5 steps to financial wellbeing

By Shannon Spence

When it comes to financial fitness, there is a lot of advice to sort through. Experts may differ on the steps to achieve financial well-being, but when all is said and done, they generally agree that you need to know where your money is going and have a plan around what you spend and what you save. Good financial health, after all, requires the same care and thought as your physical health. Frequent checkups and an active involvement are essential for keeping it in good order.

Here, the experts weigh in on the steps to financial freedom and how we can all achieve greater wealth over time with a little planning and a thoughtful approach.

Get rid of high-interest debt. Not all debt is created equal. There's low-interest debt (student loan, mortgage, and car) and high-interest debt (credit cards). By paying down high-interest debt, you reduce your total debt faster and spend less on interest over time. Start by listing out all of your debt and the associated interest. This list will tell you, at a glance, which debt to start putting more money toward each month. Start managing your debt with these three simple steps.[1]

Track your spending and create a budget you can stick to. It's hard to know where you need to go if you don't know where you're at. Review your bank and credit card statements for an accurate view of your income and expenses. Start to identify how much you're saving and where you can cut down on frivolous spending. At the same time, begin setting small goals to increase your savings. Tools such as Mint.com and YouNeedABudget.com can help you put your spending in check and even automate transfers to your savings account so you don't have to think twice about it. It's also important to be aware of the two types of expenses – one-time and subscription – and to budget accordingly.[2]

Create an emergency fund. After getting rid of your high-interest debt, start putting away money for when you need it. Doing so will help protect you from incurring bad debt in the future, and prepare for those times when life throws you a curve ball. Experts recommend socking away at least three to six months' worth of expenses, though saving for six months' to a year's worth is optimal.[3] Funds should be saved in an easily accessible location, such as a savings account or internet bank money marketing account, to tap into in an emergency.

Save for retirement. Saving for emergencies is absolutely an important part of maintaining financial well-being, but you don't want to save much beyond six months or so of expenses. Savings accounts yield low returns on investments (typically 1 percent or less), so you'll want to put your money where it can grow more, such as a tax-advantaged retirement account. A 401K or Roth, for example, will help your money grow tax-free and enhance your returns to boot![4]

Know where your credit stands. Good credit can take you places, and achieving it is one of the best things you can do to achieve financial health. Furthermore, good credit can help you secure better interest rates on loans, credit cards, and lines of credit. Make it a habit to review your credit score regularly to ensure there are no errors negatively impacting your credit. You can request a free copy of your report annually from one of three reporting agencies: Equifax, Experian, and TransUnion.

Remember, "Intention flows to where our attention goes." By becoming clear about your financial situation and having a plan of action, you can gradually get to a place where your money and credit work for you – not the other way around.

Sources

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