Get Rich Slowly Blog

10 money mistakes to avoid in your 20s

by Linda Vergon

Published on March 2nd, 2015

(This article was based on Suba Iyer's article that originally appeared on FiveCentNickel.com.)

Your 20s are filled with milestones and life-changing experiences. It's a time when the things you learn start to become habits and when financial decisions can either lead you to great success or become a problem for you in the future.

It would be great to have perfect foresight so that you knew the best decision to make in every situation – but in the absence of perfect knowledge, even knowing ***what not to do*** in your 20s could help you recognize a bad decision in the making or prevent a bad habit from forming.

If you are in your 20s (or even your 30s), perhaps you can profit from some advice many people in their 40s and 50s wish they'd had as they started out.

Money mistakes to avoid in your 20s

1. **Not contributing to your retirement**: One of the most damaging mistakes you can make is not to contribute to your retirement as early as possible. It is easy to think that retirement is too far away and that you should be saving for more immediate goals like getting a car. But you can sock some savings away in a Roth IRA even if you earn minimum wage while in graduate school. At the very least, start saving for retirement when you land your first job.
   The end result: If you don't have the discipline to save for retirement in your 20s, you may end up spending your entire salary and not saving for a car or anything else either. This is a difficult mistake to recover from that could cost you as much as $100,000 or more in the long run.
2. **Buying more car than you can afford**: New car manufacturers would like you to believe you won't be complete without their latest model, but that new-car smell can easily run you $20- to $50,000 in some cases. In reality, you may not need a car in some locations; but even if you can't use public transportation, it isn't necessary to buy more car than you can afford in any event.
   The end result: New cars depreciate in value quite rapidly the first year and yet you will pay thousands more than the sticker price when you include higher insurance premiums and the interest to be paid on a five-year loan for a new car. In most cases, it is best to buy the right car for your wallet and to drive it into the ground.

3. **Not starting an emergency fund**: Frequently, people find excuses why they don't put an emergency fund together, such as, this money could be used to pay bills or to start contributing to their retirement. But it should be the first thing you do after meeting your basic needs. It is a good idea to keep at least $1,000 in a savings account at all times for life's little emergencies.
   The end result: If you don't start an emergency fund, you are more likely to accumulate debt.
4. **Living on credit cards**: Be grateful if you have not gotten deep into debt in your 20s, and avoid it like the plague. Living high on your credit cards is a dangerous game to play with your finances. At some point you have to pay for your purchases, and that usually means emptying any savings you have accumulated. If you have already depleted your savings (or never established any), you may start the cycle of missing payments and opening new credit card accounts.
   The end result: Living on your credit cards will teach you to live paycheck to paycheck, which is a very difficult habit to break once established. Left unchecked, this practice will ultimately destroy your credit score as well.
5. **Failing to set financial goals**: If you never stop to think about what you would like to accomplish in five or 10 years, it is likely that you won't accomplish anything by the end of that period. On the other hand, the very act of identifying and setting financial goals for yourself in your 20s clarifies your choices and helps you naturally focus on ways to reach your goals.
   The end result: Failing to set financial goals in your 20s can create tension later on as you realize that you have to work harder to make any sort of progress toward what you want in life.
6. **Keeping up with the Joneses (especially if they are your parents)**: The pressure to fit in can be the subconscious motivation behind a lot of poor financial decisions, but the tragedy of this unproductive mindset is that you can always find someone who has more than you do. Sometimes that pressure can mount even by comparing your lifestyle to your parents' lifestyle and thinking that you can have everything they do all at once.
   The end result: If you don't realize the logic that your parents (and others) have had many years to accumulate their wealth, you could set unrealistic goals for yourself, which could lead to making risky financial decisions.
7. **Not starting the habit of paying yourself first**: Even if you are well paid in your career, it is a mistake not to pay yourself first. Saving a certain amount of money before you pay any bills encourages better financial habits like budgeting. By paying yourself first, you effectively prioritize saving money and that is how you begin to build wealth.
   The end result: People that don't learn to save first usually spend all their money paying bills and having fun. In the end, they find there is nothing left to save.
8. **Taking on student loans without learning about career prospects**: Following your passion doesn't always pay, so treat your college education as an investment that can help you build the life you want. If you don't investigate whether your potential career is slated for fast growth and expected to have strong salary in the future, you may have a more difficult time paying back student loan debt.
   The end result: Student loans are a very tenacious form of debt. Even if you don't finish your degree, in most cases you must still repay your student loans – and it could take years if you can't find a good-paying job.

9. **Going into debt for a wedding**: You want your wedding memories to last a lifetime, but you don't want debt from your wedding to last that long – or at all! Weddings can become expensive events, especially if you make no attempt to manage costs. But you don't have to incur debt in order to have a memorable wedding – you can save up for it instead. Besides, an expensive wedding doesn't equate to a successful marriage.
   The end result: Starting married life while managing to pay off debt is a sure way to add stress to your relationship, the kind of stress that many cite as the reason they got divorced.
10. **Trusting others to take care of your finances**: If you weren't taught a lot about managing your money, now is the time to learn because, as J.D. Roth is fond of saying, "No one cares more about your money than you do." Recognize that the advice others give you (or the products and services they sell) are almost always designed to promote their best interests, not necessarily yours. It is up to you to dig deeper and do your own research to protect yourself.
    The end result: Blindly trusting others to take care of your finances is a sure way to fall victim to a scam or to lose money on an investment because an advisor seems more knowledgeable than you.

The best thing about being in your 20s is that time is on your side. You can recover from money mistakes more easily and enjoy a bright future; but making good financial decisions starts with learning about money and being willing to take responsibility for your own financial success.