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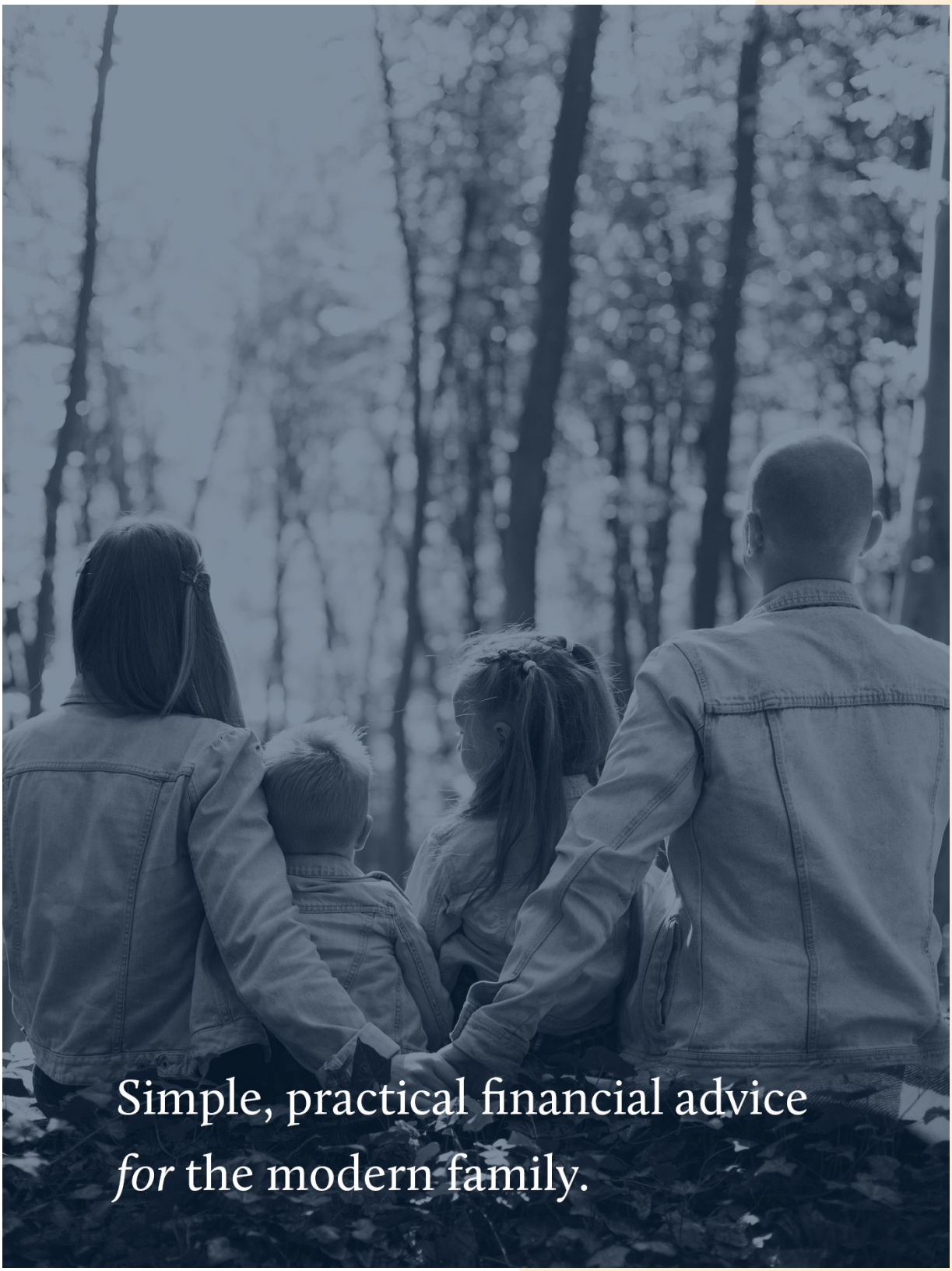
SIMPLEMoney



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How to Set Money Goals for 2021

—by Stefanie O'Connell Rodriguez

How do you set money goals after a year like 2020?

When I was making resolutions last year I couldn't have anticipated the 10 months of 2020 that my husband would be out of work, or the 7 months that my business would essentially be shut down, or leaving behind our beloved New York City apartment.

It's been a year of loss and uncertainty for so many Americans, with two thirds reporting a financial setback in 2020, according to Fidelity Investment's newly released 2021 Financial Resolutions Study.

The Impact of 2020

- 23% of respondents reported losing a job or household income.
- 20% had an unexpected non-health emergency.
- 18% had to provide unexpected financial assistance to family members or friends.
- And 16% reported a health emergency in their family.

So it's not surprising that 29% of Americans say they're in a worse financial situation now than they were at the start of the year.

That said, 65% of respondents are still considering financial resolutions for the New Year – and I am one of them.

Practicing Financial Optimism

While I may not know when my husband will return to work, or whether my business will continue it's post-lockdown recovery, or when we'll be able to return to our life in Manhattan, I'm setting resolutions for 2021 as a practice of financial optimism.

Research shows that optimism pays – literally. Optimists are more likely to have an emergency fund, to enjoy greater career gains and higher incomes, and to experience less financial stress.

To be clear, financial optimism isn't about ignoring the difficult realities many of us are facing in this moment – it's about believing that we have the ability to face those challenges and improve our lives in spite of them.

Financial optimism requires us to acknowledge that our setbacks are temporary rather than permanent, and to recognize that our financial circumstances are not the result of a personal failing or fundamental character flaw. In fact, feeling shame about our financial circumstances – be it a job loss or a debt balance – can actually make it more difficult to regain control over our financial futures. Research shows that shame can trigger a fight or flight response – diminishing our ability to process information, spiking our anxiety and encouraging us to withdraw rather than engage.

To practice financial optimism, it's critical that we shift our focus from our financial shortcomings, mistakes and bad situations, to what is working in our financial lives and where we can make progress.

With that in mind, here's how I'm going about setting resolutions for 2021.

Focus on Actions Instead of Outcomes

With so much ongoing uncertainty as we enter the New Year, it can be hard to commit to some of our standard financial goals. Exactly how much some of us can save may be vastly impacted by the spread of Covid and the impact on businesses and whether or not there is any additional stimulus passed and how soon vaccine distribution allows us to return to some semblance of pre-pandemic life, which could still be months away.

Rather than waiting around to see how it all shakes out, I'm setting resolutions now with a focus on committing to specific actions, rather than specific outcomes.

For example, I might not be able to commit to investing a specific percentage of my paycheck each week until I know more about how business will look in 2021. But I *can* commit to tracking all of our money each week and sitting down at the end of each month to figure out just

how much I *can* afford to set aside given the most up to date information and projections we have.

Establishing the habit is more important than the amount.

Whether it's saving, investing or paying down debt – by focusing on your actions as opposed to your outcomes, you can approach 2021 as an opportunity to refine your foundational money habits – from tracking everything you spend, to consistently reviewing your progress, to reevaluating your savings strategies and goals on a regular basis.

Practice Self-Compassion and Celebrate Small Wins

According to the study, 38% of Americans anticipate they'll still be in survival mode in 2021 – with one in six Americans reporting recovering from financial losses due to the Covid-19 among their top financial resolutions.

With so many ongoing challenges and unknowns, it's important to anticipate the inevitability of setbacks and mistakes – which can happen even under the best circumstances. Practicing financial optimism and self-compassion, and avoiding shame and self-blame are important tools for staying resilient.

To cultivate the practice of financial optimism, celebrate your money wins. Recognizing where you're succeeding in your financial life and

building upon that, is a valuable tool for staying motivated and optimistic, particularly in challenging times.

While small habits like reviewing your bank statements each week might not solve all of your financial challenges overnight, it's important to recognize the wins these positive financial habits enable. Even simple things like consistently paying your bills on time and stashing away a few dollars in savings can help propel you to bigger wins over time – training your brain to focus on progress rather than perfection.

Stay Flexible

According to Fidelity Investments' recent *Moving Forward* study, 58% of respondents say they are financially preparing differently for the New Year.

2020 has obviously shifted a lot of financial plans and timelines. As we move into 2021, it's important that we continue to stay flexible so we can adapt to our new realities and adjust as necessary.

This time can be an opportunity to step back and reconsider your priorities. Are major milestones like a purchasing a home still on your short-term horizon, or do you want to focus more on building emergency savings and paying off your student loans?

If you're not sure where to begin, what to prioritize or how to adjust your financial plans to the ongoing changes in the world, consider tools and resources that can help.

With 2021 on the horizon, and our resolutions starting to take shape, having a tool that can help prioritize short-term and long-term goals and identify the best approach to achieving them can certainly come in handy.

While our goals and priorities are likely to continue shifting over the course of the year, identifying a few key priorities can help serve as a guide as we start making plans – giving us something to track our progress against to stay accountable.

While there's still so much we don't know about what 2021 will look like and how our plans and priorities will ultimately shake out, what we *do* know is that we can stay committed to the processes and habit of engaging with our finances. And that's a win we can always build upon.

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This article was originally posted on stefanieoconnell.com.

Stefanie O'Connell Rodriguez is a nationally recognized millennial money expert and author of the book, *The Broke and Beautiful Life*.

Stefanie has helped thousands of young professionals get more from their money so they can go after what they want.

There's Always a Reason to Wait Until Tomorrow. Don't.

—by Joshua Becker

Don't wait for tomorrow, start today.

Is there a change you wish to bring about in your life?

Do you want to lose weight? Get your finances in order? Stop smoking? Declutter your home? Start a new hobby? Change your career? Reconcile a relationship?

There's always a reason to wait until tomorrow – which is why you should make the change today.

Take losing weight, for example. We know we have a few pounds to lose, but it's easy to find a reason to wait. We have that dinner party over the weekend... our birthday is in ten days... there's that vacation with the family right around the corner... or your good friend is bringing over cookies for your Book Club later this afternoon...

So we convince ourselves to wait to make the positive change we know we should make.

Unfortunately, once the first reason passes, there is another one right around the corner. Now we're one day closer to our Anniversary dinner, our Office party, or Easter candy going on sale... so we put off losing weight yet again.

We can see this same effect with countless healthy habits we should be embracing:

> "I'll stop watching so much tv... right after March Madness."
>
> "I'll start exercising... right after this busy season at work."
>
> "I'll start saving money... right after I replace this car."
>
> "I'll start going to bed earlier... right after this weekend."
>
> "I'll spend less time on my phone... right after I play this game."
>
> "My schedule will slow down, right after..."

You see, there is always going to be a reason to wait until tomorrow.

But the best time to get started is today.

Regardless of the reasons you think you should, today is the very best day to make the change you've been needing to make.

But how? Here are some helpful ideas to get you started, right now, today:

1. Make one small step. Your first step in the right direction doesn't need to be a big one. And you don't need to be an expert to get started.

Just make one small change in the right direction. Once you've got momentum in the right direction, the next step will be easier.

2. Remind yourself of all the reasons to start right now. Remember, if you start losing weight today, you'll be thinner for Spring. If you start saving money now, you can probably save a certain amount of money by this specific date. If you stop smoking today, you'll start to feel healthier by tomorrow. Rather than thinking of the excuses to not start, remind yourself of the reasons to begin.

3. The next time you feel the urge, read a helpful article. Reading about a habit is not the same as incorporating it into life, but it can be a helpful step. Years ago, I ran my first marathon because one evening when I felt the urge to do it, I pulled up an article online, "How to Run Your First Marathon" and started researching the steps. Whatever change you want to make, next time you feel the pull, find some helpful articles online to keep you motivated.

4. Find external motivation. It's one thing to go on a diet, it's something completely different to tell all your friends that you are going on a diet. Sharing your aspirations with another often serves as accountability and motivation for us. So go ahead, speak your dreams.

5. Set a reward for yourself. One common tip, based on psychology to overcome routine procrastination is to offer yourself a reward for getting started. The future motivation can help change our present-self.

So choose a way to reward yourself tomorrow, if you make the change today.

There is an old proverb that goes something like this, “The best time to plant a tree was 20 years ago. The second best time is now.”

Make the change you desire in your life… the one you’ve been waiting to start. No more excuses. No more waiting until tomorrow.

Do it today. Your future self will thank you for it.

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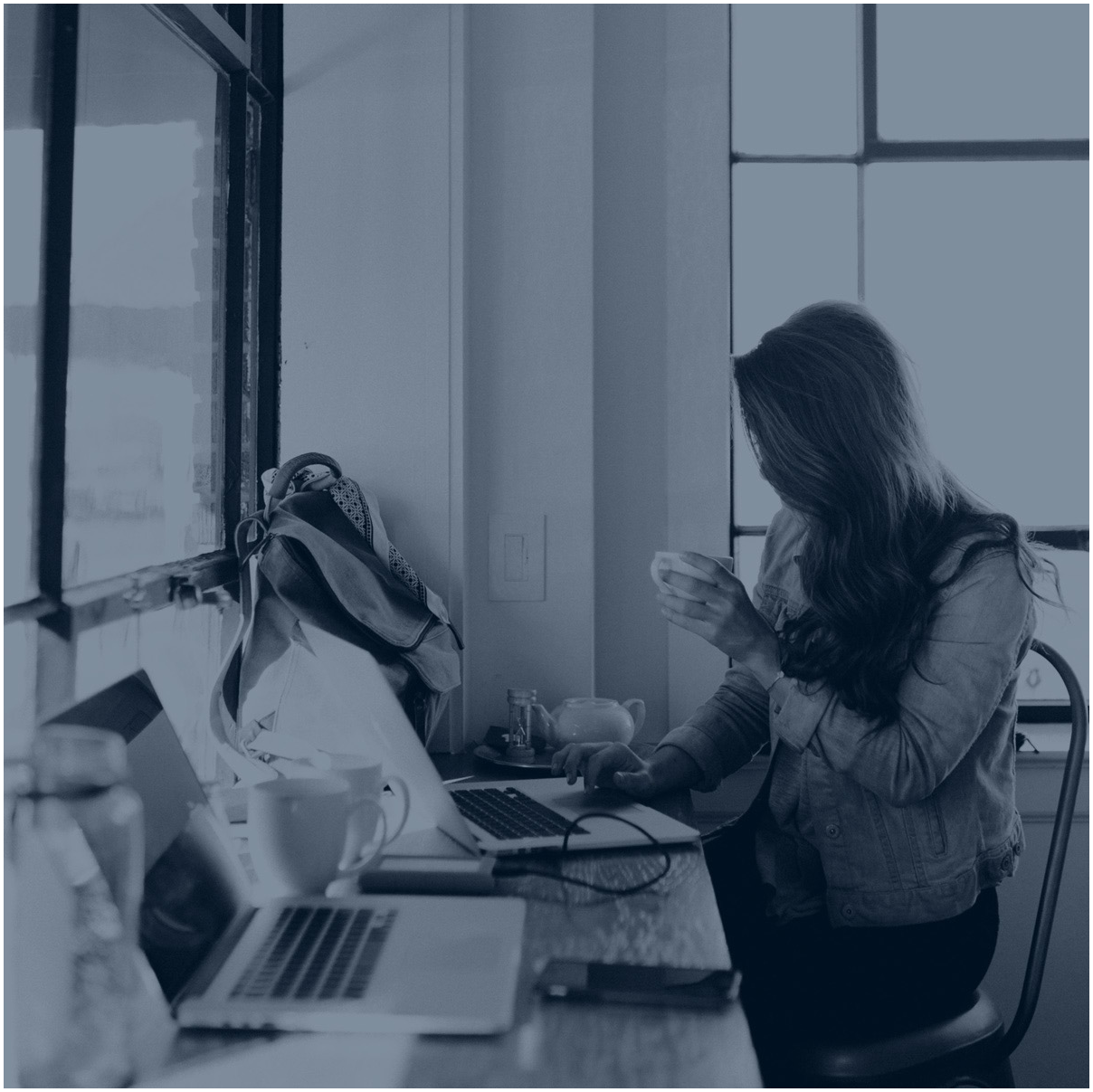
Joshua Becker is a best-selling author and speaker on the benefits of living with less. His blog, Becoming Minimalist, is visited by 1M readers every month. He is also the Creator of Simple Money Magazine and Simplify Magazine.

How to Get One Month Ahead Financially

—by Robert Farrington



Does getting one month ahead financially sound like a fantasy? It doesn't have to be.

A recent study commissioned by Discover Personal Loans found that many respondents understand the importance of paying off debt and increasing their savings but aren't making near the progress on those goals that they'd like to.

This isn't surprising. Especially since 60% of the survey respondents reported dipping into savings to pay monthly expenses in the past five years. Also, 38% were trying to save to pay off debt.

The thing is, if you're working hard to pay off your debt, save for retirement, and build up your savings, minor unforeseen expenses can completely throw you off track and restart the paycheck-to-paycheck cycle.

If you really want to make financial headway you need to break that cycle. A good place to start is getting one month ahead of your expenses.

Acknowledge Your Situation

Before you can realistically get ahead, you need to acknowledge your situation. If you pretend you're okay, avoid looking at your bills, and

completely dismiss the fact that financial health is important to your life (and stress levels), you will not get anywhere.

Accept the situation you're in and get fired up enough to do something about it.

While *it is* hard to dig yourself out of a hole, it's also completely possible if you want it bad enough. On top of that you will reap huge rewards from taking action and control of your current situation.

Ready to change your financial life?

First you need to determine whether you have an expense problem (you spend too much money) or you have an income problem (you don't make enough to cover the basic costs of living.) You might be strictly in one of these categories or maybe you're a little of both.

Either way, you can course correct.

Lower Your Regular Spending If You Have an Expense Problem

If you're normally a big spender and are upset at yourself over the situation you're in right now, I want you to stop. I'm going to pull a quote from *Your Money or Your Life* and tell you "no shame, no blame."

We all make mistakes. Beating yourself up over past spending will do absolutely nothing for you right now. Instead, just accept where you're at and make a commitment to smarter financial decisions.

You can't undo the past but you can control your future.

So, if your expenses are much higher than they should be here are a few practical ways to lower them:

Shopping Bans/Allowances: If your weak spot is shopping try doing "no-spend months" until you're able to save enough money to get ahead. If you know that you can't stop pleasure spending altogether then go in baby steps.

Instead of completely avoiding buying things that you want, give yourself a budget. Just be sure that this budget is much lower than what you're normally spending and that after this budget, and meeting all of your regular expenses, you'll have money left over to save.

Check out this fun list of money saving challenges you need to try.

High Interest Debt – If you're in debt, especially high interest debt, the interest payments are eating up a big chunk of your money. If you're really committed to this process one thing you can do is roll all of your high interest credit card or consumer debt into a lower interest loan with a product like *Discover Personal Loans.* This is essentially

consolidating your debts. You'll now have one payment with (hopefully) a lower interest rate. This will reduce the amount you pay in interest and make it easier to manage all of your debts.

However, if there is any chance that by consolidating your debts you'll then re-accumulate them, don't do it.

This is only a good move for someone who is committed to staying out of future consumer debt and who wants to easily manage current debts plus save on interest.

Lower Monthly Fixed Expenses – The thing about fixed expenses is that they're not really fixed. It's kind of an oxymoron, I know. Things like cable, cell phones, groceries, insurance, car payments, utilities, and even housing *CAN* be lowered.

None of your payments are set in stone. Start shopping around, eliminating, and getting creative so that you can lower your basic living expenses.

Earn Extra Money If You Have an Income Problem

Not everyone has expense problems. I'm sure there are many of you who are very frugal but are still struggling to get ahead.

I completely understand.

However, you need to believe that you have the power to earn more money, because you do.

The internet has opened up a whole new world where with smart thinking and hard work you can make money online ethically.

A few examples would be freelance writing, tutoring, selling on Amazon or eBay, or having an Etsy shop. (Those are just popular choices and not an all-extensive list by any means.)

Then there are other options like starting an offline side business like housecleaning, babysitting, tutoring, or yard work. You also have the option to work more at your current job if that's possible.

Once again, you need to get creative. If you have an income problem then you'll never get ahead unless you're proactive about it.

Start small. Look for a way to earn an extra $50 this week. Do it again next week and the week after.

Save the Difference

Now that you've either lowered your expenses or increased your income you need to save the difference!

automatically transferred to an online savings account. If you are earning an extra $50 a week do the same.

Make sure your newfound money is accessible but not *too* accessible. Since it normally takes 2-3 days for money to transfer from an online savings account to a checking account with a different bank, you won't be able to impulsively spend the money you worked so hard to save.

Keep on saving until you're one month ahead.

What to Do Next

I can about guarantee you'll feel liberated once you get one month ahead. Especially, if this was something you once never thought possible.

Keep up the momentum. Set your next financial goal whether that be saving an emergency fund (recommended), paying down debt, or saving for a large purchase like a house.

Ruthlessly prioritize until you end up where you want to be. I promise, it will be well worth all of your hard work!

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Robert Farrington is America's Millennial Money Expert® and America's Student Loan Debt Expert™. He is the founder of The College Investor, where you can find this article and more on personal finance dedicated to helping millennials escape student loan debt to start investing and building wealth for the future.

5 Things Rich People Do With Their Money

—by Fritz Gilbert

Do you think you can learn something from rich people? How much do you know about them? Have you studied their habits to see what you can learn? Do you think they inherited most of their wealth? (They didn't. In fact, only 10% inherited their wealth). Did they start on their paths toward financial responsibility earlier than most (They did, with the average wealthy person starting to save by the age of 14).

What are the top 5 things rich people do with their money? Are there common themes which could benefit you if they were applied in your own life? Let's review some interesting traits of wealthy people.

5 Things Rich People Do With Their Money

I read an interesting survey from US Trust, which covered 684 high net worth investors, with at least $3 Million in investable assets. There are some very interesting findings in the survey, which is my focus for this article. There are, indeed, some very common traits among these folks. All of us could benefit from studying their habits and applying them in our own lives.

Here, then, are the top 5 common traits regarding how rich people manage their money. Think about which ones you already do, and attempt to apply a few that you don't.

1. They Start Early

According to the US Trust study, a common trait among the wealthy is the fact that they had parents who instilled a strong sense of financial responsibility at an early age. The average wealthy person began saving at Age 14, began working for money at Age 15, started charitable giving (time or money) by the Age of 23, and started investing in the stock market by Age 25.

I started working (and saving) when I was 10. In elementary school, I started shoveling driveways in the neighborhood, and got my first "real job" (a paper route) at age 13. I saved diligently, and had several thousand dollars in my savings account by the time I graduated from high school. Clearly, my parents instilled the work/thrift ethic in me, and my wife and I have worked to instill it in our own daughter.

2. They Delay Gratification

I had a discussion during lunch with a financial planning friend last weekend, where we discussed the single most important attribute required for wealth creation. We both agreed that delaying gratification is likely one of the most important things within our control for creating wealth. (By the way, my friend's name is Ed Wolpert, and he's written 3 books on personal finance.)

Apparently, the wealthy feel the same way about delaying gratification, with 80% of them saying that investing in long-term goals is more important than funding current wants and needs. As I explained to my daughter when she expressed a desire for a motorcycle, if you want to build wealth you need to save the money first and buy things you WANT in cash. It helps you delay your gratification, and insures your money works for you (instead of the other way around).

3. They Focus Their Investments On Buy-And-Hold

In spite of significant wealth, 85% of high-net worth investors say they made their biggest investment gains through long-term buy and hold strategies. Rather than being savvy day-traders, they automate their savings month in and month out, and gradually watch their net worth grow. They keep their investments simple, with 89% using a traditional buy and hold approach in mostly stocks and bonds.

In addition, the wealthy maintain cash reserves, with 54% of them holding at least 10% of their portfolios in cash. They also invest in tangible assets, with roughly half of high net worth investors owning real estate or farmland that produces income and appreciates over time. Compare this to the “average” person, who borrows an average of $30k on a 68 month loan to buy a new car, which depreciates immediately. Smart? Not.

4. They Are Charitable

Wealthy folks share a common trait of feeling a deep commitment to give back to society. 74% donate their money, 61% volunteer their time, and 47% serve on boards. They find a way to contribute to others, which is counter to the stereotype so often attributed to the wealthy.

Generosity brings unexpected rewards to the giver. The wealthy have discovered that reality, and most do not hoard their wealth.

5. They Manage Their Own Destiny

Whether the wealthy gained their riches via private business or corporate roles, they all agree that owning a business is a path to greater wealth than working for someone else. I read a lot, and there are dozens of articles like this one that point to the reality that entrepreneurship is the surest way to real wealth.

It can be a difficult path, however, as 70% of the wealthy who are business owners agree that it's more challenging than just "having a job". Regardless, 80% still prefer to run their own business, demonstrating their motivation to take control of their own destiny. The wealthy work hard, and often make sacrifices. 71% say work responsibilities take priority over personal needs.

Think about what you really want in life before you pursue wealth, there are tradeoffs.

Summary

Wealthy people share some common themes in how they manage their money. I don't know whether it's cause or effect, but the principles outlined above have been proven time and time again to be fundamental building blocks for wealth creation. Yet again, the survey from US Trust proves these principles are critical, and followed by a majority of people with significant wealth.

How about you?

How many of the items on the list above are apparent in your life? Are there a few that you can begin applying to your personal situation? Work toward implementing all 5 in your personal finances, and you'll be well on your way to...Achieving A Great Retirement (my tag line!)

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Fritz Gilbert writes The Retirement Manifesto, a canvas for "Helping People Achieve A Great Retirement," where you can find this article and many more focused on practical Financial Independence and Retirement Planning issues for folks within ten years of retirement. Fritz

and his wife achieved early retirement in June 2018 at the age of 55, and are sharing the lessons they've learning along the way.

Why You Should Start Investing at a Young Age

—by Kate Underwood

If I could turn back time, you know the first thing I'd do? Start investing at a young age.

I'm serious. Knowing how investing and compound interest work is such a huge game-changer for your finances. I graduated with a somewhat "reasonable" amount of student loan debt and I somehow knew I needed to pay that back quickly.

But fresh out of college, I didn't bother to learn how to invest, and that hurt my financial future more than I could have imagined.

Looking back at the end of another year makes me introspective, and since I can't actually go back in time to my first job and hit the ground running with investments, I figure I can at least share a bit of what I've learned.

Investing at a Young Age is About Time

The primary reason to start investing at a young age is to give yourself as much time as possible for your money to grow. Compound interest is an absolutely amazing phenomenon, and I wish I'd grasped that as a new working professional.

When I began teaching, I looked at the salary I received in one of the lowest-paying districts in the state. I knew I could pay off my student debt, but didn't think investing in retirement was for me.

I didn't understand how investing worked, and I didn't seek out anyone who did to gain that knowledge. Since I didn't make much money, I didn't realize investing even small amounts regularly would make a big impact on me in my forties and beyond.

As Suze Orman has said, "The key isn't the amount, the key is the time."

Investing at a Young Age for the Compound Interest

The primary reason personal finance experts recommend people start investing at a young age is compound interest.

Even if you don't have a lot to spare, it's worth it to start investing young because every dollar will earn a rate of return, and as time goes by, you'll continue reinvesting to earn even more in interest.

Here are a couple of examples to show you how investing *early* benefits you. These assume an annual rate of return of 7%.

Here's how investments can grow over time:

- $200 invested per month from age 25 to 65 = $551,000 total value
- $200 invested per month from age 35 to 65 = $262,000 total value
- $200 invested per month from age 45 to 65 = $115,000 total value

Notice that not only are the investments *worth* much more by age 65 for the investor starting at age 25. In addition, the 25-year-old starter only has to invest $48K more than the 45-year-old (double). But their investment grows to be worth more than $400K above the 45-year-old's.

Example #2:

- $200 invested per month from ages 25 to 35 (10 years total, or $24,000). This would grow to about $300,000 by age 65 (without adding another cent after age 35).

- $200 invested per month from ages 35 to 65 (30 years total, or $72,000). This would grow to only $245,000, and that person actually *contributed* more.

Compounding interest can be an amazing thing, right?

Investing at a Young Age for the Experience

With all things financial, there's really no substitute for actual experience. I mean, you can run all the numbers through compounding calculators, but if it's not attached to real money, it doesn't mean as much.

When you start investing as soon as possible, you give yourself the gift of investing experience. You learn what to do and what not to do.

It can actually work in your favor if you *don't* have a lot to invest when just starting out. You can get your 401(k) or Roth IRA set up, contribute $50 a month or whatever you can scrounge up, and it's not a ton of money to lose.

Starting the process of investing at a young age (in your 20s or even sooner) lets you make mistakes. You learn from every misstep, and in the beginning, you aren't risking as much money. So you get to make $100 and $1,000 mistakes instead of $50K or $500K mistakes!

Even if you lose money, you carry the lesson forward with you throughout your life. When you're 25 and make an investing error, you have multiple decades to recover. You don't have that kind of leeway if you wait until you're 40 or 50 to invest.

Get in the Habit of Investing at a Young Age

Investing young is a great strategy because the earlier you begin, the easier it is to build a lifelong habit.

If you don't start investing at a young age, you might be tempted to overspend on luxury items. Doing that too often right out of college

might just cause you to start thinking you “need” those high-priced possessions.

It’s harder to cut back on the fun stuff once you’re used to it.

But by investing as soon as you start full-time work, you can immediately start the habit of living on less than you make. Whether you start by investing $25 a month or $500 a month, the benefit of this habit will be worth it.

Your mindset will be shaped by the fact that you’re making the effort to sacrifice now for a payoff later. You can increase contributions by a few percent at a time as you have more money to spare.

Don’t Forget About Emergencies and Debt

Of course, when you’re starting to invest at a young age, you may not have a ton of money set aside. Be sure to save a decent emergency fund before you get too “invested” (pun intended) in retirement.

And you might be paying off debt as well. If you can focus fiercely on debt payoff for a relatively short period of time (like 2 years, not 10), it might make sense to put off investing until that’s done.

But you can also start investing as soon as possible, just at very low amounts, even while in debt repayment, and increase monthly investments as you reduce debt.

Check out this printable debt payoff chart to help you get organized and motivated!

Investing at a Young Age: Start As Soon As Possible

The core thing to know is that investing is going to pay off bigger rewards the younger you begin. Do yourself a favor and don't procrastinate like I did. Start saving in a Roth IRA, 401(k), or similar investment account as soon as you can.

Investing early and with regularity is one of the best decisions you can make to secure your financial future.

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Kate Underwood is a freelance writer and proofreader with a passion for the written word. Kate wrote this article for Life and My Finances, a personal finance blog where you can find more engaging content.

How Much Do I Really Need to Save Each Month?

—by Courtney Johnston

Building healthy savings habits is essential for your financial success — but many of us aren't sure where to get started. What exactly are you supposed to do with the money you've saved? And how much money do you really need to save each month?

Increasing your savings amount each month can feel overwhelming, but if you're in a position to do so, it can play a huge role in your financial future. Making a plan and deciding how much you can save each month is a great place to start. And if you're already saving, figuring out if you're saving enough can help you make better financial decisions.

Let's dive into the details below.

Why saving money is so important

Having a financial safety net can make a world of difference, particularly in our current uncertain economy. A 2020 survey conducted by Highland Solutions found that since the coronavirus pandemic hit, 63% of Americans have been living paycheck to paycheck. Of this group, 64% are millennials.

In fact, 58% of Americans have less than $1,000 in savings right now, if they even have a savings account at all. Since the average rent for an apartment in the U.S. is $1,468, this means that many of these Americans would not even be able to pay their rent if they were to lose their jobs today.

This is why building a savings account and working towards savings goals is so important.

How much should I save each paycheck?

One of the myths floating around on the internet is that you should be saving 10% of your paycheck. So, if you make $1,500 every two weeks, you should be putting $150 away in some sort of savings account.

While 10% is a good number to start with, it's often not a high enough rate to cultivate a significant retirement savings account. However, that number doesn't include short-term savings goals, building an emergency fund, or investing options. And, often enough, 10% isn't enough money for many to retire comfortably — especially women who tend to live longer than men.

Instead, I recommend setting a savings goal of 20% to 30% and working towards this goal. This means if you bring home $5,000 a month (post-taxes), you should be saving $1,000 – $1,500 every month. Of course, it's unrealistic to think everyone can begin saving this much right away, but having a goal established will give you a number to plan towards.

What to do to boost your savings right now

Saving any amount you can will help you learn and practice healthy savings habits. It may seem small, but $5 here and there can add up over time.

Cut unnecessary expenses

Many times we think we can't begin saving money because our expenses are just too high. If saving is important to you, I recommend examining your expenses with a fine-tooth comb. Look at what can be cut or reduced by switching providers. Decide if there are any subscriptions or memberships that are no longer serving your lifestyle. Even small cuts here and there can add up.

Build an emergency fund

If you're in a position to start saving — no matter how much or little — creating an emergency fund is essential. Building a savings fund that you can use in case of an emergency gives you more options should you lose your job, home, or find yourself needing to relocate.

An emergency fund can save you in a pinch and buys you time to plan your next move. Ideally, you'll want to build up enough savings to cover three to six months' worth of expenses. This way, if you lose your

income for any reason, you have a cushion set aside to pay any necessary expenses while you secure new work.

I also recommend maximizing your emergency fund by opening a high-yield savings account. I personally use Ally Bank, which consistently offers competitive savings rates, as well as interest-checking accounts.

Save for retirement

It's estimated that 63% of Americans believe they do not have enough saved for retirement. Saving for retirement can be tricky when you're younger and not making a high salary, though starting your retirement savings at an early age is the best way to ensure you'll have enough when you're older. It's also hard to emphasize this importance to younger professionals who feel so far from retirement age (and may be burdened with other debt).

Once you have an emergency nest funded (or have a plan in place to fund it by a certain date), I highly recommend contributing to a retirement plan next. You'll thank yourself when you're older.

If you're working at a company offering a 401k or IRA (even better if they offer a retirement fund match), take advantage of it as soon as you can begin contributing. These workplace funds allow you to contribute pre-tax, making it less of a hit on your paycheck. Of course, the more you contribute the better, but don't wait until you can afford a hefty

payment. Contributing a small amount early on is much better than waiting.

If you're self-employed or working for a company without a retirement plan, you can open one on your own. You can enroll in a ROTH IRA, CD, or other retirement investing account. I highly recommend contributing automatically each month, so you develop the habit. As your income increases or expenses decrease, up your contribution.

Pay down debt

Once you've started contributing to a retirement account, you can begin paying down your debt. You should always make at least the minimum payment (even while building your emergency fund and retirement savings), but now it's time to look at significantly reducing your debt.

Where you start is entirely up to you. Some people have good luck with the snowball method (paying off the lowest debts first), since this allows them to visually see debt accounts disappearing quickly. Others prefer to pay off the highest balances or highest interest rate accounts first.

Every method has its pros and cons, but what's most important is making paying down your debt a regular savings habit. Personally, I combined the above theories when lowering my debt, reducing it by $35,000 in just over two years.

Start investing

We’ve all heard the tired phrase — the best time to start investing was yesterday. While this is true, I don’t promote thinking about it this way. It encourages guilt and negative emotions about not being able to do something earlier in your life.

Instead, I maintain that the best time to start investing is once you’ve established an emergency fund. Your retirement savings, for instance, is an investment.

If you want to start investing in the stock market, I personally recommend index funds for anyone looking for a lower risk, easy way to build long-term wealth. The Fidelity® 500 Index Fund is one of my top picks, particularly for anyone looking for a hands-off approach to investing. It rivals the Vanguard 500 Index Fund, but is more affordable and has no minimum investment requirement to get started. It’s essentially a blend of the top 500 U.S. companies on the market, allowing you to buy partial shares of large corporations like Google and Amazon.

Another option is to automate your investment savings with an app like Acorns or Digit. These apps help you build up savings to invest by taking your spare change or small transactions and moving them into an investment account.

As you earn more, save more

Saving money can feel overwhelming, particularly if you're living paycheck to paycheck. It's impossible for everyone to save 20% of their paycheck right away, so don't feel guilty if you're not able to. Instead, I encourage you to begin saving any amount possible and continuously contributing to this savings account. Building the habit of saving money is what will ultimately help you meet your financial goals over time.

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Courtney Johnston is a freelance writer and editor at CourtneyWrites. She lives in Indianapolis and is passionate about sharing stories. Courtney creates and shares judgment-free personal finance content designed to help you build your ideal financial future. You can find this article and more at CourtneyWrites.com.

How Much Does Borrowed Money Cost?

—by Chauncey M. DePree, Jr. and Rebecca Kathryn Jude

A friend was in the process of borrowing money to buy a home. The banker advised him what the monthly payment would be. It seemed to be on the high side, so he whipped out his calculator and multiplied the monthly charge by the number of months. He couldn't believe it! The home he wanted to buy was going to cost almost twice the negotiated price. "How did you come up with those numbers?" he asked. The banker didn't know. The documentation the lender handed him was in very fine print with legal and technical descriptions which didn't help him understand or calculate the total loan cost. Our friend wanted to be able to confirm the numbers and decide whether to borrow the money.

When you borrow money, lenders are required by law to tell you the cost of the loan, including principal plus total interest. However, they are not required to tell you how it is calculated. In fact, the lenders, as our friend discovered, may not know. They enter the purchase price, the interest rate, and the amount of time into their computer. The "black box" spits out paperwork complete with your monthly payment and total payback.

We want to show you how to calculate the cost using an online computer program, then we'll walk you through the math to confirm the cost. We'll start with the computer program.

A Mortgage

Assume you borrow $250,000 for 30 years at a 4.5% interest rate. (Depending on your credit rating, you may be eligible for lower rates.)

An internet search for a *loan calculator* or *mortgage calculator* will identify sites that do the math. We used Bankrate.com. It is a simple fill-in-the-blank form. An online calculator also lets you quickly compare the cost of borrowing money at different percentage rates and periods of time. It will make you a better shopper.

Input $250,000 in the blank labeled "Loan amount"; 30 in "Loan term of years"; 4.5 in "Interest rate per year"; then click on "calculate."

In a matter of seconds, the calculator provided an answer:

"$1,266.71" as the "Monthly Payment,"

"$250,000" as the "Total Principal Paid," and

"$206,016.78" as the "Total Interest Paid."

Here's how to calculate the monthly payment by hand:

1. Convert the interest rate to a decimal: 4.5% is .045. The interest is compounded monthly, which is .045 divided by 12 months, i.e., .00375.

2. The monthly payments span 30 years; 30 years times 12 months per year or a total of 360 months of payments.

The monthly mortgage payment in two steps is:

1. $[1 - (1 / (1.00375)^{360})] / .00375 = 197.3611590$

2. $250,000 / 197.3611590 = $1,266.71

Whether you use an online calculator or manually run the numbers with your handheld calculator, the monthly payment is the same, $1,266.71. This provides confirmation.

How did the computer program determine the "Total Interest Paid" to be $206,016.78?

First, calculate total interest plus principal:

$1,266.71 per month x 360 months = $456,016.78

This is also called total payback.

Second, calculate total interest:

Total payback less principal equals total interest.

$456,016.78 - $250,000 = $206,016.78

That is your cost to use the lender's money! Even though you may know the total cost of interest on a mortgage is sizable, the magnitude is a *WOW!* moment.

Interest as a percentage of the principal you borrowed is:

$206,016.78 / $250,000 = 82%

The total interest you will pay is almost as much as the cost of the house!

You probably have heard that a tax deduction may reduce the cost of interest. However, about half of the people who have mortgages don't benefit from an interest deduction. Even if you can claim interest as a deduction, it will not be a dollar for dollar offset of your tax bill. You can calculate how much you may save in taxes by using an online calculator. See, for example, this mortgage calculator.

Credit Cards

Credit card debt is far more expensive than a mortgage. The interest rate may range from 12% to as high as 24%, depending on your credit rating. Some people never pay off their credit cards. The debt can become a permanent and huge interest cost. You can also use Bankrate.com to calculate the cost of credit card debt.

It can get worse

Many people have mortgages, student loans, car payments, and other types of purchases made on credit. Have you totaled the cost of interest on all of your loans?

Here's a strategy for reducing the cost of debt: If you pay more than the monthly payment, the extra amount reduces the principal. Assuming you pay $100 extra each month on your mortgage of $250,000, your total interest payment would be reduced from $206,016.78 to $172,909.25 for a savings of $33,107.53. Many loan calculators, including the one used in this article, allow you to determine the impact of additional payments.

Conclusion

Paying off debt as quickly as possible reduces interest costs. The money you don't pay a lender, is money to save for your retirement or your children's education or anything else.

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Chauncey M. DePree, Jr., BA, MS, DBA is a professor and finance manager, who has published many articles, including in Journal of Accountancy and Strategic Finance. Rebecca K. Jude, BA, JD was a

managing partner at Jude & Jude PLLC, and has also published many articles, including in Journal of Accountancy and Strategic Finance.