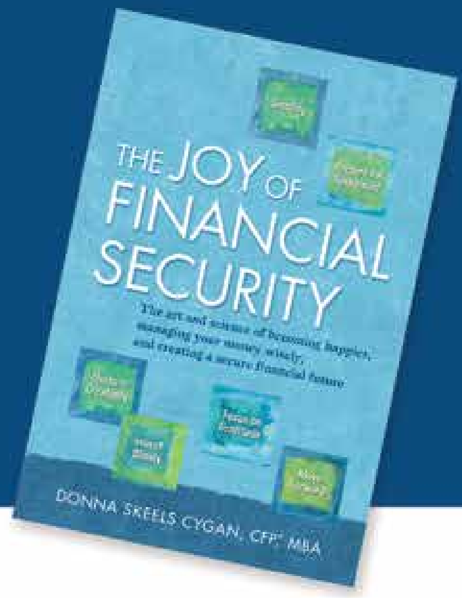
THE JOY OF FINANCIAL SECURITY



REPORT

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Ditch the Budget in 2015!
Surprising Advice from a Leading Financial Planner

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Ditch the Budget in 2015! Surprising Advice from a Leading Financial Planner

You may have resolved to work on your financial fitness in 2015, but that doesn't mean you're looking forward to budgeting. Good news: You can ditch your budget—and focus on saving instead.

By Donna Skeels Cygan

Getting financially fit is a perennially popular New Year's resolution—and for good reason. Over one-fourth of Americans have no emergency savings, and over one-third have no retirement savings. To take up the slack, we try to budget and stay on the financial "straight and narrow." But as the statistics show, most of us aren't successful despite our best intentions.

I'm not surprised—and I suggest an alternative to budgeting.

People so often fail to budget because, just like going on a bland diet, it's restrictive and makes us feel deprived. That's why I suggest to my clients that they ditch their budgeting efforts ASAP and focus on saving instead.

I'll admit that at first glance, this may feel like splitting hairs. But there's one important difference between budgeting and saving.

With saving, you stay focused on something positive because there's (almost) literally a pot of gold waiting for you at the end of the road. Instead of dwelling on what you're doing without, you can track the growth of your assets and take comfort in your future financial security. And along the way, you'll find that the areas of your finances you would otherwise have tackled via your budget organically fall into place.

In The Joy of Financial Security, I combine my financial expertise with research from psychology, neuroscience, and economics to shine a light on the complex relationship between money and happiness. Here, I share seven tactics to help you save your way to financial security in 2015:

First, figure out how much you are (or aren't) saving right now. Responses like, "I'm saving a decent amount," or, "I'm saving in my 401(k)," or, "I'm not saving enough," aren't good enough. It's crucial to get clear on the exact amount of your savings. If you don't know where you stand, you can't effectively move forward.

Don't worry if you aren't a math whiz or if you are intimidated by finances. There are plenty of free resources available. If you visit my website, www.joyoffinancialsecurity.com, you can click on "Resources," then "Tools." Use the "Current Savings Rate" chart to determine what percentage of your gross income you're currently saving.

Set a savings goal for 2015. Once you know the percentage of your current income that's currently going to savings, decide how much you want to increase that number in the coming year. If you're not saving anything now, aim for 5 percent. If you are saving 5 percent, aim for 10 percent. Any improvement is great.

Savings goals have to be reasonable; otherwise, you'll never stick to them. Eventually—whether it's in 2015 or later—try to save 15 to 20 percent of your gross income. Most people save much less than 15 percent. The old rule was to save 10 percent, but that was when pensions were prevalent and Social Security was a definite. Now, the minimum recommended savings rate is 15 percent, and 20 percent is even better. If someone saves 20 percent throughout their career, they can sleep well knowing they are on track for financial security during retirement.

Make savings automatic. Face it—when it comes to being financially responsible, good intentions don't last long in the face of a great sale, or a tempting vacation deal, or even that $6 latte you're really craving. Deciding to save the money left in your account at the end of each month simply doesn't work.

That's why I suggest making savings automatic. Many people save through their 401(k) or 403(b) at work, and the money is swept into the account before it ever appears in a paycheck. This works great, and you can do the same thing with saving in a Roth IRA or a taxable account. Set your savings up so it is automatic, occurring on the first of each month or as soon as your paycheck is deposited into your checking account.

Consider front-loading your yearly savings. There are certain times of year that are more expensive than others and during which extra expenses make it more difficult to save money. Vacations and the holidays come to mind.

Start now, and get as much saving done as possible during the first half of the year. By the time vacation season rolls around, and then the holidays, you will already have made great headway.

Track your progress and watch your savings or investment accounts grow each month.

Look for areas where you can cut expenses. What if there just isn't enough wiggle room in your standard monthly expenses to accommodate your proposed savings? I'm betting there's something (or multiple somethings) you can cut. Most people have one or two "problem areas." Maybe yours is an expensive cell phone bill or a deluxe cable TV package, both of which are items that have crept into our budgets during the past 10 years. Or perhaps you have a tendency to spend too much money on clothing, on eating out, or on entertainment.

Whenever you find an area in which you can cut back, redirect that money to savings. For some people, this may be as simple as not buying junk food or soda at the grocery store, or going out to eat once per week instead of four times. And once again, don't think of these actions in terms of budgeting. Instead, remind yourself of the lasting value and security of savings.

Take advantage of windfalls. While the "everyday savings" I have mentioned will have a significant impact, I also advise being prepared to "save big" when the opportunity arises.

For instance, if you are lucky enough to get a tax refund, send half of it to savings. If you get a bonus or a raise, send half of it to savings. If you pay off your car loan, send the amount of your former payment to savings each month.

Consider saving with a friend. As is the case with achieving most goals and resolutions, saving more in 2015 is more likely to be successful if you do it with a friend or relative.

Hold each other accountable and offer encouragement. It can also be useful to have an outside pair of eyes when reviewing your monthly expenses. Someone else can take a look at things you take for granted (say, extra features on your cell phone plan) and ask, "Do you really need that?"

Saving more money is one of the best commitments you can make for 2015. You'll find that it gets easier with practice…and it may even become fun to see how much you can help your nest egg grow. Best of all, you'll never have to "budget" again.

About the Author:

Donna Skeels Cygan, CFP®, MBA, is the owner of the financial advisory firm Sage Future Financial, LLC, and the author of The Joy of Financial Security: The art and science of becoming happier, managing your money wisely, and creating a secure financial future. She has been recognized numerous times as one of the top financial advisors in the U.S. She seeks to help her clients take control of their money in a way that maximizes their happiness.

Cygan has contributed to articles and has been quoted in national newspapers and magazines, including the Wall Street Journal, the New York Times, the Chicago Tribune, Forbes, Kiplinger's, and Investment News. She has appeared on TV programs in New York, Seattle, Portland, Phoenix, Minneapolis, and Memphis, as well as on many radio shows across the U.S. She also enjoys speaking on many topics related to money and happiness. To learn more, visit www.joyoffinancialsecurity.com.

About the Book:

The Joy of Financial Security: The art and science of becoming happier, managing your money wisely, and creating a secure financial future (Sage Future Press, 2013, ISBN: 978-0-989-77844-2, $24.95, www.joyoffinancialsecurity.com) is available at bookstores nationwide and from major online booksellers.