# Seven Steps to Financial Fitness

There’s a Chinese proverb that states, “A journey of a thousand miles begins with a single step.” This proverb certainly applies to the journeys that most of us are taking in the area of personal finance, so whether you’re trying to build wealth, buy a house, save for college or just get caught up on your bills, here are seven steps you can take to get started.

### Step 1 – Start Counting the Costs

It is difficult to manage what you are not measuring, so a great place to start is tracking what’s coming in, what’s going out, and where it’s going.

Start simple. Track the money coming in (income) and the money going out (expenses). There are online resources for this, but a simple approach can work just as well or even better than a fancy online spreadsheet. Simply track the date, the amount and the place where you spent money—whether by cash, check or credit/debit card. Then, at the end of each month, take your expenses and categorize them. You can be as detailed as you like, but a few simple categories such as housing, food, utilities, entertainment, junk food, transportation, etc. may be enough. The key is knowing how much you have coming in, how much you have going out, and where it’s going.

### Step 2 – Make a Plan—And Follow It!

Once you have a better understanding of your income and expenses, make a monthly spending plan. Here are a few tips to get you started.

* Average your income and expenses (See Step 1) over several months to get a good picture of what a typical month looks like. This is a good place to begin building your spending plan.
* Compare your average income to your average expenses. If your income during a typical month is higher than your expenses, then you are gaining wealth. But if your expenses during a typical month are higher, then you are creating debt. By comparing your income and expenses during a typical month, you can determine whether your income and expenses are aligned, and you can take action if something needs to change.
* Evaluate your spending, and decide if you’re happy with where your money is going. If not, make adjustments and continue tracking your results. Making one or two small changes is easier than starting from scratch, so even if you feel that major changes in your spending habits are needed, start with one or two changes at a time.
* Life happens, and things change, so it’s a good idea to review and revise your plan about every three months, or at any time when something major impacts your financial picture. Examples of financial life-changing events could include:
  + Beginning, ending or changing jobs
  + Seasonal changes that impact the amounts you pay for everything from utility bills to child care or school and extra-curricular expenses
  + When you get a raise or there’s a COLA for Social Security or a cost increase for your healthcare

### Step 3 – Build an Opportunity Fund for Life’s Little Surprises

Whether it’s an amazing opportunity or an unplanned emergency, expect the unexpected to cost money, and get ready. Many people use credit cards or get loans to deal with life’s unplanned expenses, and the result is that these unexpected events end up costing even more. Get ahead of the unexpected by establishing an Opportunity Fund (OF). Your OF can be a checking or savings account that you keep separate from your other finances. The key is contributing a little each month to build your OF to the point where you can use it to cover unexpected expenses. And when you dip into your OF, remember to repay it as soon as possible. And once you do, keep saving and investing in your future. Most experts recommend that individuals and families maintain a savings cushion equaling three to six months of their expected income. This can be a very difficult goal to achieve, but the peace of mind is worth it.

Note. If your income is coming from SSI, you may be able to park personal savings in an ABLE account. (If you have questions, Penny Forward can help.)

### Step 4 – Put Your Payments on Auto-Pilot

Spending money can be fun, but paying bills takes effort, so make it easier by making it automatic. Making your payments automatic reduces the risk of being late or missing a payment, and that means fewer late charges and negative findings on your consumer credit reports. In short, automatic payments can save you money. And when you’re setting up those auto payments, consider setting up automatic payments to your personal savings and investment accounts as well.

Important! – Auto-payments are great, but pay attention to make sure that they go out as planned, that they are being correctly credited to your account, and that they continue to match the amounts you are being billed. Example: if you are paying $30 per month for yard service, and your provider raises the rates, you will need to adjust your payment to match. Otherwise, you may find yourself with growing grass and a collector demanding a stack of greenbacks before the mowing can resume.

### Step 5 – Small Changes Turn into Big Dollars

When most people think about saving money, they think about sacrificing things they enjoy. Depending on your financial situation, this may be appropriate, but before you start selling your possessions or visiting Lefty the Loan-shark (a strategy we do not endorse), make sure you’re doing the easy stuff first. Even small savings can add to big dollars, so make it a game where you’re the big winner. Here are a few ideas to get you started.

* Consolidate your Online Subscriptions - It is easy to get sucked into three or four, or ten, subscription-based music, entertainment and shopping services. Each has a monthly charge, and those charges can really add up. Take a look at your online subscriptions and determine which you really want to keep. Consider dropping the others, and check on subscription bundles that often cost less than paying for each service individually.
* Consider walking, transit or paratransit. – When you use a taxicab or TNC (Uber, Lyft, etc.), you are literally trading time for money. Think about your travel, and if you can convert some of your trips to cheaper modes of transportation or walking, you could save a bundle. For example: a five-mile trip to and from a five day a week job will cost approximately $6,000 per year on a taxicab or TNC. That same trip on public transit or paratransit (depending on the transit and paratransit fares in your area) will cost between nothing and about $2,000, and you get to keep the money for yourself as well as any health benefits from the extra walking.
* Create a menu before you do the grocery shopping. – By planning ahead, you can save money at the grocery store. For example, the chicken you cook to accompany tonight’s Asian salad can really enhance tomorrow night’s boritos. And you won’t have to look at the space and money-wasting leftovers. Also, consider buying food in bulk and cooking ahead. There are entire books on this subject, so if it works for your lifestyle, check it out.

There are many other strategies for saving small amounts of money that add up over time. The key is finding the strategies that work for you and sticking to them.

### Step 6 – Never Miss Twice

Good financial health is about building good financial habits—making and sticking to a budget, bringing in more than you spend, managing your spending carefully, etc. But no one is perfect. At some point you’ll make an ill-advised purchase, forget to pay a bill until it hits your credit report, etc. According to James Clear, the author of New York Times best seller Atomic Habits, the key to any good habit is “never missing twice.” In other words, if you make a bad financial move, learn from it, and get back to your good financial habits immediately. Over time, your good habits will win out, and your mistakes will become few and far between.

### Step 7 – Get Help and Get Smart

Almost everyone can use a little help learning to manage their finances, especially at first. In addition, your financial circumstances are likely to change over time, and you may find yourself in need of a little help along the way. And Penny Forward is here to help. Check out our list of self-paced training classes on a range of personal finance topics—from digging out of debt, to figuring out your taxes. You can also learn about our personalized coaching programs, our peer support calls, biweekly podcasts and an array of other services. Monthly membership plans start at $9 per month, so check us out at [www.PennyForward.com](http://www.PennyForward.com) and start building your financial future one penny at a time.

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