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Staying on Budget

Let's face it, most people don't have a personal budget. And those who have gone through the process of building one often don't follow it.

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Creating, managing and sticking to a budget, however, can help all of us toward financial stability. Here are some tips to make sure you're not caught by surprise when the bills come due.

WHY IT'S IMPORTANT

When you have a budget, you know what you have — and, more importantly, what you'll need to save. Financial well-being comes down to the simple math of balancing what you earn with what you spend. Surprise expenses, like a broken-down vehicle or emergency-room visit, happen all the time. Changes in employment can occur with just as much suddenness. But budgets are also important when tracking slowly rising, sometimes almost imperceptible changes in your cost of living. Planning and budget discipline put you in a better position to weather these monetary storms.

MAKE SMART CUTS

The goal is to spend less than what you earn, so that a nest egg of savings can be built. But a budget is only as powerful as its execution. You'll have to add up your monthly income and expenses first, then decided if financial adjustments must be made. If you're struggling to make ends meet, or just want to build in a bigger savings cushion, focus on lifestyle choices that lead to wasteful spending. Cook your meals at home, rather than eating out. Make your own coffee. Cut down discretionary entertainment costs, or eliminate them all together for a while.

BE DISCIPLINED

It's surprising how much impact just a few cuts here and there can make to your household bottom line. A few dollars a day in savings suddenly turns into a pile of money. But you'll still be tempted to overspend, either on an unneeded item or a fun night out. It's important to remember your long-term goals in those situations, keeping in mind that depositing more of your money now can pave the way toward larger goals — including major purchases or a well-deserved vacation. Sacrificing a little pays big dividends later.

REMAIN CONSISTENT

As the situation changes, be prepared to revisit your budget. Maybe you've reached your early savings goals, or found a better-paying job? Then it might be time to revise your plan, to take those things in account. On the other hand, building a larger emergency or retirement fund with these extra saved dollars can be a great source of comfort for those who've been struggling financially.

Exploring Index Funds

Interested in getting involved with the stock market, but need something cheaper and more stable than your average individual stock? Exploring index funds might be right for you. Here's how.

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WHAT ARE THEY?

Index funds are basically a type of mutual fund, or exchange-traded fund. The difference is what you buy. An index fund is built with components from an individual market index, such as the S&P 500. This broad exposure across the market makes for a more stable fund, lower operating costs and less portfolio turnover. They're ideal for retirement accounts, including 401k and IRAs, but can provide a sturdier foundation for anyone looking to invest.

THE PLUSES

Index funds follow their benchmarks, regardless of how the larger market goes. This passive investment strategy works on the theory that the market will outperform any individual investment over the long term. You won't need a portfolio manager to actively pick stocks, or worry about market timing. When you link your savings to the market in its entirety, or to a broad segment within, you don't have to worry about the natural ups and downs that a single company or even a single industry might endure.

THE COSTS

Rather than choosing securities or spending time strategizing when to sell or buy, an index fund is a one-time investment in your future — so they tend to have very low expenses.

A large index fund might have an expense ratio of less than a 25 cents, while many managed funds coming in at 1 to 2%. The savings is obvious — in particular over a longer period of time. At the same time, about 75% of mutuals generated less returns than the S&P 500 over the five-year period ending in 2020, according to S&P Dow Jones Indices. (Mutuals typically do better, however, over shorter timespans.) So index funds might not hold all of the excitement and intrigue of fast-paced day trading, but it can be a smart long-term investment.

THE DOWNSIDE

While index funds are safer than individual investments, they aren't foolproof. You'll enjoy low costs while being protected by the index fund's diversification, but you won't necessarily be able to jump in when a new opportunity arises elsewhere. These are set portfolios, so when you guy an index fund there is no control over any individual portfolio holding. And index funds are obviously negatively impacted by larger market crashes and corrections.

Advantages of an HSA

Everyone worries about an unexpected medical emergency, and not just because of the associated health impacts.

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An untimely injury or illness can quickly empty your bank account, and that true even if you have insurance because of the prevalence of high-deductible plans. That's where a health savings account might work to your advantage.

BUILD CONFIDENCE

A health savings account allows you to save a set amount from each paycheck then direct the money to medical expenses.

You don't have to open one through your employer, but their benefits are particularly critical in limiting the sometimes astronomical out-of-pocket expenses associated with health care for those with high deductibles. You never know when you might need it.

BIG TAX BENEFITS

Typically, medical expenses must exceed 7.5% of gross income in order for you to receive a tax consideration from the IRS. Health savings accounts allow you to set aside pre-tax funds in the event they're needed for qualified medical expenses. The IRS-allowed maximum contribution amounts in 2020 of $3,550 for individuals and $7,100 for entire families. Taxpayers can then deduct the entire contribution from their reported income, meaning health-care costs are zero as long as they don't exceed the established threshold for contributions.

KEEP YOUR MONEY

Unlike a flexible health-care spending account, money contributed to a health savings account will roll over at the end of the year. Some insurance agencies offer these flexible options as a buffer against surprise costs, noting the fact that they share identical tax advantages with a health savings account. But there's a critical difference between the two: HSA funds will continue to accumulate, giving you added confidence in case of any future medical emergency.

THEY FOLLOW YOU

A health savings account stays with you, even if you change employers. And if your new job also qualifies as a high-deductible plan, you can quickly start contributing to your original account again. Either way, you will have tax-free access to HSA funds for doctor bills. Some employers will also contribute to your health savings account fund, so be on the look out for this important benefit when discussing a new job and pay package. It's a good idea to designate an HSA beneficiary. In the event of death, a spouse can assume ownership of the account. HSA funds are taxed, however, if the beneficiary is anyone other than a spouse.

Financial Advice for Grads

Unfortunately, most graduates aren't adequately prepared to steer their own financial futures.

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One study found that the average U.S. college student could only answer about a third of the survey's basic financial questions. More than 75% in another report said they wish they'd had more help in getting ready to take on their own money management.

But college is actually the best time to get a firmer grasp on your finances, because you're still living part-time under the umbrella of a parent or guardian's protection. You can slowly assume more and more responsibilities, while taking advantage of their years of experience in balancing expenses with income. Emerging from school with a solid credit history and manageable debt is all the more important considering the low pay associated with most entry-level jobs, even for degreed candidates. Here's how to get started.

TAKE RESPONSIBILITY

The average senior graduates with thousands of dollars in credit-card debt, putting themselves in an early financial hole. Try to keep from needlessly running up these bills, but if you do, focus on paying them down as quickly as possible. Interest typically adds up very quickly. Once you're able, consider automating your savings: Whether through a regular draft to your savings account or a 401K deduction, putting money away as you're paid makes it more likely to stay saved instead of being spent on easily forgotten daily things.

TRACK EXPENSES

Create a budget so that you know exactly what's coming in, and what's supposed to be going out — and to where. For many, a student loan is often the most immediate expense upon graduation. Try to begin payments before the usual grace period ends, and keep up with this bill. If you go into default, the loan's entire unpaid balance and any owed interest can become due immediately. Start with this important bill, and continue detailing every outgoing expense. Whatever's left is the cash you'll have for incidentals.

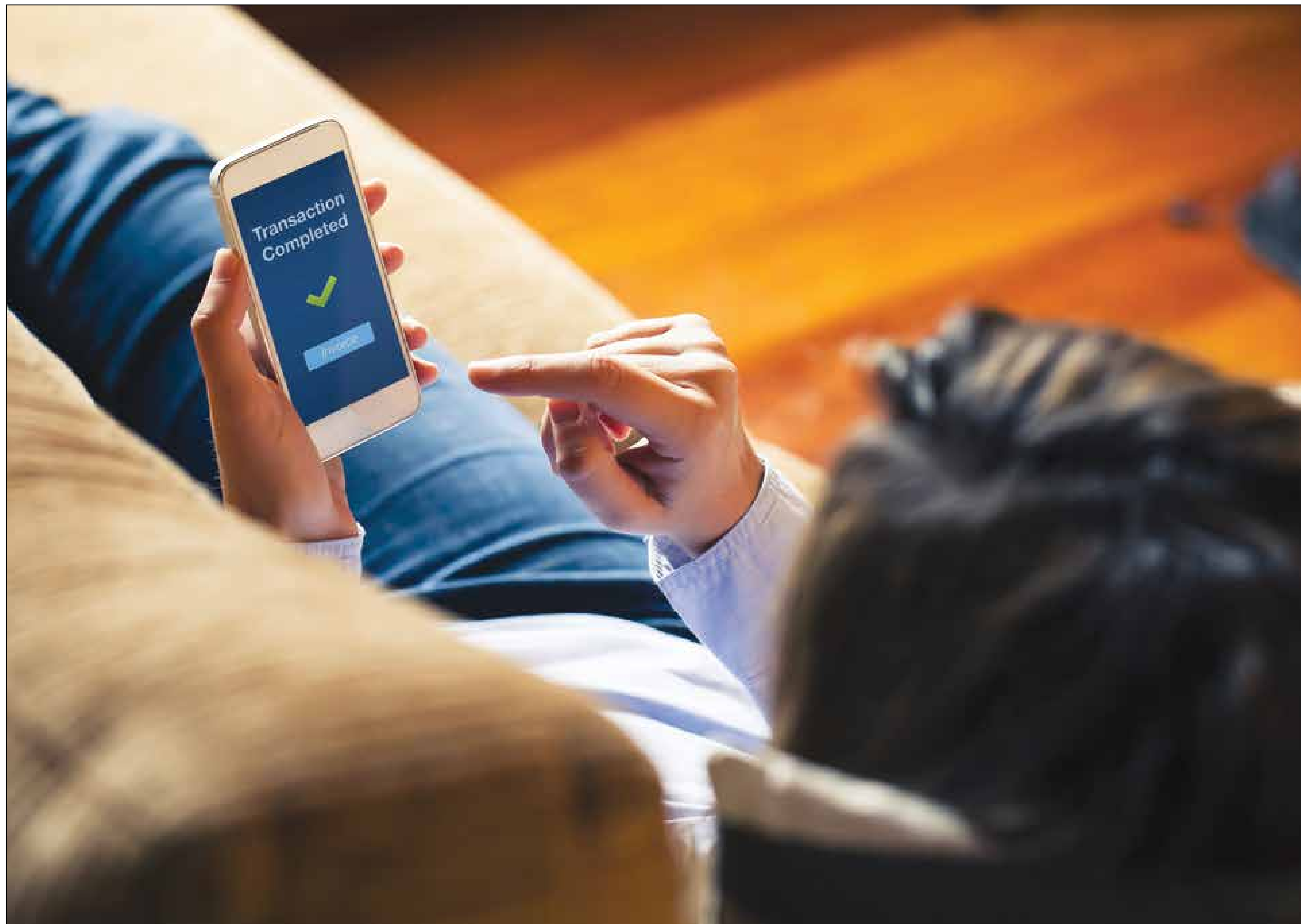
DON'T CUT TOO DEEPLY

Your post-graduation cost-cutting zeal must be balanced by real-world considerations. If you're no longer on your parents' health insurance, for instance, the risk of financial ruin skyrockets should the unthinkable happen.

While it's true that most young adults "never get sick," unplanned mishaps like car accidents and sudden illness are a part of every-day life. Paying a small monthly premium ensures that you don't add insult to injury by going bankrupt after walking out of an emergency room.

Looking for a Money App?

Having trouble balancing your checkbook or creating an investment strategy? As with most everything else, there's an app for that.



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In fact, there are so many smartphone applications designed to help you track finances and your portfolio that it can become overwhelming. Here's a look at some of the best-known apps.

MINT

Designed by the creators of TurboTax and Quicken, Mint creates a personal budget based on your data. Sync your financial accounts, and Mint will offer customized tips to reduce spending. Easy-to-read graphs and charts help you track everything. Mint automatically sets up categories, but there are unlimited choices to personalize any budget. The downside: Like others including Goodbudget, Mint might not be ideal for someone looking to more hands-on, since it tracks your spending after the fact rather than helping you plan ahead.

ACORNS

Think of this app as the modern-day version of that jar of loose change everyone used to have. Acorns allows its users to round up on any purchase to the next highest dollar amount, then invest this additional money in a customized portfolio. Many investors are pleasantly surprised at how quickly these pennies turn into a real investment. You can also earn cash-back benefits at select retailers — a smart way to save. The downside: Acorns charges small fees, but that can erase any returns if your balance is low enough.

YNAB

Those looking for a more hands-on budgeting experience might consider YNAB, which is designed to help you plan ahead rather than track past financial decisions. You'll follow a zero-based plan where every dollar is accounted for, based on information you provide about expenses, savings and goals. The downside: By design, YNAB requires a commitment to personal financial planning, but the idea of becoming more intentional with spending can help solve some users' cash woes.

PERSONAL CAPITAL

This wealth and spending tracker is primarily for investments, but the app also includes budgeting features to help control spending. Personal Capital connects to savings, checking and credit cards, along with all relevant accounts like 401(k), IRAs, loans and mortgages, then provides a helpful all-encompassing breakdown of your portfolio. You'll also get a snapshot of your monthly spending by category. The downside: With its focus on investments, Personal Capital might have features that would go unused by those simply focused on budgeting.

Maximizing your Benefits

Taking full advantage of your company's benefits package can help smooth the way for retirement. You'll also live a healthier life along the way.

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YOUR POCKETBOOK

Not taking advantage of your company's 401(k), retirement plan or related benefits package is like leaving money on the table — both now and in the future. Many companies have a match program where they will mirror your 401(k) investment up to a certain dollar amount, after you are fully vested as an employee. That doubles the amount of money you are putting into retirement with every pay check going forward. Program details sometimes change over time, and can be impacted by outside forces like market changes or a global health crisis. So check with human resources to explain your options.

YOUR WELL-BEING

Wellness is another way to build wealth, since you're saving on chronic doctor bills. Ask your employer about medial and dental programs, as well as flexible spending accounts. Health insurance is particularly expensive when purchased on the open market, so enrolling through your company makes great financial sense. These programs can also reduce or eliminate some out-of-pocket expenses, which really add up. Some employers also offer wellness programs, in addition to insurance. These are often in the form of voluntary diet or exercise activities, but might include incentives like discounted gym memberships.

SMART CHOICES

Take advantage of life insurance options as early as possible. That builds security for later, and it's usually cheaper the younger you are at enrollment. Many companies are switching to insurance plans with high deductibles, leading to higher every-day expenses for their employees. In some cases, these are the only plans available. Start a health savings account to build up a reserve of tax-free funds for emergencies. If you don't use it at the doctor, you can withdraw the funds later. Keep in mind that some of your benefits can be taken with you to a new job, or rolled over into successive accounts. Depending on the firm, you might also gain access to a legal team, either for free or at a discounted rate. This can be a huge benefit, considering how much working with an attorney can cost — even for straight-forward processes like drafting a will.

Dealing with Identity Theft

Did you lose your wallet? Get hacked? Become part of a larger data breach? You're not alone.

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In fact, identity theft and fraud can impact as many as 5 million Americans a year, according to the Federal Trade Commission. Consumers may experience devastating financial losses, while watching their credit score plummet through no fault of their own. Here's what to do.

CONTACT THE AUTHORITIES

Begin by detailing your identity theft to the FTC, either online via IdentityTheft.gov or by phone at (877) 438-4338. They'll help you create a report that verifies your situation for banks, businesses and creditors. They will also establish a personal recovery plan, based on your specific situation. You may also need to contact the local police, in particular if you know the identity of the thief. Some creditors may require a police report.

CREDIT REPORTING

Contact personnel from any of the national credit bureaus at Equifax, Experian and TransUnion to place a fraud alert on your credit report. The other bureaus will be automatically notified. If the problem persists, there is a longer-term reporting option that lasts seven years. A copy of the FTC Theft Report most be sent to each bureau to set that in motion.

OTHER CONTACTS

You'll need to get in touch with the fraud department with your personal bank and credit-card companies. Report the crime to retailers and any other place where you have an account. In some cases, you may need to alert your employer or potential employer, as well. In cases of medical-identity theft for those on Medicare, contact their offices directly. Report tax ID theft to the IRS, and unemployment identity theft to the labor department in your state. Alert the National Long-Term Care Ombudsman Resource Center if the theft occurred at a nursing home or other similar facility.

SAFETY TIPS

Never carry your Social Security card in a purse or wallet. Be careful about sharing key personal information — which also includes your birthdate and bank-account number. Pay attention to billing cycles, and what's being taken out. If the regular due amount changes, or if the bill itself arrives late, that can be an early signal of identity theft. Don't bank online when using public Wi-Fi. Shred credit offers, receipts, expired cards and account statements to keep dumpster divers from having access to key financial data.