance by the time you retire. Now is also the time to start saving for any other big goals you have, like buying a home or putting your children through college.

Since it can be difficult to save money when you're new to living on your own, automate your savings so you don't have to think about it. This method is especially effective if you're saving for a down payment on a home. Discover recommends paying yourself first by having a portion of your paycheck direct deposited into a savings account. Also, be sure to contribute to your workplace retirement plan, especially if your employer offers to match your contributions.

Pay Down Debt

Saving money is important, but so is paying off your debt. According to Nitro College, credit card debt is one of the worst forms of debt for your credit score. If possible, consider consolidating your debt into a personal loan with a lower interest rate. You may also be able to transfer your balance to a new credit card with a lengthy interest-free introductory period—just make sure you can pay off the balance before the term runs out!

Curb Your Spending

Reducing your spending may be vital to meeting your financial goals. Track your purchases, keep a budget, and find ways to reduce impulse spending. For example, you may establish a rule to wait 24 hours before making a purchase, or make a shopping list and stick to it before heading to the store. If promotional emails are your weakness, unsubscribe from retail email lists that frequently send you discounts and sales. If you have trouble controlling yourself with a credit card, consider limiting going cash only. Overall, try to be conscious about where and how you spend your money. Think about how even small purchases—like a breakfast bagel—can add up over the course of a year.

Buy a Home You Can Afford

If you've paid off any debts and added to your savings, you may be able to purchase a new home. If you do your research and buy a home you can afford, owning a home can be a good investment for you and your family. When shopping for mortgages, consider an FHA loan. With an FHA home loan, you may be able to put as little as 3.5 percent down, but you will need a debt-to-income ratio not more than 55 percent.

The choices that you make now have the potential to impact you for the rest of your life. As a young adult, time is on your side. You're in the ideal position to start adopting healthy financial habits that will set you up for greater stability in your future.