PERSONAL FINANCE

Lost Your Way Financially? How to Get Back on Track

Making even small adjustments to spending and saving habits can make a big difference when it comes to meeting your financial goals.

(Image credit: Getty Images)

When you feel lost in your financial journey, starting to make better financial decisions can seem daunting. And today’s challenging economic climate has left many Americans feeling as if they’re unable to keep up with their finances.

According to an Edward Jones and Morning Consult survey, 61% of respondents said that inflation prevented them from staying accountable to the financial resolutions they made in 2023, and 43% reported they do not feel financially stable.

The good news is that you can make positive steps through small adjustments to your spending and saving habits. By integrating a few useful financial habits into a daily routine, you can get back on the right path toward meeting your life goals.

Financial wellness begins by building a stable foundation — creating a budget to track expenditures, finding areas where excess spending can be cut and managing debt levels. Once you have an accurate view of your financial picture, you can make informed decisions and plan for long-term goals, such as retirement or future education.

Building a foundation

Financial well-being is a critical component of overall personal well-being. But to reach a stage of financial security — which includes earning enough to cover weekly and monthly expenses while feeling confident about your financial future — it's important to understand how much you can spend and save.

This is why creating a budget is crucial. A budget will help you identify waste in your daily spending habits and stay focused on your priorities and the things that are important to you.

When thinking about where to reduce expenses, it can be helpful to distinguish between "needs" and "wants." While a "need" is an item that is necessary for basic living, a "want" is something that makes life more comfortable. Once you understand your needs and wants, you can make a realistic plan that helps you achieve your financial goals.

One simple budgeting tool is the 50/30/20 rule, which calls for allocating 50% of your income toward needs, such as bills and liability payments, and 30% toward wants, such as going to the movies or dining at a restaurant. The remaining 20% of the budget should be set aside for future goals and financial security. These future aspirations could be as near-term as saving for a vacation, or as far out as saving for education.

While the 50/30/20 rule can be an effective budgeting method for most people, it's not always the right fit. For example, someone with high health care costs — such as an individual caring for older parents with medical expenses — may struggle to fit within the 50% allocated for needs, while others with lower expenses may find this ratio too restrictive.

Whatever method you choose to manage your budget, it's important to stay disciplined. Doing so will likely reveal areas of strengths and weaknesses in your financial picture and raise important questions that lead you to reexamine your financial practices.

Managing your debt load

Creating a budget and reviewing spending habits are great first steps to getting back on track, but the road to financial stability doesn't end there. One of the most important practices to solidify financial health is to keep debt at manageable levels, or, better yet, be debt-free entirely.

Carrying a high amount of debt can lead to costly interest payments and cause worry and stress. It's important to periodically check your debt-to-income (DTI) ratio — a percentage that indicates the amount of your monthly income that goes toward debt payments — to determine whether you're in danger of carrying too much debt.

While there are no definite rules, you should aim to spend no more than 8% of your monthly income on debt. Not only can a higher ratio place you under significant financial pressure, but it can make securing home and car loans difficult and lead to higher interest rates if your loans are accepted.

To lower your debt load, one approach you can take is to start by paying down the debt with the highest after-tax interest rate. Whether you make minimum payments or can pay more than is required, any amount will help. If you're feeling overwhelmed, you can reach out to a financial adviser, who can help with renegotiation and consolidation of debt at lower interest rates.

Keep in mind that reducing your debt also requires an attitude shift. As paying off loans usually comes at the expense of investing in other goals, you should be prepared to make sacrifices in other areas of your financial plan.

NYSUT NOTE: You can get help with managing debt and creating a budget from Cambridge Credit Counseling, endorsed by the NYSUT Member Benefits Corporation. NYSUT members are eligible for a free, no-obligation debt consultation with a Cambridge certified counselor.

Looking to the future

Once the initial building blocks are in place, you can start to manage longer-term priorities and set aside money for unexpected events.

Take, for example, an emergency savings account. As unforeseen events often arise in life — such as surprise medical bills or extended periods of unemployment — setting aside a portion of your income for emergencies is essential to avoiding excess debt in the future. Ideally, this account should be kept separate from everyday spending so it's easy to determine what is set aside for urgent situations.

While there is no defined amount for an emergency fund, prioritizing $500 to one month's worth of expenses is a good start. From there, aim to save up six weeks to two months' worth of expenses, with a goal of reaching three to six months' worth of savings.

NYSUT NOTE: Build savings faster with a high-yield savings account from the NYSUT Member Benefits Corporation-endorsed Synchrony Bank Savings Program. With Synchrony, you can have 24/7 online and mobile banking, set up automatic deposits and more.

Other long-term savings objectives include retirement plans, education and homeownership. For these areas, taking advantage of employer match programs can help accelerate your savings timeline. Not only do employer matches offer an immediate return on your contributions, but they also provide a tax benefit and potential market appreciation.

A rule of thumb is to save 10% to 15% of your gross income — including any employer match contributions — in retirement accounts. However, everyone has a unique financial picture, and retirement planning will vary based on factors such as desired retirement age, projected assets, anticipated life expectancy and desired income. This means you shouldn't be discouraged if you fall outside of these levels. Time is your ally, and saving even small amounts daily can lead to substantial long-term returns.

Ultimately, practicing prudent habits such as budgeting, saving and investing wisely will lay the groundwork for a secure financial future. By prioritizing disciplined financial behaviors each day, you not only cultivate stability in the present but also pave the way for peace of mind in the years to come.

NYSUT NOTE: Getting advice from a professional can help ensure your finances stay on track. The NYSUT Member Benefits Corporation-endorsed Financial Counseling Program offers a team of Certified Financial Planners® to advise you on all your financial planning needs.

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As a principal at Edward Jones, Vanessa Okwuraiwe is part of the strategic leadership team that helps the firm achieve its goal of being a place of belonging for all and to fulfill its purpose of making a meaningful impact in the lives of clients, associates and communities. She is a thought leader in Financial Wellness with a focus on building financial resilience across all communities.

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