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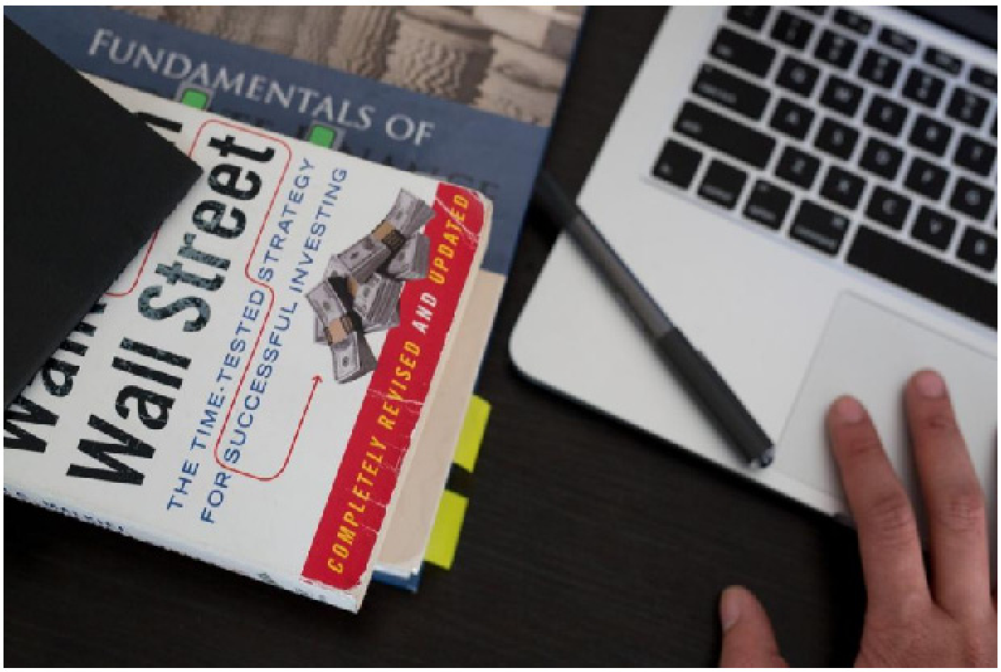
8 Money Mistakes 30-Somethings Make

Mark Avallone, CONTRIBUTOR

I help people on their path to Financial Freedom. FULL BIO

This is the second installment of my two-part series on top financial mistakes to avoid in your early 30s. Earlier, I spoke of how detrimental a lack of discipline or commitment to a written financial plan can be. In the final four mistakes below, I address the most common missteps with 401(K) investments, taxes, and insurance.



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1. Not maximizing a company match on a 401(k) plan

A matching contribution from an employer is free money! Just about everyone should "Max the Match." Unless you face an extraordinary situation that ties up your available salary—such as wanting to reduce credit card balances with near 20 percent interest rates—you should defer enough of your salary into your 401(K) to maximize the match offered by your employer. Consider deferring in every pay period because many employers match to each paycheck's salary deferral, not a total amount based on your annual contribution. By contributing in every pay period, you will benefit from the matching employer contributions in every pay period. So at the start of the year, target a deferral amount that you need to make each pay period through the end of the year in order to get the full match. Your 401(K) plan administrator should be willing to help you with this calculation.

2. Missing out on the tax benefits of a Roth IRA

Subject to certain income limitations, you may qualify for a Roth IRA. In a Roth IRA, any growth in the account can be withdrawn without being taxed and, given the benefits of compounding, the sooner you invest money in a Roth IRA, the more likely you are to benefit from compound growth. Once you start earning more money, the IRS will disqualify you for contributing to a Roth IRA. So, if and when you fall under the IRS limits of eligibility for Roth IRA contributions, and the lack of liquidity is something your overall financial plan can handle, then a Roth IRA can make eminent sense. A Roth IRA may not be suitable for all individuals and under certain conditions, tax consequences may apply so check before you ever take a withdrawal from your account. And of course, your investment value will fluctuate and may be worth less than your initial contribution.

3. Lacking adequate disability insurance

Younger people often minimize their risk of experiencing a disability that will render them unable to earn an income. Yet when it happens, the financial impact can be devastating. There are two main ways to get disability income coverage: either purchase your own policy or gain coverage through a group plan. Group coverage is typically not as robust as a personal policy and is usually not portable when you leave that employer. And since Millennials, on average, change jobs every three-to-four years; you will likely face gaps in your disability income protection if you rely on group protection and don't have your own policy. In the event you have coverage, most people don't understand the specific benefits and types of coverage they have—and remember group plans were written for the employer to then offer to you. They rarely have the attractive features like "own occupation" protection that you can get in an individual policy. So if you can qualify, consider owning your own individual long-term disability policy that offers greater benefits and can be kept in force no matter how many times you change jobs.

4. Not protecting your children in the event of a death of a parent

Children do not have to grow up without adequate financial means or even in poverty due to the death of a parent. The primary reason to purchase term life insurance is a relatively low-cost death benefit. Yet many younger earners overlook this affordable means of protecting their families. People who purchase life insurance when they're younger (and healthier) generally can lock in lower premium rates than folks who apply when they're older as the fees and mortality expenses charges are less. Given how affordable a 15- or 20-year level premium term life policy can be, there is no excuse for every parent who has an income to get this valuable protection. And if your term policy is convertible, you can make the contract permanent in the event you are uninsurable later in life.

Your early 30s is the perfect time to create the foundation for a successful financial future, and avoiding these mistakes will help point you in the right direction. I've discussed 8 financial mistakes in this series, and there are plenty more out there. The best way for you to avoid financial landmines along your path is by having a clear financial plan and by continuing to educate yourself on personal finance.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.