The five financial mistakes you don't want to make in your 30s

Subscriber only

'Get a house and don't worry about a pension for now' was the advice for a 30-something

Tue, Feb 27, 2018, 06:00

Fiona Reddan

8

The great advantage of being in your 30s is your age; you're still 30 years or more from retirement, and have plenty of time to right the excesses of your 20s. The potential downside, however, is that if you don't act now these mistakes could colour your future financial health.

"Managing your finances in your 30s is a balancing act between saving for exciting life changes and also considering long-term goals," says Daniel Hardiman, a 30-something himself and a financial planning consultant with Hardiman Life & Pensions in Co Galway.

So what do you need to be financially mindful of during this decade of your life?

1. Rent is dead money...or is it?

Getting on the housing ladder, if you're not there already, should be a focus of your 30s, financial advisers say. But don't worry if you're not there yet. Figures show that the average age of today's first-time buyer is 34.

This is, admittedly, a sharp rise on years gone by. Back in 2006 the average age was 29, for example. Derek Maguire, a founding member of Financial Architects, bought his first home at the sprightly age of 26, while Sarah McGurrin, a director with Orca Financial, managed to climb on the ladder at a youthful age of just 23, back when the Celtic Tiger was still roaring and panic gripped the market.

"Owning your own home always makes sense," says Maguire, adding that as well as the financial advantages it offers you security "so a landlord can't just kick you out on the street".

And loathe though people in their 30s are to consider such things, there is a risk of leaving it too late. Buy at 35 and you can repay over 30 years; buy at 40 and you'll have to stick to a term of 26 years which can mean higher monthly repayments.

ADVERTISEMENT
Protecting you AND YOUR FAMILY
GET A QUOTE
Irish Life

A number of Government initiatives can also help in this regard. As Hardiman notes, with Help-to-Buy and the new home loan affordable scheme, you could be looking at considerable savings. With a 5 per cent rebate of up to €20,000 available on the former, and a low-cost 2 per cent fixed interest loans available on the latter, someone buying a house for €250,000 could save a combined €50,000 (€12,500+€37,500 in intere

Suggested for you
Trade border between Ireland and UK 'now inevitable'

"

available on the former, and a low-cost 2 per cent fixed interest loans available on the latter, someone buying a house for €250,000 could save a combined €50,000 (€12,500+€37,500 in interest savings) over 25 years.

> “
> I'm still in negative equity so I would wonder whether you should rent for a few years rather than rushing to buy your own house

“I feel this new [affordable mortgage] scheme will be viewed in the same light as trackers were, like gold dust,” Hardimar says.

Of course buying a new home may not suit your needs, or you might not be eligible for the mortgage scheme. And it can (whisper it) also sometimes make sense to rent for a while to get the property you really want.

McGurrin's early leap on to the ladder can also serve as a cautionary tale.

“I'm still in negative equity so I would wonder whether you should rent for a few years rather than rushing to buy your own house. I don't know what my rush was,” she recalls, adding that rising house prices can have this effect.

“I nearly feel it's happening people again, starting a frenzy ‘if things continue I wont be able to buy a house’,” warns McGurrin,

2. Disregard your pension completely

The good news may be that your 30s is not the time to put all your resources into your pension.

“Property then pension,” as Maguire sums it up, adding: “The problem is if you put money into a pension, and property prices increase by 5 per cent a year – on a €300,000 house that's going up by €15,000 a year.”

But it doesn't mean that pensions shouldn't be given some consideration during these years. After all, as Maguire notes, “to generate an income of €10,000 at retirement you need a fund of about €225,000”.

So investing a little can be prescient. “The priority should be the house, but don't neglect your pension,” advises Hardiman, suggesting that allocating even “a small, modest contribution” is wise. “That way you benefit from the power of compounding over the long term.”

“They're not tuned into it at all,” says Hardiman, “I've even come across cases where employer contributions are availabl and still the employee hasn't even gone for that.”

Getting – and staying – engaged in the pension conversation is also important.

One of McGurrin's first calls as a financial adviser was with someone who had had a pension for 40 years, and was complaining about what he was entitled to.

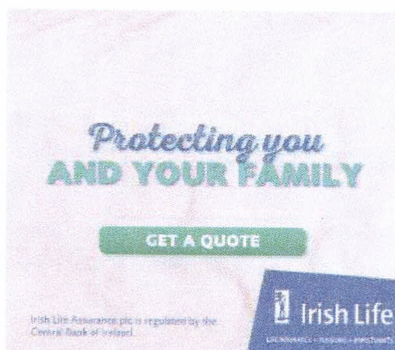
“But he had just been putting in the minimum contribution. You have to look at what you're investing, what you're putting in.”

While Revenue guidelines allow someone in their 30s to contribu ... ef that”, says McGurrin. However, as she notes, even if you only put ... d it will only cost you €30. So, a 30-year-old will get a pension of € ... on a return of 5 per cent. “That's achievable, that's more than ach

Suggested for you
Trade border between Ireland and UK ‘now inevitable’

3. Fail to plan

Hindsight may be a wonderful thing, but it won't help change anything for you. So start as you mean to go on by plannin for your future.



For some women, for example, starting their pension a little bit earlier or increasing contributions in their younger years to make up for years spent away from the workforce due to child-rearing can make sense.

> “
> If you can't survive, look at it again, but it does take a certain length of time to get used to a direct debit. We can all save more than we think we can

Trying to buy a house before children arrive can also help as time out of the workforce or the increased costs of childcare etc can really hurt your disposable income. “You can't borrow money unless you're in employment and earning money,” says Maguire.

And be careful of short-cuts that can promise much but deliver little. As Hardiman notes, a big mistake for those in their 30s is to get a tip for a share and put their money into it looking for big returns, or to get swayed by all the talk of things like crypto currencies.

Of course, for some people these gambles will pay off but the risks for others may be just too great.

4. Forget about those rainy days

They can happen to anyone, which is why having a little nest egg to hand in a deposit account can offer peace of mind.

“We would recommend you have three-six months' salary,” says McGurrin, and she has some nifty advice about how to get there by setting up a direct debit for more than you think you can afford.

“I set up a savings plan around three years ago at €300 a month. After the first two or three months I thought ‘I can't live like this it's too expensive',” she says. But by the fourth month, she had gotten used to it.

“If you can't survive, look at it again, but it does take a certain length of time to get used to a direct debit. We can all save more than we think we can.”

Hardiman agrees that “you do have to make sacrifices”, noting that your 30s are a time to cut back on the mid-week tapas and wine and weekend city breaks you may have enjoyed in your 20s.

Another tip to help get you there is to avoid “lifestyle inflation” whereby every time you get a wage increase or taxes fall is that you simply spend more. To avoid this, experts say you should focus on a percentage of your income saved, rather than a fixed amount, as this will increase in line with any wage increases/tax cuts.

5. Take on too much debt

It can make getting a mortgage more difficult, or the house you want impossible; it can impact on your ability to take time out of work to spend with your children; or prevent you borrowing more to further your education.

It's short-term debt. “You should focus on getting rid of short-term debt in your early 30s,” says Hardiman, adding, “You can't plan for anything until you remove burden of debt.”

McGurrin agrees, noting that buying a new car is “very attractive” today, with all the finance and PCP deals on offer. However, as Maguire says, most people when buying a new car “never think about how it will impact your mortgage”. He suggests people get their car loans paid off before applying for a mortgage. “Once you get your house there's nothing to stop you getting another car loan.”

Another tip to help get you there is to avoid "lifestyle inflation" whereby every time you get a wage increase or taxes fall is that you simply spend more. To avoid this, experts say you should focus on a percentage of your income saved, rather than a fixed amount, as this will increase in line with any wage increases/tax cuts.

5. Take on too much debt

It can make getting a mortgage more difficult, or the house you want impossible; it can impact on your ability to take tim out of work to spend with your children; or prevent you borrowing more to further your education.

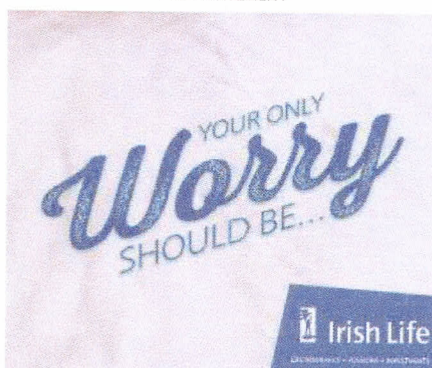
It's short-term debt. "You should focus on getting rid of short-term debt in your early 30s," says Hardiman, adding, "You can't plan for anything until you remove burden of debt."

McGurrin agrees, noting that buying a new car is "very attractive" today, with all the finance and PCP deals on offer. However, as Maguire says, most people when buying a new car "never think about how it will impact your mortgage". He suggests people get their car loans paid off before applying for a mortgage. "Once you get your house there's nothing to stop you getting another car loan."

> "
> You'd be looking at house prices on Daft and see what you might like, but then you'd see what the prices sell for compared to asking prices

While some advisers recommend you target the debt with the highest interest rate first, Hardiman suggests the "debt snowball method", whereby you pay off the smallest debt first. "That way you feel like you've achieved something and yoı might be more likely to stick with the process."

ADVERTISEMENT



PENSION OR A MORTGAGE?

When Mark Ward (35) left his pensionable job last year for one with no retirement plan, he got worried. Should he start his own pension to fill the gap?

Unusually for his age, Mark admits he has always been mindful of pensions, "although I'm not really sure why", and had been working on his pension pot since his 20s.

A visit to a financial adviser clarified his view, however. "Get a house and don't worry about a pension for now" was the advice for the 30-something.

"I was a bit taken aback by how expensive it is, as I didn't know we had to pay stamp duty and didn't realise how expensive solicitor fees are," he says, reflecting that if he could go back to his 20s "I'd start saving a little bit earlier".

READ MORE

- My fund is costing me how much? Investors are paying twice as much as they think
- Universal scheme looms as pension time bomb ticks
- Tracker compensation: Should I accept or should I appeal?
- Why are landlords leaving the market in large numbers?
- What does BOI's return to broker market mean?

MORE FROM THE IRISH TIMES

Personal Finance Dublin homeowners now need deposit of €140,000 to trade up

Work Global branding and the 'third industrial revolution'

English Soccer Ken Early: Castrate a (Red) Bull or bow down to cash?

Motors Hyundai's new all-electric Kona crossover promises range up to 470km

SPONSORED

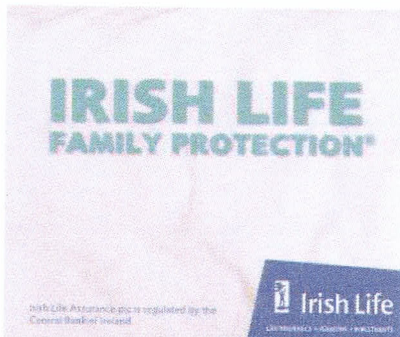
Putting the tools for financial trading in your hands

Notre Dame's 'En Plein Air' course at Kylemore Abbey could be the perfect retreat

Ready to travel? The real adventures begin after 50

Travel Europe: plan a European getaway with this city guide from Super Milk

ADVERTISEMENT



ADVERTISEMENT

Real Estate in Thailand

Low entry investments offering guaranteed returns of 7-12%. Get your info pack today

New Nordic Group

Your Comments

Sign In

We reserve the right to remove any content at any time from this Community, including without limitation if it violates the Community Standards. We ask that you report content that you in good faith believe violates the above rules by clicking the Flag link next to the offending comment or by filling out this form. New comments are only accepted for 3 days from the date of publication.