

YOUNG PROFESSIONALS: **Building Your Financial Foundation**

Young professionals face a fast-moving chapter in life that brings opportunity, but also complexity. Financial decisions made in these years often create the framework for long-term stability and success.

Early adulthood is filled with milestones that shape the rest of life—starting a career, buying a first home, getting married, starting a family, or even launching a business. For many young professionals, balancing competing goals can feel like a juggling act: paying off student loans while saving for a home, investing for retirement while managing everyday expenses, or planning for children while pursuing career advancement. Establishing strong financial habits early can be one of the most powerful advantages of this stage of life.

PART 1:

Key Financial Milestones for Young Professionals

Major life transitions faced by young professionals can have a substantial impact on income and cash flows. Most of their financial planning decisions aren't about where and how to allocate assets; instead, it's about where and how to allocate cash flows of their income and how to grow that income. Let's explore some of the major financial planning considerations faced by young professionals.

Starting a Career

Embarking on your professional journey is one of the most pivotal financial moments in life. As you analyze alternative compensation scenarios, explore benefit packages, and decide how to allocate income between living expenses, savings and investments, the choices you make now can set a long-term trajectory.

What You Should Know

Employee benefits: There are a few key items to consider when selecting your benefits during enrollment: What are my current needs? Who do I need to cover? Is this benefit taxable to me as income? Would the same coverage outside of work be more or less expensive? Am I eligible for coverage under another person's benefits?

Compensation structure: For W-2 employees, you'll typically be salaried and receive either a bi-weekly, bi-monthly, or monthly paycheck. Additionally, you may have a cash bonus that is paid by your company. Knowing the timing of this bonus and frequency is important for tax planning purposes. In addition to a cash bonus, your company may also offer a stock incentive for your bonus compensation.

Restricted Stock Units (RSUs) are a common form of stock compensation in which you are granted shares of your company's stock. There is usually a "vesting period" where you'll have to wait for a pre-determined amount of time before you have access to the shares. Once your shares are fully vested, you are free to do whatever you would like with them.

Once vested, the dollar amount of your shares will be taxed as ordinary income for that tax year. After, your company stock is subject to capital gains tax rates.

Retirement plan options: Retirement plans offered by employers often allow pre-tax contributions (and sometimes Roth after-tax contributions), and many include a company match up to a certain percentage. Growth of the investments in these retirement accounts is tax deferred and taxes are paid when withdrawals are made.

Paperwork necessities: Along with your first job comes paperwork—from filling out your W-4 to establish federal income tax withholding to receiving your W-2 which shows your earnings and earnings deductions at the end of the year. Along the way, you will receive a paystub for each paycheck that you receive. Understanding and monitoring your earnings throughout the year will help you avoid unpleasant surprises at tax time.

Managing Cash Flow

Even as income rises, you may face the dual forces of debt (student loans, auto loans, credit cards), rising living costs, and variable benefit structures (such as employer-provided retirement plans or bonuses). Managing debt intelligently and building positive cash-flow habits lays a foundation for choice, cushion, and mobility.

What You Should Know

Savings plan vs. budgeting: The term "budgeting" is like dieting to many people who think of it as being restricting instead of empowering. Both terms have negative connotations, often resulting in people doing the exact opposite. The alternative to having a "budget" is to have a "savings plan" with yearly

savings goals and details on how to achieve them. Options for setting and managing monthly savings contributions as well as plans for an annual bonus can help you have a healthier relationship with your money.

For many young professionals, targeting a total savings rate of around 20% of income (including 401(k) contributions) can be a helpful benchmark, though the right number depends on your goals and timeline.

Debt management: Credit cards can be a useful tool toward building your credit score if you consistently pay off your monthly balance. Carrying balances forward can lead to significant interest charges since credit cards often have high interest rates charged to them, sometimes as high as 20% to 30%. A credit score is a number — typically between 300-850 — that estimates how likely you are to repay a loan and make the payments on time. Credit scoring systems calculate your credit score in different ways, but the scoring system most lenders use is the FICO score.¹

Avoid closing or paying off credit cards before major purchases such as a new home to ensure your credit score isn't negatively affected.

Student loan repayments: Student loan repayment plans for federal loans are based on income level and family size. Simply put, the

higher your income, the higher your monthly payment will be. The smaller your family size, the higher your monthly payment will be. Only federal loans are eligible for federal income-driven repayment plans, and eligibility depends on the specific loan type and program rules. Private loans are not eligible for federal IDR plans, and Parent PLUS loans have more limited options than loans you take out for your own education.

Making Major Purchases

Making major purchases such as a home or automobile represent both a lifestyle goal and a financial commitment. Affordability can squeeze many young professionals into delaying or downsizing these purchases. When considering making purchases, assess whether buying fits your current goals, the opportunity cost, the cost of waiting, and how the purchase might impact your broader financial picture.

What You Should Know

Purchasing your first home: For many young professionals, homeownership represents stability, wealth-building and a sense of place. Beyond the down payment, there are additional closing costs—fees and expenses incurred to complete the purchasing process and finalize your mortgage. These typically range from 2% to 6% and can be partially paid for by the seller.²

¹ Federal Trade Commission. "Credit Scores." Consumer Advice, U.S. Government, <https://consumer.ftc.gov/articles/credit-scores>.

² O'Shea, Liz Weston and Dalia Ramirez. "Tips for First-Time Home Buyers." NerdWallet, <https://www.nerdwallet.com/article/mortgages/tips-for-first-time-home-buyers>

Ongoing homeownership costs: These costs have a substantial impact on your household cash flow. You'll need to account for maintenance, insurance, property taxes and possible homeowner's association (HOA) fees.

- Property taxes are an annual tax on the assessed value of your home. In states with no income tax, such as Texas, property taxes are typically higher than in states with an income tax.
- Homeowners insurance and possibly Private Mortgage Insurance (PMI), which is an extra expense for conventional mortgage borrowers who make a down payment of less than 20%, must be paid.
- For home maintenance expenses, it's best practice to budget ~1% of your home's value as an annual, ongoing maintenance budget. For example, a \$400k homeowner would budget ~\$4k per year in annual home maintenance expenses.
- Homeowner's association (HOA) fees may be charged if you purchase a home in a community with a homeowner's association. An HOA is an organization or corporation that is tasked with ongoing management and maintenance in your neighborhood. In addition to fees charged by the HOA, you'll need to abide by their bylaws.



Maintaining Work/Life Balance

Given the steady pace of life transitions that come with regularity for most young professionals throughout their 20s and 30s, it may become challenging to maintain work/life balance. Decisions involving career planning issues, investing in yourself and going back to school, changing careers, or starting a business can directly impact what you can earn.

What You Should Know

Entering the workforce: An important aspect of entering the workforce is how your job will affect your social life and community involvement. At larger companies, your coworkers or team may become your first post-school friends. If you're relocating to a new area for work, these "first friends" can give you a sense of community while you find other activities and/or organizations in which you want to be involved. Conversely, working for a smaller company where age gaps, stage of life, and overall office atmosphere can make developing outside relationships with your coworkers more challenging.

Continuing education: Returning to school or earning professional certifications can boost future income but often requires an upfront financial and time investment. Whether you're paying tuition, considering student loans, or taking advantage of employer-paid educational

expenses, it's important to consider how education costs fit into your broader budget and how quickly potential income gains can offset the expense.

Employer-paid educational costs may count as taxable income or may come with a stipulation to repay the company if you leave within a certain timeframe.

Career advancement: As your experience grows, so does your value in the workplace. Pursuing advancement through promotions, salary negotiations, or lateral moves can accelerate both career satisfaction and earning potential. However, climbing the corporate ladder can also bring time pressures and lifestyle inflation. As part of your long-term financial planning, it's important to evaluate new opportunities not only by salary but by total compensation, benefits, and long-term financial and lifestyle goals.

Launching a new business: Entrepreneurship can represent freedom and purpose—but also risk and uncertainty. Leaving the security of a steady paycheck can affect both cash flow and benefits. Before making the leap, assess your financial readiness: emergency savings, startup capital, and health insurance alternatives. A transition plan that incorporated business projections and expected cash flows can allow you to pursue your vision while protecting your personal financial stability.

PART 2:

Developing Your Financial Foundation

Life transitions often create financial stress and added complexity, prompting people to realize a financial (or behavioral) change is needed. We've explored how managing cash flow through life's milestones, such as starting a career, buying a home, or starting a family, creates a base for financial stability. The next step is to take a broader view of your financial picture.

Understanding Assets and Liabilities

Begin by identifying and understanding your assets and liabilities. Knowing what you own versus what you owe is central to building a strong financial plan. Assets include everything that contributes to your net worth—such as savings, investment accounts, stocks, bonds, and real estate. These are the building blocks of long-term financial growth. Liabilities, on the other hand, include debts like student loans, credit cards, auto loans, or mortgages. By organizing these pieces early, you can better visualize where your money is working hardest—and where adjustments may be needed. When viewed together, they reveal your current financial health and guide decisions about how to allocate income, manage risk, and pursue future goals.

What You Should Know

Getting married: As two lives come together, so do financial priorities, responsibilities, and assets. From planning a wedding to merging finances and understanding how state laws treat property, marriage brings new financial considerations. Open communication and thoughtful planning can help couples build a shared foundation for their future.

- Weddings are often one of the first major financial events couples plan together. It's important to consider how wedding expenses fit into broader financial goals. Establishing a clear budget, discussing contributions from each partner, and avoiding high-interest debt for the event can help set a healthy precedent for future financial decisions.
- Once married, many couples combine bank accounts, investment portfolios, or other financial resources. Co-mingling assets can simplify budgeting and planning, but it also requires transparency and shared decision-making. Couples should discuss how they'll handle expenses, savings, and long-term investments, as well as whether to maintain separate accounts for personal or business purposes.

- Where you live can influence how assets are treated in marriage. In community property states, most assets and income acquired during marriage are considered jointly owned—regardless of whose name they're in. This can have implications for taxes, debt responsibility, and estate planning. Understanding your state's laws and documenting ownership before and after marriage can help protect both partners and ensure fairness in how assets are managed.

Defining Investable Assets

Once you've gained an understanding of your overall financial picture—your assets and liabilities and how they interact—the next step is understanding the types of investable assets that form your long-term portfolio. For most young professionals, this means learning the fundamentals of stocks and bonds, and how each contributes to a diversified financial plan. By understanding how each asset class behaves, you can make informed decisions that align with your personal objectives and your tolerance for risk.

What You Should Know

Stocks: A share of stock is a share of a company that investors can purchase, representing partial ownership in that business. When you buy stock, you become a

shareholder, someone who participates in the company's potential growth and profitability.

Over time, stocks have historically offered higher returns than most other asset classes, though they also carry higher short-term volatility.

- Stocks are often categorized by market capitalization, which refers to the total market value of a company's outstanding shares. Large-cap stocks (like those found in the S&P 500) tend to be well-established companies that provide more stability. Mid-cap stocks represent growing firms with moderate risk and reward, while small-cap stocks (such as technology start-ups) often offer greater growth potential but come with more price fluctuation.
- Investors can gain exposure to these different categories of stocks individually or through market indices, such as the S&P 500, Dow Jones Industrial Average, or Nasdaq Composite. These indices track the performance of selected groups of stocks and are often used as benchmarks or as the basis for index funds and exchange-traded funds (ETFs), making it easier for investors to diversify equity investments without selecting individual companies.

Bonds: Bonds are debt instruments issued by corporations, municipalities, or governments to raise capital. When you purchase a bond,



you're lending money to the issuer in exchange for regular interest payments and the return of your principal at maturity. Bonds are generally considered less volatile than stocks, though they still carry varying levels of risk depending on the type of bond and the issuer's credit quality.

- There are several categories of bonds, each serving different purposes in a portfolio. Government bonds such as U.S. Treasuries are typically the safest and are backed by the federal government. Municipal bonds offer tax advantages for certain investors, while corporate bonds generally pay higher interest but come with greater credit risk.
- Every bond has a maturity date, which marks when the issuer must repay the principal to investors. Short-term bonds (up to three years) offer more liquidity and lower interest rate risk, while long-term bonds (ten years or more) provide higher yields but are more sensitive to rate changes.
- The interest rate determines how much income a bond generates. Bond prices and interest rates usually move in opposite directions. When rates rise, bond prices typically fall. Understanding this relationship is key when deciding how much of your portfolio to allocate to fixed income, especially in a changing rate environment.

Building Your Investment Strategy

Building a strong investment portfolio isn't just about choosing the right stocks or bonds—it's about creating balance. A well-balanced investment strategy helps you grow wealth over time while managing the inevitable ups and downs of the market. The mix of assets you hold should reflect both your time horizon and your comfort with risk. Early in your career, you may be able to take on more market exposure in pursuit of growth; as your financial goals evolve, your allocation can shift to emphasize stability and income.

What You Should Know

Diversification: The process of spreading your investments across different asset types, industries, and regions so that no single event or market movement has an outsized impact on your financial well-being is known as diversification. A diversified portfolio helps smooth returns over time and reduces overall risk, especially during market volatility.

Risk management: Understanding your own comfort level with uncertainty is known as risk tolerance. For young professionals, time is one of the most powerful risk-management tools. With decades before retirement, temporary market downturns have less long-term impact, allowing you to invest more aggressively for

growth. As you approach new life stages, you may choose to rebalance your portfolio to reflect your revised needs and goals.

Asset allocation: Asset allocation brings diversification and risk management together. It's the mix of investments that aligns with your personal goals, time horizon, and risk tolerance. Over time, adjusting this mix as your needs change helps maintain the balance between opportunity and protection.

No single investment strategy fits everyone. The key is to stay consistent, periodically review your portfolio, and adjust when life changes.

Protecting What You've Built

While diversification and asset allocation help manage market risk, insurance protects against the unexpected events that can disrupt even the best financial plans. Building wealth is only part of financial security—protecting it is equally important. Insurance acts as a financial safety net, ensuring that a sudden loss, whether to income, health, or property, doesn't derail your long-term goals. Understanding the major types of coverage helps you prioritize where protection is most needed and how each policy fits into your broader financial plan.

What You Should Know

Life insurance: Life insurance provides financial support to loved ones in the event of your death, helping cover living expenses, debts, and future needs such as education or housing. Term life insurance offers protection for a specific period and is generally more affordable for young families. Permanent life insurance, such as whole or universal life, includes a savings or investment component that can accumulate value over time. The right choice depends on your family situation, income needs, and long-term objectives.

Property and casualty insurance: Your home, car, and personal belongings represent significant investments. Property and casualty insurance helps protect these assets from loss or damage due to accidents, theft, or natural disasters. Reviewing coverage limits and deductibles annually ensures your policies keep pace with changing needs and asset values.

Health insurance: Medical costs are one of the largest and most unpredictable expenses individuals face. Health insurance provides essential protection against high out-of-pocket costs related to illness or injury. For young professionals, understanding employer plans, health savings accounts (HSAs), and supplemental coverage options can make a significant difference in overall financial well-being.

Disability insurance: Your ability to earn an income is one of your most valuable assets. Disability insurance provides income protection if an illness or injury prevents you from working for an extended period. Short-term disability coverage typically replaces a portion of your income for a few weeks to a few months, while long-term disability insurance, often available through workplace benefits or as an individual policy, can continue providing income for many years or up to a stated age, depending on the specific policy.



Managing Taxes

Understanding how taxes affect your income, savings, and investments is key to long-term financial success. It's important to remember that taxes are paid on capital gains, dividends, and interest. This investment income is often taxed differently from wages, and understanding those rates helps you plan for your full tax picture. While taxes can feel complicated, learning how to estimate, plan, and make strategic decisions throughout the year helps ensure you keep more of what you earn. Tax rules, income thresholds, and deduction limits change regularly, so be sure to review current IRS guidance or consult a qualified tax professional when making decisions.

What You Should Know

Your tax liability: Your first step in tax planning is knowing how much you owe each year. Reviewing the federal and state taxes withheld from each paycheck can help prevent you from underpaying or overpaying. Adjusting your W-4 as your income or filing status changes can help you stay aligned with your expected tax bill.

- Adjusted gross income is the amount of taxable income before deductions. Start with your gross income, then subtract adjustments such as retirement plan contributions, health insurance premiums, or student loan interest. After deductions, you're left with the amount used to calculate

how much tax you owe.

- Use your taxable income to estimate your tax liability based on the current year's tax brackets and rates. Online calculators or IRS tools can help with projections. If you have income outside of a paycheck, like freelance work, investment gains, or rental income, be sure to make estimated quarterly payments to avoid penalties.

Tax-saving strategies: Strategic tax planning isn't just about filing correctly; it's about making intentional financial choices throughout the year that help lower your taxable income and maximize the money you keep. By understanding deductions, credits, and contribution opportunities, young professionals can build habits that create long-term savings and flexibility.

- When you file your taxes, you can take the standard deduction, a flat amount that reduces your taxable income, or you can itemize specific deductible expenses such as mortgage interest, medical costs, charitable donations, and certain state or local taxes. For many early-career taxpayers, the standard deduction provides the greater benefit. As your income and expenses grow, reviewing whether itemizing could save you more becomes worthwhile.
- While both deductions and credits reduce your tax burden, deductions lower your

taxable income, whereas credits directly reduce the amount of tax you owe.

- Contributing to pre-tax accounts such as 401(k)s, HSAs, or flexible spending accounts (FSAs) reduces your taxable income while helping you save for future needs. These accounts allow your money to grow tax-deferred, meaning you won't pay taxes on earnings until withdrawal.
- Donations to qualified charitable organizations can provide a meaningful way to support causes you care about while reducing your taxable income. Keep records of your gifts so that they are eligible for deduction. You may also benefit from donating appreciated assets, such as stock, to avoid capital-gains tax while still receiving a charitable deduction.

Tax-efficient investing: Structuring your investments with tax efficiency in mind helps maximize long-term returns. By combining tax efficiency strategies with careful investment and savings decisions, you can manage your annual tax liability while strengthening your overall financial plan.

- Tax-loss harvesting involves selling investments that have declined in value to offset gains realized elsewhere in your portfolio. By using these losses to reduce taxable capital gains, you can lower your overall tax bill while keeping your portfolio

aligned with your long-term goals.

- Contributing to 401(k) or traditional IRA accounts allows you to invest pre-tax dollars, reducing your taxable income in the current year. The money inside these accounts grows tax-deferred, meaning you won't pay taxes until you withdraw it in retirement—potentially at a lower tax rate.
- A Roth IRA offers an alternative retirement investment approach. Contributions are made with after-tax dollars, but qualified withdrawals in retirement are tax-free. For young professionals who expect their income (and tax rate) to rise over time, this can be a powerful long-term strategy. The combination of pre-tax and Roth contributions also provides tax diversification, giving you flexibility when drawing income in retirement.

Smart investing isn't just about what you earn—it's about what you keep.

Estate and Beneficiary Planning

Estate planning isn't just for later in life—it's an essential part of protecting the wealth and assets you're building now. For young professionals, establishing even the basics can help ensure your wishes are honored and your loved ones are supported in the event of the unexpected. It's about creating structure

and clarity, not complexity. A sound estate plan begins with understanding what you own, who depends on you, and how you want your assets to be distributed. Even if you're just starting to accumulate wealth, documents like wills, beneficiary designations, and powers of attorney can make a meaningful difference.

What You Should Know

Wills and trusts: A will outlines how your assets should be distributed and who will handle your estate. As your wealth grows, a trust may also become useful for managing assets efficiently, minimizing probate, and providing privacy. Young professionals with dependents should ensure that guardianship decisions are clearly defined in these documents.

Beneficiary designations: Accounts such as 401(k)s, IRAs, and life insurance policies allow you to name beneficiaries who will inherit these assets directly, bypassing probate. It's important

to review and update these designations regularly, particularly after major life events like marriage, having children, or changing jobs, to ensure they reflect your current wishes.

Powers of Attorney and Health Care

Directives: A financial power of attorney allows someone you trust to make financial decisions if you're unable to do so. Similarly, a health care directive communicates your medical preferences and designates a trusted person to act on your behalf. Having these documents in place allows your values to guide important decisions.

Estate and beneficiary planning provides a sense of control and confidence that your intentions will be honored. By putting these pieces in place early—and revisiting them as life evolves—you create a framework for protecting what you've worked hard to build and the people who matter most.



Bringing It All Together

The early years of building a career, managing income, and establishing a financial foundation are filled with both challenges and opportunities. The choices made during this stage set the tone for financial stability, personal growth, and long-term independence. Each decision, from how you save and invest to how you protect and plan for the future, helps shape a life that reflects your values and ambitions.

At Aspen Wealth Management, we believe that financial success isn't defined solely by numbers, it's defined by clarity, purpose, and confidence. By understanding the connection between today's actions and tomorrow's goals, young professionals can move forward with a sense of control and optimism about what's ahead.

No matter where you are in your journey, a well-structured financial plan can help you make informed decisions and adapt as life evolves. Whether you're navigating career growth, purchasing your first home, starting a family, or planning for retirement, we're here to help guide each step. Together, we'll build a path toward lasting financial security and a future that aligns with what matters most to you.

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