
8 Financial Keys to a Happier New Year

For many people, the New Year signifies a fresh start. The mental and spiritual batteries are recharged after the drain of the hectic holidays. We're more optimistic. We're open to new possibilities, new strategies, new aspirations. Here are eight personal finance tips from the Financial Planning Association that can help you toward a happier new year.



Set clear goals.

We don't mean only financial goals such as building a larger retirement account or getting out of debt. We're talking any goal you'd like to work toward or achieve in the new year that has financial consequences. For example, perhaps you want to work less so you can spend more time with your family, or you want to change to a career that excites you more but that pays less. How can you afford such goals? That's why setting specific, realistic goals-and writing them down-is such a powerful financial tool for realizing them. It not only clarifies what you have to do financially to achieve the goals, it motivates you to achieve them within a specific timeline. Saving for something provides much more financial incentive than merely following the standard advice to save 10 or 15 percent of your monthly pay.

Discuss the goals with your family.

Include your spouse, your children if they're old enough, or other loved ones who might be affected by your goals. They can help you clarify the goals, motivate you to make changes, and aid in their achievement.

Create a financial plan.

All financial actions (or inactions) affect other financial actions. If your financial left hand doesn't know what your financial right hand is doing, one may undermine the other. For example, lack of adequate insurance for home, health, and other aspects of your life could decimate your retirement savings and investments if something goes wrong.

You may need professional advice at this stage, or you may feel you can do it yourself. Regardless, the key is creating and following through with the plan.

Review the last year.

Life is continually in flux and change can have a profound impact on your financial plans. For example, during the past year did you get married or divorced, have a child, suffer a death in the family, change jobs, or change short-term or long-term goals?

Establish a spending plan.

Achieving financial goals is built on a single principle: spend less money than you earn. And it's difficult to spend less than you earn if you don't know where your money is coming from and going to.

First, list your regular, dependable sources of income. Then track how much and where you spend money every month (including cash). Average out on a monthly basis periodic expenses such as car insurance or property taxes.

Subtract monthly expenses from monthly income and...do you have a surplus, are you in balance, or are you spending more than you're taking in? Are you skimming 5 or 10 percent right off the top of your income for savings and investing? If not, what expenses can you reduce or income increase in order to save toward goals? Automate savings to make it less painful.

Reduce debt.

Resolve to lower debt this year. As interest rates rise, every dollar of accumulated debt becomes a heavier and heavier drag on your entire financial life.

Diversify your household assets.

You know not to put all of your investment eggs in one basket (such as high-tech stocks). Apply this advice to your overall financial household. If possible, working spouses should be employed in separate companies in separate industries in order to reduce the possibility of both of you losing jobs at the same time. Go easy on company stock and industry stock where you work. If your employer or the industry suffers hard times, you might lose not only your job but also much of the value of your investments. Avoid investing in a single business or industry that dominates the economy where you live. If the company or industry suffers, so might your home values along with your investments.

Educate yourself financially.

The more you understand about finances—from budgeting to investments to insurance—the more confident and motivated you'll be to take the right financial steps this year.

And the happier you'll be for it.

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