



Starting on the Road to Financial Security

Reaching a point of financial security is a process that takes time, effort and perhaps some sacrifices. However, the results are worth it. By starting early, you can put time on your side. By doing a few things right from the beginning, you can make that process easier and minimize the sacrifices you may be forced to make later.

Consider reaching financial security to be a project like building a house. You start with a foundation, you add the floors as time goes on, you put on a roof, you finish the inside and then you move in. Fortunately, you have a long time to build your financial future, you can learn the skills it takes and it is easier than building a house.

What is financial security?

Financial security consists of several things:

- Being able to afford your current needs.
- Having confidence you will be able to afford what you may need in the future.
- Being able to enjoy some things you want now, but may not truly need.
- Being able to provide the type of financial lifestyle for your family you want.
- Having a peace of mind knowing you are taking the right steps to reach financial security.

Why is a solid financial foundation important?

You, and you alone, are ultimately responsible for your financial well being. Your decisions will affect how you live on a day-to-day basis and in the long term. Handling the financial issues associated with starting out, establishing a household and assume more responsibilities can be stressful. A solid financial foundation can help you spend less time and effort worrying about your finances so you can devote your time and energy to other important matters like your job, your family and your future.

Building a solid financial foundation.

First identify a few very broad goals:

- I want handling my finances to be easy.
- I want to be able to enjoy my current financial lifestyle.
- I want to know that I am making progress toward achieving financial security.
- I want to be confident that I am doing the right things and not doing the wrong things.

Components of a solid financial foundation.

- Not spending beyond your means.
- Building some financial net worth.
- Establishing a good credit record.
- Establishing some good financial habits.

Monitor and control your spending

While this task may sound ominous, it does not have to be. Consider breaking it into pieces. First, you need to know how much you have coming in each month. While you may be earning interest and dividends on savings accounts or investments, let's just focus on income from your job. Every pay period (weekly, semi-monthly or monthly), you earn a certain amount. However, the check you receive is reduced by taxes that are withheld, your share of employee benefits (primarily health insurance), amounts you contribute to your company's retirement plan and any other deductions you may have. The amount you have left is your monthly disposable income. That is how much you have to pay your bills and hopefully there will be some left over you can save.

Next, break your expenses into those that are fixed and those you can control. Fixed expenses include rent, parking, other insurance (probably renter's and auto insurance), utilities and recurring medical costs. You probably have some level of control over most of your other expenses.

Finally, subtract your fixed expenses from your disposable income. That is how much you have to cover your other living expenses and any other spending. To not overspend your income, just make sure you manage your other living expenses and other spending to have something left over each month.

Building some net worth

Accumulating net worth takes time and some discipline. Here are three ideas that can help:

- Contribute to your employer's retirement plan. If you are eligible for a 401(k) plan, be sure to participate and contribute something. Most plans have some type of employer matching provision where the company contributes money equal to all or some portion of what you contribute. Be sure to understand how your plan works and, if you can, contribute enough so you get the maximum contribution from your employer.
- Set up an automatic savings plan. Many employers will automatically deduct a certain amount and send it directly into a savings account at your financial institution. Choose an amount you are comfortable with and let it happen automatically each pay period. If your employer does not offer this, set up a plan with your financial institution so they move that amount from your checking account to your savings account each month.
- Save what you do not spend. After you have paid your bills each month, move what is left over to your savings account. You will probably want to keep some funds in your checking account to cover unexpected expenses, but by moving excess funds to your savings account, you will be accumulating assets and probably earning more than what you would have earned if you left your excess funds in your checking account.

Establishing a good credit record

Three large companies compile information on the borrowing history of almost everyone. They get their information from credit card companies, utilities, financial institutions and other companies. Every time you apply for credit, whether it is completing a credit card application, getting an auto loan or signing a lease for an apartment, the company you are working with will probably request a credit report on you.

Lenders will use those credit reports to make decisions on whether to grant you credit, make a loan and in many cases what interest rates to charge. Therefore, it is important to have a good credit report. While there are many factors that go into your credit report, the most important ones include timeliness of payments, how much do you owe in total and how many companies you owe money to.

Here are some guidelines to help you build and maintain a solid credit rating:

- Be sure to pay every bill before the due date. Promptness counts and you want to avoid any late payment fees.
- Pay more than the minimum on all credit card accounts if you can.
- Do not have too many credit cards. Every time you apply, it is noted in your credit record.
- At least once a year, order a credit report on yourself. That way you can see what lenders see. If you notice an error in your report, be sure to contact the credit agency and have it corrected.

Establishing good financial habits

Here is a list of a dozen things that can put you on the road to financial security.

- Make sure your financial information and records are organized.
- Use direct deposit for your paycheck.
- Participate in your employer's retirement plan and contribute as much as you can.
- Set up an automatic savings program.
- Prepare a household spending worksheet.
- Periodically prepare a personal balance sheet.
- Use as few credit cards as possible.
- Reconcile your checking account monthly.
- Review all your bills and statements as soon as you receive them.
- Make credit card payments promptly and pay more than the minimum.
- Be sensitive to fees and interest rates.
- Learn more about handling your finances by reading personal finance columns in newspapers and personal finance magazines.