

5 Steps to Financial Wellness

After physical health, good financial health – or financial wellness – is one of our most important goals. We strive to achieve a certain level of security in our financial lives and often find the achievement of this goal a struggle. While everybody's situation is different, the basics for achieving financial wellness start with some simple rules.

1. ***Live beneath your means.*** I find one of the biggest problems that clients face is managing their spending. The first step is a written budget that should list what you expect to spend each month for living expenses and what you actually spend. I advise clients to engage in this process for at least six months to accurately account for all spending or simply reconstruct your last three to six months of expenses. Whichever method you choose – don't forget to add in your cash spending (ATM withdrawals) to the total. We all love 24-hour access to cash, but ATM withdrawals wreak havoc on our budgets. Habitually, we all tend to spend more as we earn more. Keep a tight rein on spending and try not to spend your hard-earned raises. If you get a raise, allocate it to savings and investments, not to buying yourself presents. My best piece of advice – don't worry about what the Jones' are doing.
2. ***Don't spend money you don't have.*** Credit cards are one of America's biggest problems. This is where the depression-generation has it right – if you can't pay cash, don't buy it – period. No savings plan can work effectively if you're buried in debt. And it just doesn't make sense to make minimum payments on credit cards charging you 9.9 to 24.9% while you add to your savings account that pays you 1%! Pay down your debts first – as aggressively as possible – and then start a savings plan. While it is a risk that something could happen that requires emergency funds (i.e., the furnace needs work, the refrigerator breaks, or the kids need braces) while you're paying down your debt, the math still makes sense. Get rid of high interest rate debt first, not the smallest balance. What if the smallest balance is charging you 9.9% while the highest is charging you 19.9%? You're working against yourself if you're paying off the lower-interest rate card faster.
3. ***Invest in your future.*** We've all heard it before – pay yourself first! Out of every paycheck, put a fixed amount or fixed percentage toward your savings and investment plan. You've heard it time and again. DO IT! If you've read [The Millionaire Next Door](#), you know that you should save between 10 to 15% of your gross income on a regular basis to build a sound financial future. This includes retirement plan investments. If you wait to pay yourself until last, you'll never have a plan for your future and will always be struggling to play catch up. Again simple math gives the answer – the sooner you get started putting aside for the future the more you'll have later. (If you've got credit card debt, see the rule above.) *Hot Tip:* contribute the maximum to your 401(k); not just what your employer matches.

Saving is for short-term needs; investing is for long-term needs. That's the bottom line. You don't buy stocks or mutual funds if you'll need the money in three years to buy a house, and you don't save for your retirement in a savings account. Always, always, always utilize no-load mutual funds or index funds. There is no point in paying 5 to 5.75%, whether it is an up-front or deferred charge (a.k.a. A, B or C-shares), to own a mutual fund. If you can't find one on your own through www.morningstar.com, find a fee-only advisor who can tell you where you can get one.

4. ***Count on the unexpected.*** Some call this an emergency fund or a rainy day fund. Whatever you call it, get one. You should be able to cover your living expenses for a three to six month period, depending on the stability of your job and security of your income. Assuming your debt is paid off (excluding your mortgage and automobile payment), you should have a Rainy Day Fund so you don't turn to the credit cards when your refrigerator breaks, the roof leaks, or you need a root canal! If you use money from the Rainy Day Fund (which should be for emergencies only, not buying a new 36" TV!), replenish it as soon as possible.
5. ***Resolve to be debt free.*** Being in debt creates a lot of stress and puts you under a lot of pressure. It doesn't matter that the bank tells you that you can afford a \$300,000 house – it's more important that you buy a house with a manageable mortgage payment. Remember this – don't worry about what the Jones' are doing – your mission is to work toward financial wellness. The less debt you have, the more able you are to invest and save for your future. The less debt you have, the less stress you're under and you feel less pressured. When your financial life changes for some reason and it most surely will, you'll be worrying a lot less when you have manageable debts. Put a plan in place to pay down and then pay off your debts.

Following these steps is your surefire plan to achieve financial wellness.

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