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NEWS RELEASE

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April 5, 2023

Financial Literacy Tip of the Week Preparing for the Transition to Financial Independence

Boise, Idaho...The Idaho Department of Finance encourages young adults, and those who support them, to spend intentional time discussing and preparing for the transition to financial independence. This rite of passage can be overwhelming; however, becoming familiar with a few basic financial practices will help to decrease anxiety and lay a firm foundation.

Open a Checking and Savings Account

Opening an account with a financial institution is often the first step on the ladder to personal financial management. Tracking income and expenses, accumulating savings, paying bills, and having access to credit for things like home and car loans are just a handful of the benefits of building a relationship with a bank or credit union. When deciding where to open an account look for the best combination of cost, convenience, and service.

Set up a Budget, and Review it Regularly

A budget is a spending plan to manage cash flow. It is an essential tool for financial planning, and can serve as a roadmap to reach personal financial goals. Simply put, define the steps to have the money you need to pay for the things you want.

- **Identify short-, mid-, and long-term money goals:** Identify a range of goals you are working to achieve. Short-term goals may be accomplished in several months or years, mid-term goals may extend several years into the future, while long term goals may go beyond that and include overall financial independence.
- **Track your income and expenses:** To budget effectively, you must know where your money is going. Calculate all expenses over the last 3-6 months, as well as all sources of income. If the monthly expenses are higher than the monthly income look for opportunities to cut back on spending.
- **Common budgeting guideline is the 50/30/20 rule:** Where 50% of post-tax income should be spent on needs, 30% on wants, and 20% on savings.¹
- **Reevaluate your budget periodically:** Budgeting is an aspect of financial planning, it is an ongoing process to help you evaluate progress, revise goals, and update strategies.

Have a Savings Strategy

Saving is the easiest way to boost financial security and to reach financial goals. A savings account is a safe place to accumulate money, especially for short-term goals, and for an emergency fund.

- **Add money to your savings account regularly:** Weekly, monthly, etc. to amass a higher balance. Setting up automatic transfers from a checking account or direct deposit is a great way to get in the habit of paying yourself first.

¹ <http://fiftythirtytwenty.com/>

- **Establish a baseline emergency savings fund to cover 3-6 months of monthly expenses:** For unexpected events such as a loss or gap in employment, unforeseen medical bills, etc.
- **Take advantage of any employer-sponsored 401k plans:** Though retirement may not be in the near future, start contributing now and benefit from compounding interest.

[Learn About the Cost of Credit and Borrowing](#)

When money is borrowed to pay for something, or a card is used to charge a purchase, you're using credit, and it is crucial to have a strategy for using it wisely.

- **Be cautious when applying for credit or loans:** Know how much you can borrow, how much it will cost, when it must be repaid, and what will happen if you cannot pay on time. Pay close attention to the terms of any loan or credit card agreement before signing.
- **Explore alternatives to student loans:** Financing a college education with student loans may not be the only option. Spend time exploring alternative options such as scholarship and grant opportunities, not all of which are based upon academic achievement.
- **Recognize the red flags of overspending:** Making only minimum payments, skipping payments, and reaching the limit of available credit can signal a problem.
- **You're protected against excessive charges and deceptive practices:** Certain credit protection laws mitigate your responsibility for circumstances beyond your control, such as lost or stolen cards, unauthorized purchases, and billing errors.

[Build and Protect Personal Credit](#)

A credit report is a collection of information about yourself and your credit history. Bad credit may impact an employment offer, loan application, housing application, insurance rates, etc. Guidelines for building strong credit often include: only applying for credit you need, making all payments on time, minimizing your usage of available credit, and regularly reviewing your credit reports for discrepancies and unrecognized activity. Visit AnnualCreditReport.com for information about how to obtain free copies of your credit report.

[Keep Personal and Financial Information Private](#)

Safeguard your personal information to prevent it from falling into the wrong hands by taking proactive measures. Avoid sharing personal or financial information such as a driver's license number, social security number, credit card and checking account numbers, login credentials, etc. Monitor account activity regularly to catch and report potential mistakes or unauthorized charges, and practice good cyber-hygiene such as dual factor authentication and regularly updating passwords.

[Summary](#)

It's important to learn the basics of money management before encountering big financial decisions in the future. Develop good habits now and they will follow you for years to come.

Consumers can obtain information about financial firms, professionals or products, as well as view more Department press releases and other information on the Internet at <http://finance.idaho.gov> or by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.