I'm "Getting Ahead" Financially: What do I do Now?

Have you recently landed your dream job, received a promotion or had a financial windfall? Are you getting serious about building your financial future? You may be wondering what to do with the extra money that you don't need to pay the rent or support your Starbucks habit. We've put together a step-by-step list of investment options that will help you save in a tax -efficient and financially sound manner.
The order of these items is intentional.

1. **Create an Emergency Fund: 6-12 months of expenses**
    - You never know when you might have a job interruption or an emergency expense
    - Having a source of ready cash can give you peace of mind and allow you to be more aggressive with the rest of your finances

2. **Invest in your company 401k or 403b up to employer match**
    - The employer match is free money – don't pass that up
    - Contributions in these plans are pre-tax and funds grow tax-free

3. **Health Savings Account** (if you have an HSA compatible medical plan). Typically, compatible medical plans carry a higher deductible so if you can manage the higher deductible this may be a good for you.
    - HSA contributions are deductible, the funds grow tax free and distributions for qualified medical expenses are tax-free
    - Any expense incurred after you set up the HSA can be reimbursed at any time in the future, as long as you keep good records

4. **Additional 401k contributions (target 10-15% of compensation, including match)**
    - Just contributing up to the match won't provide enough funds for retirement
    - 10-15% savings is a good rule of thumb to accumulate enough funds for retirement

5. **Open a 529 Fund for College Savings.** Make monthly contributions (you may do this before #4 if kids are close to college age) up to Illinois deduction limit ($20k for a couple).
    - The Illinois deduction is worth 4.95%
    - Funds grow tax-free and can be distributed for qualified college expenses tax-free.
    - You can easily change beneficiaries on 529's. In fact, you can start saving for a future child and add them as a beneficiary at a later date.
    - Excess 529 savings can now be converted to a Roth within certain parameters.

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6. **Make IRA or Roth IRA contributions, depending on tax bracket.** Talk to your financial advisor or CPA to get advice if needed.
    - If you are in a lower tax bracket, a Roth will make the most sense
    - Currently contributions are limited to $7500 annually plus catch up contributions if you are over age 50
    - If you are a participant in a company retirement plan and your income is over a certain threshold, you may not be able to contribute to a Roth and traditional IRA ontributions may not be deductible
    - IRA investments grow tax free

7. **Pay down debt** (depending on your situation, this may be as early as #3.)
    - Compare your after-tax interest cost on debt to after-tax returns on potential alternative investments
    - Debt paydown is a risk-free investment and may provide other benefits like improving your credit score
    - Here are two common approaches to paying down debt

Debt Snowball	Debt Avalanche
Pay off debt starting with the lowest balance	Pay off debt starting with the highest interest rate
Will pay more in interest	Will save money on interest
Provides frequent "wins" with lower account balance	Larger balances take a longer time to payoff - slower feeling progress

**As each debt is paid off, add the extra cash you recover to what you can afford* to *pay for the next debt in line*

8. **Invest in a taxable brokerage account.** While there are no tax advantages with this type of account there is a lot of flexibility in how you can invest the funds and when you can access the funds. If you are ready to make taxable investments, it may be a good time to contact a trusted financial advisor.
    - Interest and dividends will be taxed in the year received
    - Capital gains taxed when investments are sold
    - You can access funds at any time for any purpose