How to Save Your First Paycheck

Wealth Planning

You spent the last four years or more earning a degree, countless months sending out resumes, and finally, after your third (or fourth or sixth) interview, you landed your first job – congratulations!

Once you've paid your bills, bought your groceries, and put gas in your car, you may be wondering what you should do with what's left of your first paycheck. Below are a few suggestions that may help you understand how important saving even a little bit each paycheck can pay off in the long run.

Short-term savings

Your first step should be to set up an emergency fund for unexpected expenses, such as new tires for your car. The general rule is that you should have three to six months of savings set aside in cash. You can determine how much this would be over a three-to-six-month time period by adding up all of your non-discretionary expenses (the things you have to pay for every month).

Long-term savings

Once your emergency fund is in place, your second step should be to save for long-term goals. The amount you set aside includes not only the contributions you make to your savings account(s), investment account(s), and retirement account(s), but also any contributions your employer makes as well.

The sooner you begin saving, the better, and the less you will have to take out of your paycheck down the road to catch up. Here are some general guidelines:

- If you begin saving in your 20s – 10-15% of monthly income
- If you begin saving in your 30s – 15-25% of monthly income
- If you begin saving in your 40s – 25-40% of monthly income

These are general guidelines only. Individual circumstances and goals will vary.

Retirement Planning

So, where should you put your retirement savings? Many people have access to either a 401(k) or 403(b) through their employer. Some employers even offer Roth 401(k) and Roth 403(b) accounts as well. If your employer only offers you one option, then your choice is easy; however, if you are choosing between a 401(k) and a Roth 401(k), for example, there are certain things you need to know:

- 401(k) contributions from your paycheck are made with pre-tax dollars. This means your contributions and investment gains in your 401(k) are not taxed until you make withdrawals, which can be taken penalty-free at age 59 ½. Typically, if you think you will be in a lower tax bracket in retirement than you are now, a 401(k) makes the most sense.
- Roth 401(k) contributions are made with after-tax dollars. This means you pay taxes on your contributions before they go in to the Roth 401(k). However, once you begin withdrawing money from your Roth 401(k) (penalty-free at age 59 ½), both your contributions and investment gains are received tax-free.

There are countless financial decisions you will have to make over the years, but by keeping these few things in mind, you can form great saving habits by making the most of every paycheck.