Building Money Mindfulness

There are practical steps you can take to strengthen your financial health.

With a new year just underway, it's the perfect time to take steps to shore up your financial stability. There are a few key areas that will go a long way to strengthening your finances: reducing debt, creating (or building up) an emergency fund, protecting your savings when your income takes a hit, and creating a budget.

Reduce debt

For most Americans, debt is essential, accounting for a great majority of all home (88%) and vehicle (85.4%) purchases. At the same time, ensuring that you have sufficient income to pay down your debt is essential for avoiding a mounting debt burden.

An important way to reduce debt is to reign in your credit card purchases, which can accumulate finance charges each month if you fail to pay the balance in full.

If your income is insufficient to pay off your credit card balance in full, shop around for a card with the most favorable interest rate. You have the potential to receive a lower interest rate on a credit card if your credit score is strong. To improve your rating, pay your bills on time and reduce your reliance on credit cards.

Create an Emergency Fund

Creating an emergency fund is an important way to handle unexpected expenses, such as a medical emergency, major car repair, or an appliance replacement. Ideally, you want to keep three to six months' worth of living expenses in the fund. Without such a backup source of payment, you may incur credit card debit.

If you tap your emergency fund during a downturn in the job market or by incurring unexpected expenses, create a budget to build it back up.

If your income rises, consider creating a bigger emergency fund that covers more than six months' worth of expenses.

Protect Your Savings When You Lose Your Job

Losing your job creates a nearly immediate shock to your cash flow, and it could prompt you to make unsound financial decisions, such as piling up debt on a credit card. Resist the temptation and instead look for ways to replace your lost income, such as by filing for unemployment benefits. The benefits have the potential to address some of your basic expenses and prevent you from taking out your credit card.

Additionally, scour your budget and try to find expenses that you can trim or even eliminate. Discretionary spending items like eating out and leisure travel are easy to cut; so, too, are those premium cable channels and $8 pints of name brand ice cream.

Don't be afraid to withdraw money from your emergency fund, this is the occasion that you dreaded but planned for.

Avoid taking money out of your 401(k) or other retirement account, as it may make your retirement savings goal difficult to achieve.

Budget by the Numbers: 50/30/20

Developing a budget is a practical way to manage your finances and achieve a positive cash flow. One popular and easy rule to follow is to allocate your after-tax income on a 50/30/20 basis: 50 percent on your needs, 30 percent on your wants, and 20 percent to savings.

Your needs include goods and services that you cannot live without, like mortgage payments, groceries, insurance, and healthcare. As an example, a car payment is a need; HBO Max is not.

Your wants are comprised of discretionary items, like eating at restaurants, leisure travel, and that premium Internet package or luxury car (choose instead middle-of-the-road broadband and a more economical vehicle).

If possible, putting away 20 percent of your net income to savings has the potential to help you save for retirement and establish an emergency fund, the latter to be used if you incur an unexpected expense or loss of income.

Building money mindfulness helps you take better control of your income and expenses and is an important step to achieving your financial goals.

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