SNBT HOME

The Stephenson National Bank & Trust
Financial Solutions from Advisors You Trust

Financial Fitness Tips for the New Year

Getting a handle on your finances can seem like a massive chore. Just like organizing the garage or losing 25 pounds, getting financially fit takes planning and dedication. Here are a few basic elements of financial fitness to keep in mind.

Budgeting

Making a budget (and sticking to it) is the foundation of a solid personal financial plan. There are two essential pieces of a budget: the money you make and the money you spend. Break down all income and all expenses on a monthly basis to get a clear picture of what your personal budget should look like. This will help you optimize your spending and cut back on unnecessary expenses.

Goal-Setting

Create a specific, tangible goal for your finances. "Saving money" is a philosophy, not a goal. Instead, tell yourself you'll have $3,000 in your savings account at the end of the year. Then, break that down into smaller goals, such as monthly or bi-monthly dollar amount targets. Seeing yourself achieving the smaller goals will help you reach the big one.

Cutting Expenses

This can be more difficult than it sounds, but having an accurate budget first will help. Be realistic when deciding what expenses must be cut. List what expenses are not absolutely necessary and then prioritize them. Based on your budget and this list, cut the expenses that are the lowest priority first, even if they're not the biggest ones. You'll be more likely to stick to your plan this way.

Bad vs. Good Debt

Some people think than any debt is bad debt, but knowing what debt is acceptable and what is more harmful will help you decide what to pay off first. The two things to look at when deciding if a debt is good or bad are the interest rate and the equity. The higher the interest rate, the worse the debt. This is why it's important to pay off credit cards quickly, as they often have very high interest rates. The equity is the value of the debt. So, a mortgage or student loan has better equity than a personal loan taken for a vacation, because the house or education are worth more than the vacation over time.

Saving for Retirement

Whether you've just entered the workforce or are within a few years of leaving it, saving for retirement should be a priority. It's important to pay yourself first, either through an employer-sponsored 401(k) or through an individual retirement account (IRA). There's a wide variety of options in this market, so talk to your banker about which retirement savings product is right for you.