January is National Financial Wellness Month

Use these five keys to successfully manage your personal finances

By Miriam Caldwell,
The Balance

Wouldn't it be nice if there were a magic formula or simple trick that allowed you never to have to worry about money or managing your finances again?

While that may not be realistic, there are some simple things you can do right now to improve your money situation. Try these five steps for successfully managing your personal finances. Another bonus? If you stick to these five tips, your financial problems may start to diminish, and you can start reaping the rewards of lower debt, saving for the future, and a solid credit score.

Detail Your Financial Goals

Take some time to write specific, long-term financial goals. You may want to take a month-long trip to Europe, buy an investment property, or retire early. All of these goals will affect how you plan your finances. For example, your goal to retire early is dependent on how well you save your money now. Other goals, including home ownership, starting a family, moving, or changing careers, will all be affected by how you manage your finances.

Once you have written down your financial goals, prioritize them. This organizational process ensures that you are paying the most attention to the ones that are of the highest importance to you. You can also list them in the order you want to achieve them, but a long-term goal like saving for retirement requires you to work towards it while also working on your other goals.

Below are some tips on how to get clear on your financial goals:

• Set long-term goals like getting out of debt, buying a home, or retiring early. These goals are separate from your short-term goals, such as saving for a nice date night.

• Set short-term goals, like following a budget, decreasing your spending, paying down, or not using your credit cards.

• Prioritize your goals to help you create a financial plan.

Flesh out Your Plan

A financial plan is essential in helping you reach your financial goals. The plan should have multiple steps or milestones. A sample plan might include creating a monthly budget and spending plan, then getting out of debt.

Once you've accomplished these three things and have followed through on your new plan for a few months, you may find that you have extra cash, and the money you free up from your debt payments can be used to reach your next round of goals.

Again, it's key to decide what priorities are most important to you. Keep steadily working toward your long-term retirement goals, but also start to focus on the most important near-term goals you have set for yourself. Do you want to take an extravagant trip? Start investing? Buy a home or build your own business? These are all things to consider when deciding on your next step.

Your goals, along with an emergency fund, will help you stop making financial decisions based on fear and help you get control of your situation.

When creating a financial plan, remember these things:

• Your budget is key to success. It is the tool that will give you the most control of your financial future. Your budget is the key to achieving the rest of your plan.

• You should keep contributing to long-term goals, like saving for retirement, no matter what your financial plan stage is.

• Building an emergency fund is another key factor in financial success and stress reduction.

Make and Stick to a Budget

Your budget is one of the biggest tools that will help you succeed financially. It allows you to create a spending plan, so you can allocate your money in a way that will help you to reach your goals.

You can make your budget as high-level or detailed as you want, as long as it helps you reach your ultimate goal of spending less than you earn, paying off any debts, padding your emergency fund, and saving for the future.

A budget will also help you decide how to spend your money over the coming months and years. Without the plan, you might spend cash on things that seem important now, but don't offer much in terms of enhancing your future. Many people get caught in this quagmire and get down on themselves for not reaching the financial milestones they want for their family and their own life.

Don't forget to celebrate small victories along the way. For example, congratulate yourself once you pay off your debt, or reward yourself when you stick to your budget for three months solid or when you successfully pad your emergency fund.

If you are married, you and your spouse need to work together on the budget. Working together makes it feels fair to both of you, and you both have the same level of commitment towards achieving it. This unity can go a long way towards helping you prevent money-related arguments. Below are some tips for married couples who want to create a budget together:

• Consider switching to an envelope budgeting system that uses cash for spending areas that require more discipline.

• Use budgeting software with a mobile app, so you can enter spending in real time.

• Plan expenses in advance to avoid any overspending.

Pay off Debt

Debt is a huge obstacle for many when it comes to reaching financial goals. That's why you should make eliminating it a priority. Set up a debt elimination plan to help you pay it off more quickly. For example, while making minimum payments on all of your debt accounts, pay any extra money towards one debt at a time. After paying off one debt account, move all the money you were paying on the first debt to the next debt and continue from there, creating a debt-paydown "snowball effect."

Once you are totally out of debt, commit to staying out of debt. Leaving credit cards at home may be a wise strategy. Save up an emergency fund to cover unexpected expenses, so you aren't tempted to use a credit card to cover them.

Try these tips to help you pay off debt more quickly:

• Sell unused or unwanted items around your home to find extra money to add to your debt repayment plan.

• A second job can help speed up the process and can be necessary if you want to make fast or lasting changes to your situation.

• Look for areas in which you can cut your budget to increase the cash available for your debt payments.

Don't Be Afraid To Ask for Advice

Once you have grown your savings and want to begin investing to increase your wealth, speak to a financial planner to help you make wise investment decisions.

A good adviser will share the risks involved in each investment and help you find products that match your comfort level and investing return needs while helping you work toward your goals as quickly as possible. A financial planner can also help you with your budget, which is another plus.

Investing is a long-term strategy that helps you in building wealth. You can also find financial help elsewhere, such as:

• Search for a local church or community center that offers free or low-cost classes or workshops on personal finances and budgeting. Occasionally, banks and credit unions offer courses, as well.

• Find a mentor that would be willing to help you formulate and work through your budget for the first few months. This mentor can help you if you are overwhelmed by the budget process.

• If your parents or other family members are good with money, consider asking them for help and talking to them about what worked for them financially and what they would have done differently.

It doesn't have to be a difficult experience to get your debt paid off, money saved, and progress made towards your financial goals. Invest in yourself and your financial future so that you won't ever need to worry about your finances again.

Frequently Asked Questions

How do I keep track of my personal finances?

People have different preferences when it comes to tracking and managing their personal finances. You might prefer to use a traditional spreadsheet or you might want to use one of the many apps available today. Many of these personal finance apps connect directly to your bank account and update automatically, making it easy to track spending and budgets in real time.

How does the economy affect your personal finances?

Changes in the economy can have a significant impact on your financial life, especially if you run on a tight budget. For example, inflation can make consumer goods more expensive, and rising interest rates can make getting a loan more costly. These and other factors can make achieving your financial goals more or less difficult, depending on which direction the economy is going.

How can improving your credit score help with personal finances?

When you improve your credit score, it becomes easier to get loans and credit cards to help you with large and small purchases. Not only that, but lenders will typically offer you better rates, amounts, and loan terms due to your higher credit score. All of this makes it easier to work toward your financial goals.

Top 10 tips can help you achieve financial resolutions

By Deborah Fowles,
The Balance

Although making resolutions to improve your financial situation is a good thing to do at any time of year, many people find it easier at the beginning of a new year. Regardless of when you begin, the basics remain the same. Here are 10 key tips to getting ahead financially.

1. Get paid what you're worth and spend less than you earn

It may sound simple, but many people struggle with this first rule. Make sure you know what your job is worth in the marketplace, by conducting an evaluation of your skills, productivity, job tasks, contribution to the company, and the going rate, both inside and outside the company, for what you do. Being underpaid even a $1,000 a year can have a significant cumulative effect over the course of your working life.

No matter how much or how little you're paid, you'll never get ahead if you spend more than you earn. Often, it's easier to spend less than it is to earn more, and a little cost-cutting effort in a number of areas can result in savings. And it doesn't always have to involve making big sacrifices.

2. Stick to a budget

An important step to consider when trying to get ahead financially is budgeting. After all, how can you know where your money is going if you don't budget? How can you set spending and saving goals if you don't know where your money is going? You need to set up a budget whether you make thousands or hundreds of thousands of dollars a year.

3. Pay off credit card debt

Credit card debt is the number one obstacle to getting ahead financially. Those little pieces of plastic are so convenient to use, and it's so easy to forget that it's real money we're dealing with when we whip them out to pay for a purchase, large or small. Despite our good resolves to pay the balance off quickly, the reality is that we often don't, and we end up paying far more for things than we would have paid if we had used cash.

4. Contribute to a retirement plan

If your employer offers a 401(k) plan (or another type of employer-sponsored retirement savings program), you should consider contributing to it if you can afford to. Often, with 401(k) plans, your employer will contribute the same amount that you put toward your account up to a certain percent. This is often referred to as an "employer match." If your employer doesn't offer a retirement plan, consider an IRA.

5. Have a savings plan

You've heard it before — pay yourself first. If you wait until you've met all of your other financial obligations before seeing what's left over for saving, chances are, you'll never have a healthy savings account or investments. Resolve to set aside a minimum of 5% of your salary for savings before you start paying your bills. Better yet, have money automatically deducted from your paycheck and deposited into a separate account.

6. Invest

If you're contributing to a retirement plan and a savings account and you can still manage to put some money into other investments, all the better.

7. Maximize your employment benefits

Employment benefits like a 401(k) plan, flexible spending accounts, medical and dental insurance, etc., are worth big bucks. Make sure you're maximizing yours and taking advantage of the ones that can save you money by reducing taxes or out-of-pocket expenses.

8. Review your insurance coverages

Too many people are talked into paying too much for life and disability insurance, whether it's by adding these coverages to car loans, buying whole-life insurance policies when term-life makes more sense, or buying life insurance when you have no dependents. On the other hand, it's important that you have enough insurance to protect your dependents and your income in the case of death or disability.

9. Update your will

In 2020, just 32% of Americans had a will. If you have dependents, no matter how little or how much you own, you need a will. If your situation isn't too complicated, you can even do your own with software like WillMaker from Nolo. To better protect your loved ones, consider writing a will.

10. Keep good records

If you aren't careful about keeping thorough records, you're probably not claiming all your allowable income tax deductions and credits. Set up a system now and use it all year. It's much easier than scrambling to find everything at tax time, only to miss items that might have saved you money.