

BETTER MONEY

Cents and sensibility

Get your financial house in order with an equation that's equal parts new habits and new attitudes.

BY SARA CLEMENCE

Our recent reader survey results could not have been more clear: You want to get control of your finances, and your biggest concerns are budgeting, saving, and paying down debt. So we asked top money pros for the best ways to do just that. While cost-cutting is a factor, they say that having a clear vision and a plan will ultimately deliver the most powerful results. Daunting? Maybe. Doable? Definitely—especially if you give yourself some time to get up to speed. Here's how to get started.

BRING BALANCE TO BUDGETING

Budgeting can feel like the grown-up equivalent of homework—time-consuming and far from fun. But without a budget, people can end up stretched to their financial and emotional limits. “Just like we try to do too much with the little time we have, we try to do too much with the money we have,” says Liz Weston, financial columnist and author of

the new book *The 10 Commandments of Money*.

The right budget—let's call it a spending plan—can eliminate that problem. Weston advocates the 50-30-20 plan, developed by Elizabeth Warren, a Harvard law professor and consumer protection champion. The plan is easy to understand, simple to apply, and leaves plenty of room for enjoyment. “Once you get this budget set up, your life is going to run a little more smoothly,” Warren promises.

With the 50-30-20 plan, you divide after-tax income into three chunks. Half goes to needs—expenses that can't be put off without consequences, such as the rent or mortgage, utility bill, health insurance, minimum loan payments. A full 30 percent goes toward wants: dinners out, trips, a new handbag. The final 20 percent goes to savings or debt repayment. If needs add up to more than half of your income, you have two choices: Figure out ways to lower those costs by adjusting your phone plan or even downsizing your home, or reduce the amount you spend on wants—not



savings—to make up the difference.

“Very few of us can live with a very austere spending plan,” Weston says. “This is balanced. Not every dime you make is going out the door before you have a chance to have any fun.”

Action tip: Block off an hour to sit down, go over your finances, and come up with a spending plan. For a step-by-step guide on how to make a budget, go to BHG.com/bestyearever/budget.

GET SPECIFIC ABOUT SAVING

Resolving to save is great, but vague intentions won't build up your bank account. “When you say, ‘I want to save money every month,’ what ends up happening is you settle for small changes in the right direction rather than the big changes,” says Heidi Grant Halvorson, a social psychologist and author of *Succeed*. But research shows that if you make your goals ambitious and detailed, you are far more likely to reach them. “A recent study shows that the more people can envision themselves in retirement the more likely they will be able to save,” says David Krueger, a psychiatrist-turned-financial coach and author of *The Secret Language of Money*.

If it feels like foreign turf to you, you're not alone. It's estimated that just 10 percent of Americans have long-term goals, Krueger says. So start painting mental pictures of your future with more savings. What college will you send your kids to? What color will your new house be? Get inspiration from a collage of your fantasy retirement.

Once you have those goals, estimate how much they will cost—and how you will reach them, step-by-step. “People say, ‘I'll spend less money on eating out,’” Halvorson says. “That's not far enough. Try, ‘I'm going to pack my lunch X number of times a week.’”

Action tip: Set up your direct deposit to automatically deduct money from your paycheck and deposit it in a savings

account. If your salary doesn't go directly to your bank, when depositing your paycheck, send savings to a separate account at the same time.

CONFRONT YOUR DEBT

The average American household has about \$10,000 in credit card debt, according to the Federal Reserve, yet most people don't even know how much they owe. If that's you, it's time to take a brutally honest look at the situation, advises wealth manager Susan Hirshman, author of *Does This Make My Assets Look Fat?* Tally up everything you owe on your house, car, and credit cards, and write it on a piece of paper. “Until you sit down and take a look at what you have, what you owe, and what you want to achieve, you can't stay committed,” Hirshman says.

Once you know what your number is, you can go about lowering it. List all of your debts from highest interest rate to lowest. Then build into your budget a plan for paying it all down as fast as you can. Loans with lower interest rates get minimum payments. The debt with the highest interest gets all available extra cash until it's cleared and you can move on to the next account. Now go back to your 50-30-20 equation. Ideally, the minimum payments come out of your needs and the rest of your debt payment comes from the savings. When deciding how to balance that 20 percent between savings and debt, consider your interest rates, whether you have any financial cushion, and whether your employer is matching any savings.

“It's about going from a sense of deprivation to a sense of power,” Hirshman says. “Rather than, ‘Here are all the things I have to give up,’ focus on what you're getting.”

Action tip: Take a look at your credit card balances and see if you have room to transfer balances from high-interest accounts to low-interest accounts, which will keep the debt from accumulating as quickly. ■

TECH TOOLS

Digital Eyeshade

Our favorite online resources help you make the most of your money.

- 1 Mint.com** A one-stop shop for tracking your finances, the site can provide snapshots of your spending, budget, and assets; send you alerts about overdue bills; and help you set financial goals.
- 2 BillShrink** Suggests money-saving alternatives to your current providers (think cell phone, credit cards).
- 3 SmartyPig** This site was designed to help you meet savings goals. Sign up for a free account, specify what you're saving for, and get above-average interest rates. Cash out any time, without a penalty.
- 4 Ebates** A few extra seconds can save you 1 to 35 percent when buying online. Sign up for an account, click through to Ebates shopping partners, and get cash back on your purchases.

BEST YEAR EVER

60.3% of you told us that your No. 1 goal for 2011 was improving your financial health.