

FLABBY FINANCIAL HABITS? Written by: Chase Squires | Transamerica April 05, 2017



Why It Matters:

- Having a financial strategy that's "flabby" can cost you real money. Whip it into shape.
- Simple changes can make a big difference.
- You always hear about "healthy physical habits," now meet "healthy financial habits."

Getting in shape for summer is a popular springtime topic. But have you thought about giving your wallet a swimsuit workout as well? After all, your financial health is just as important.

If your finances have gotten out of shape, you aren't alone. The Federal Reserve produces an annual snapshot of American finances, the "Report on the Economic Well-Being of U.S. Households."

And while many numbers have improved since 2016's report, the most recent version available, 2017, still found:

- Some 55% of Americans with credit cards carried a monthly balance in the prior year. (The national credit card APR is 16.15%.)
- Faced with an emergency expense of \$400, 40% said they couldn't cover it without borrowing or selling something.
- And shockingly, 25% of non-retired Americans said they have no retirement savings or pension.

Does someone need to get back in financial shape? Consider a series of "exercises" that will help you understand your financial situation, cut back on expenses, kick unhealthy financial habits, and build your financial fitness.

Exercise 1: The weigh-in

Similar to how a personal trainer would want to evaluate your health status before you began a new workout program, the same can be said for your finances. You first need to know where your weakness and strengths lie, so you'll know which areas to tackle first.

Take a look at your finances from last year and categorize your spending month-by-month to see how your expenses compare to what you're bringing in. This is the time to evaluate where your money shortfalls may be. Maybe you're spending more than you're making, or spending too much in one category and running out of money for another. Or maybe you don't seem to have enough income after your expenses to put something away in savings.

Exercise 2: Getting trim

Now that you've organized and evaluated your finances, it's time to shape (or create) your budget. Consider making a few trims. As The Budget Diet blog points out, trimming \$13 a day adds up to \$400 a month. Here are some "extras" to consider cutting back on or eliminating in your budget:

- **Cable/satellite TV:** Evaluate how important this section is. If you can't live without it, maybe consider switching to Netflix or Hulu as a way of cutting costs while not removing this category completely.
- **Dining out:** If you typically eat out three days a week, try limiting meals out to just one, and put the money you *would have* spent dining out into your savings.
- **Entertainment:** Going to the movies isn't as cheap as it used to be. Are you spending \$12 a ticket (or even more for a 3-D or IMAX show)? Toss in a couple sodas and a tub of popcorn, and that's not a cheap night out. No worries if you really want to see that flick, but if you're just killing time, rental services such as Redbox or on-demand, are a lot cheaper.
- **Driving:** While you may not be able to eliminate this expense completely, you can reduce it. It's not just about gas and maintenance. If you live in a big city, parking even for an hour can add up. Walk, bike, take public transit, and keep that parking money.

Exercise 3: Habit hacking

Don't leave out those costly habits you might do daily that eat away at your budget.

- **Java:** If you pay about \$4 Monday through Friday for that morning latte, that's more than \$900 a year. Or you could buy a bag of beans and brew your own (and you can still write your name on a paper cup, maybe even spell it correctly).
- **Not planning:** Paying fees for failing to plan is throwing money away. Budgeting and planning ahead helps you avoid bouncing a check (national average penalty is \$33). Using an ATM that's not owned by your bank hits you for another \$3, each time.
- **Smoking:** You knew this was coming. If you still smoke, there's a financial reason to quit, too. According to a study by WalletHub, the estimated lifetime financial cost of smoking is just above \$1.5 million per smoker. Ouch. This isn't just the cost per pack that continues to rise. Think potentially lower life insurance rates and saving paid time off for a vacation day, instead of another chest cold. You can do this, and there's help out there (free, of course).

Exercise 4: Biggest gainer

The key to making any resolution last is to check your progress. Look at your budget and spending on a monthly basis to make sure you're staying on course as well as seeking other ways to cut costs. You may start to like what you see. Shop around for a better deal on car insurance. Use some of your new monthly savings to pay off high-interest credit card debt. Build an emergency fund so you won't have to borrow when the unexpected hits.

Things to Consider:

Just like exercising, working out your wallet a little each day can make a big difference over time:

- Know where you stand – examine your spending habits.
- Don't spend mindlessly – cut out the daily expenses you don't really need.
- Chart your progress – build toward a goal, whether it's paying down debt or building an emergency fund.