Santa Barbara Independent WHO. WHAT. NOW.

What's a Young Couple to Do?

A Few Pointers from Financial Advice Columnist Kevin Bourke

By Kevin Bourke

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Kevin, what about young couples like my fiancé and me? We are in our early twenties, just starting out. What should we be doing about our budget?

Tabetha from Goleta

Tabetha, you are experiencing one of the great times in life. Even though you rightly feel like you have many decisions to make, in retrospect you will see that this is a relatively stress-free time.

So my first thought is to tell you to enjoy yourselves! Have fun! But realize that decisions you make now will have repercussions that may last a lifetime.

Money Talks

Let’s look at some examples. More than once, I’ve seen young couples think that they are now supposed to do certain things to look like a real family. So they buy cars, take on higher rent, start to furnish their new home together, and spend money on dining out, travel, and other items.

What typically comes with all that? DEBT.

By the time the tuxedos are returned, the budget is already strained and the stress begins. It doesn’t need to be this way. With just a little restraint, a young couple can enter marriage with low expenses, excess cash flow, and a much lower level of stress.

So my first bit of advice? Figure out what your take home pay is, and start allocating 10 percent of your paycheck to some sort of savings or investing.

Ideally, one or both of you have access to a 401(k) or similar tax-deferred retirement savings vehicle. If one of you is self-employed, look into SIMPLE IRAs, SEP-IRAs, or other tax-deferred options for the self-employed. Finally, if either of you has earned income you can always contribute to an IRA.

This is step one and is called "Pay Yourself First." We could actually stop here, Tabetha, because this is the single most important step you can take when it comes to budgeting.

But the second item you might consider would be the type of vehicles you drive. There is an old saying, "Drive a Volkswagen, live in a mansion." This means to think carefully before putting too much money into an asset that is virtually guaranteed to depreciate in value.

As one of the largest items in a budget, cars can literally eat up your retirement savings, as well as the opportunity to purchase a home. Consider the cost, not only of the payment, but also of insurance, gas, and repairs. Just replacing the tires on some cars can run $1,000.

Finally, what about housing? This is a particularly thorny problem in cities like Santa Barbara where housing is expensive. There is no easy answer, but it does appear that the best deals are found by word of mouth. So tell everyone you know that you are looking for a place to rent or purchase. Also, some newspapers contain a section called "new listings today," which would be a good place to look first thing every morning.

I'm proud of you because you are already showing the signs of someone who is fiscally responsible, just by asking the question. Keep that attitude and work together, and you'll do just fine.

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