

Grokker

7 Steps to Financial Wellness

Learn practical and effective financial techniques to help you reach your goals.

BY GROKKER FINANCE EXPERT
MANISHA THAKOR MBA, CFA, CFP®



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Welcome to Grokker's 7 Steps to Financial Wellness program! If you're here, you've likely experienced at least a little stress over your financial situation. Know that you're not alone.

That's why we partnered with financial guru, Manisha Thakor, to design a go-at-your-own-pace program that will help you identify and tackle your financial trouble-spots. Manisha will share valid, unbiased information and actionable advice at each step of the way in order to help you start feeling a sense of financial well-being now and in the future.

By the end of this program you will understand exactly how much money you have coming in, where it's going out, and how to make the smartest choices about your money moving forward.

Here are the key 7 financial habits this program will help you master:

Learn How To Live Within Your Means

Budget With The 50/30/20 Rule

Practice Joy-Based Spending

Deal With Debt

Build An Emergency Cash Fund

Save For Retirement

Talk Money With Your Honey

Be sure to take advantage of the exercises outlined at each step and remember, building healthy financial habits is absolutely essential to reducing stress and setting yourself up for long-term success.

ABOUT MANISHA THAKOR, MBA, CFA, CFP



A nationally renowned financial literacy advocate with an extra emphasis on women, Manisha Thakor is Vice President of Financial Education at the Seattle-based wealth management firm, Brighton Jones. Her mission is to help clients “Live A Richer Life” – literally and figuratively.

Manisha is the co-author of two critically acclaimed personal finance books: *ON MY OWN TWO FEET: a modern girl’s guide to personal finance* and *GET FINANCIALLY NAKED: how to talk money with your honey*. Manisha is a member of The Wall Street Journal’s Wealth Experts Panel, sits on Faculty at The Omega Institute, and serves on the board of The National Endowment for Financial Education.

Manisha’s financial advice has been featured in a wide range of national media outlets including CNN, PBS, NPR, The Today Show, Rachel Ray, The New York Times, The Boston Globe, The Los Angeles Times, Real Simple, Women’s Day, Glamour, Marie Claire, Cosmopolitan and Women’s Health.

Manisha earned her MBA from Harvard Business School in 1997 and her BA from Wellesley College in 1992. She is also a CFA charterholder and CFP® practitioner. Manisha lives in Portland, OR where she revels in the Third Wave Coffee scene and the stunning beauty of the Pacific Northwest. Her website is [MoneyZen.com](https://www.MoneyZen.com).

STEP 1

LEARN HOW TO LIVE WITHIN YOUR MEANS

Evaluating if you're currently living within your means is by far the most important first step to achieving financial wellness and it's something many people struggle with. If you regularly spend more money than you earn, you'll always have financial stress unless you start making some changes right now. This means cutting down on unnecessary expenses so you have money remaining at the end of each month.

For this exercise, answer the following three questions to evaluate if you're currently living within your means.

Question #1:

Are you up to date on your monthly expenses? If so, are you able to pay them for the next six months?

- Yes
- No
- Not sure

Question #2:

Do you have debt? Do you carry over a balance on your credit card each month? Do you continue to incur debt on your credit card that you are unable to pay off by the end of the month?

- Yes
- No
- Not sure

Question #3:

Do you have enough money left over each month after living expenses to set some aside for savings?

- Yes
- No
- Not sure

If you answered yes to #1, no to #2 and yes to #3, you are currently living within your means.

If you have some work to do here, don't stress. In Step #2 of the program we'll take a dive into your monthly budget to see where adjustments can be made.

If you regularly spend more money than you earn, you'll always have financial stress.

STEP 2

BUDGET WITH THE 50/30/20 RULE

Now that you understand the importance of living within your means, it's time to balance your spending. The 50/30/20 budgeting rule will help you figure out where your money is being spent and determine where tweaks are necessary.

People who are best positioned to roll with life's punches are those whose after-tax take home pay is broken up as follows: **50% to needs, 30% to wants, and 20% to savings.**

Needs:

Your spending essentials such as essential housing, transportation, food, insurance, household items, and child care.

Wants:

You put everything else in here --- all the "fun stuff" like eating out, going to a movie, or new clothes.

Savings:

In here you have your emergency fund savings for unforeseen circumstances, near term savings for things like a car down payment or a wedding, and longer term retirement savings.

A simple way to evaluate how balanced your spending is at the moment is to jot down what you KNOW to be true about your spending in each area (50/30/20).

This will give you a rough sense of whether you are in - or out - of alignment. If you are out of alignment, don't beat yourself up... help is coming in the next step!

Want to take a deeper dive into your budget?

Pull up a chair and [check out this helpful monthly budget template.](#)

STEP 3

PRACTICE JOY-BASED SPENDING

How did the budgeting exercise go? If you identified an imbalance in your budget during the 50/30/20 exercise, you'll find this next step super helpful.

Step #3 is all about making any necessary adjustments to your budget using joy-based spending. Implementing joy-based spending is simply the process of making sure you are squeezing out the maximum amount of joy from each dollar you spend.

In many cases, we've lost the connection between money and meaning in our life; this practice helps you get that clarity.

Take some time to reflect on the following exercises before moving on to Step #4.

Exercise 1: The Highlighter Test

Refer to the 50/30/20 budget you created and literally highlight the items in the list you don't find necessary or that do not bring you joy. You'll notice some of the usual items like the cable bill at first -- here you have the opportunity to see if you can negotiate a lower payment plan.

But then the really interesting stuff kicks in -- you may notice you're spending money on extra things you don't find joy in like a gym membership you don't use or a dinner with people who you don't love spending time with.

List out the items you highlighted and decide how you want to adjust your spending.

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STEP 3 CONT.

Exercise 2: The Hourly Wage Test

When you think about how many hours of your life it took to save up the money to buy something, you really start thinking twice about your purchases.

The first step in this test is to determine how many hours you work each year. For example, in the US, many people work around 2,000 hours a year (based on a 40 hour work week with 50 weeks a year on average).

Next, use that annual figure to determine what you're earning per hour, before tax. Take your gross income and divide by 2,000. So if you are earning \$50,000 a year, your hourly PRE-TAX wage is \$25/hour.

Now, the next time you see some \$250 outfit or electronic gizmo you feel you have to have, you can do the math and ask yourself if it's worth more than 10 hours of your efforts at work.

What are a few items and experiences you've spent money on in the past month that you don't feel are worth the amount of work it took to pay for the items.

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In many cases, we've lost the connection between money and meaning in our life; this practice helps you get that clarity.

STEP 4

DEAL WITH DEBT

Now that you have a handle on your budget, it's time to start tackling what is arguably the most stressful and confusing financial topic out there -- dealing with debt. In modern society, debt is wrongly sold as "something you can't live without" and getting access to a credit card or loan that you aren't prepared to pay for is easier than ever.

A good rule of thumb when it comes to deciding whether to take on debt is - if it increases your net worth or has future value, it's a debt worth considering. For instance, a home mortgage or continuing your education.

On the other hand, anything that decreases in value the minute you buy it becomes bad debt. Unnecessary home goods like extra throw pillows for instance. If those purchases aren't coming out of your budgeted WANTS bucket from your 50/30/20 budget, then it's time to make some changes.

Remember, the longer you have debt in your life, the longer you'll postpone doing the things that make your money work for you.

Use this three-step process to start whittling away at your debt:

1. Start listing out all your current outstanding debt. Then, use the template below to reorder your list by the debt with the highest interest rate on top...all the way down to the lowest.

Next, make sure you are paying the minimum monthly payment on every one of your debts on time. The best way to do this is to set up all your minimum debt payments on auto pay.

STEP 4 CONT.

Source	Dollar Amount Owed	Min. Monthly Payment	Interest Rate

2. Once you have your debt listed from highest to lowest interest rate, start adding an additional \$50, \$100, or \$150 a month to your minimum monthly payment on your most expensive debt until it is paid off in full. Where can you find that extra money, you ask? See Step #3 on joy-based spending OR consider taking on some type of part-time work on the weekends or doing odd jobs to raise those funds.

3. When you've ticked down that list it's time to celebrate and save! It's no easy feat and that recognition is important. When you're done with your happy dance, it's time to start taking that money you were using for debt repayment and redirect it into a long term savings account for your retirement. We'll talk in more depth about retirement planning during Step #6 of the program!

STEP 5

BUILD AN EMERGENCY CASH FUND

Today, we're talking about the importance of building an emergency cash fund for unforeseen expenses. While saving your money isn't always the most fun in the short term, it is one of the best steps you can take to create financial wellbeing and build for a brighter future.

Don't start contributing to your emergency fund **until you've paid down your credit card debt**. It's important to pay down debt before you graduate to this step.

Manisha advises aiming to save at least \$2,000 starter emergency fund. Why \$2,000? This figure comes from research showing that the average person tends to experience roughly \$2,000 a year in unexpected expenses. Your personal situation may be higher or lower, but \$2,000 is a great place to start based on nationwide averages. Over the long run you'll want to eventually build up an emergency fund equals to 3 to 6 months of your essential living expenses.

Here's how to get started:

Time to refer back to that 50/30/20 balanced spending rule once again. When you're done paying off credit card debt and starting to build your emergency fund, a good chunk of your savings money (the 20% bucket) will go first to creating your initial safety buffer and eventually, a longer term fund.

Once you're ready to get started, keep these two rules of thumb in mind:

1. Contribute whatever cash you can to it right away.

2. Slowly work, using the tools from the joy-based spending exercise, to free up a little extra cash each week to contribute to this fund until you hit the \$2,000 mark.

Write out your plan for budgeting to build your starter emergency cash fund of \$2,000:

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STEP 6

SAVE FOR RETIREMENT

Retirement in modern society is an interesting concept. Years ago people worked until age 65, retired, lived another 2-5 years, then passed away. With our modern longer life spans, it's now possible for someone to spend nearly as many years in retirement as they did working.

The concept of preparing for retirement can feel daunting with this knowledge, so today we're coaching you through how to effectively save for it. You can still be in a good place to start saving for retirement even when paying down your debt. You'll know you're ready to start once you have made the minimum monthly payments, are paying down an additional amount on your debt each month like we discussed in Step #4, and you've achieved your \$2,000 minimum emergency fund.

Estimates of how much you need to have saved for retirement are varied. A good goal to work towards is having at least eight times your ending salary by age 67 to meet your basic needs in retirement.

If you wait until your finances are perfect to get down to saving, you may never get going. Even if you are just starting by saving \$25 or \$50 a month towards retirement, you'll be on the right track.

STEP 6 CONT.

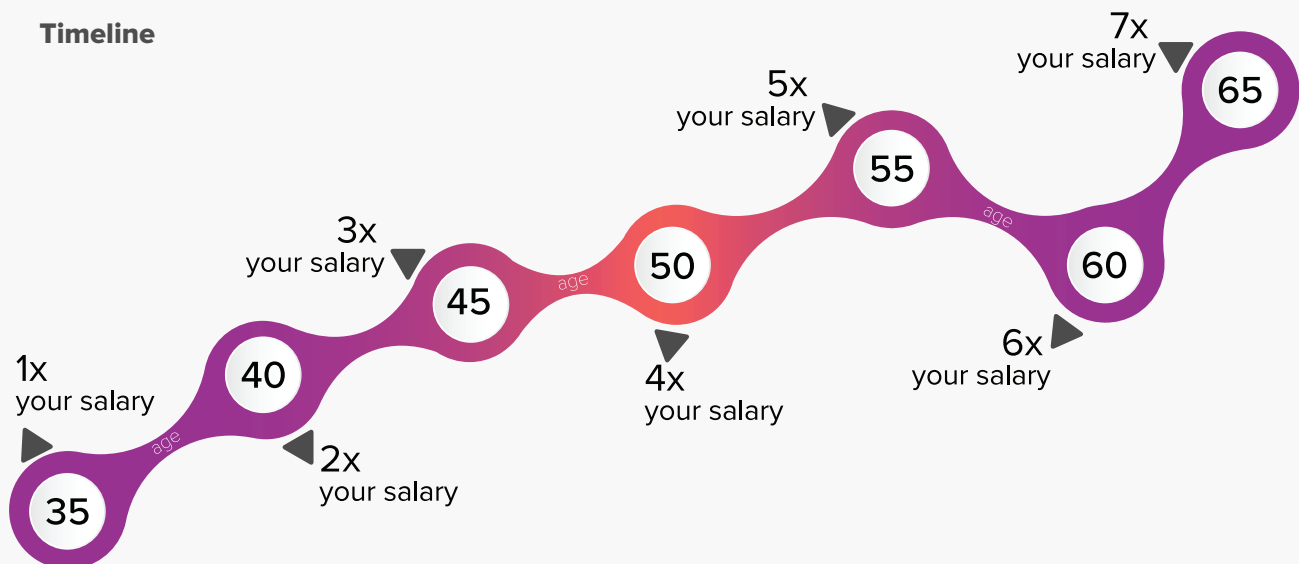
Eight times your ending salary may sound daunting, so here's are two ways to get started right now:

1. Check with your HR department at work to learn about your workplace retirement plan options and make sure you are participating as fully as you can. If your employer offers a program like this and you aren't taking advantage, you may be missing out on free money because many companies "match" your contribution meaning the company will contribute \$0.50 or \$1.00 for each \$1.00 you contribute, up to a certain point.

If you don't have a workplace retirement plan, consider opening an IRA.

2. Using the timeline below, benchmark how you're tracking compared to the recommended savings timeline for a healthy retirement. If you're behind schedule refer back to Step #3 on Joy-Based Spending to see where you can make some adjustments.

Timeline



*based on research by Fidelity Investments

STEP 7

TALK MONEY WITH YOUR HONEY

You've made it to the final step of 7 Steps to Financial Wellness, amazing job!

But before we say “goodbye”, it's time to talk money with your honey. Finances are the leading cause of stress, fights, and divorce in a relationship. So, making sure you and your sweetie are on the same page financially is essential to the long-term health of your relationship.

When you've found that special someone and are talking about future plans, taking this quiz is a great way to foster a healthy discussion about your approach to financial health.

Many people feel sharing this information can feel as awkward as sharing sexual preferences — so if you are feeling uncomfortable, rest assured you are not alone. We recommend kicking off the conversation by discussing with each other that the whole point of this exercise is NOT to judge. There are no right or wrong answers.

The purpose of this exercise is to get a sense of each of your knowledge, interest, and behaviors around money — so that together you can come up with a “divide & conquer” game plan for how you plan to deal with money as a couple if you are in a committed relationship... or identifying potential areas that need further discussion if you are still in the dating stage.

Turn the page for the quiz.

STEP 7 CONT.

Financial Compatibility Quiz

Instructions:

Individually answer 'Yes' or 'No' to the questions below. When you're done, go through each section and add up the number of times you answered 'Yes' to a question - and fill in the following chart to understand your financial compatibility.

Total the Number of YES Responses per Section with the scorecard below. If there are areas you find are lacking then you can start creating a game plan for how you will rectify that. This can include watching more videos on Grokker to get tips, reading and discussing a finance book together, or talking with a financial planner.

	Knowledge	Yes	No
1	You know how much money you need to cover your regular monthly expenses		
2	You know how much money you need for your personal 3-6 month emergency fund		
3	You know how much you should aim to save for retirement as a percentage of your income		
4	You know where all of your money is stored today (all bank accounts and other financial accounts including retirement accounts)		
5	You know how much money you owe for all your debt, and the interest rates you are being charged on each		
6	You understand basic concepts regarding how to invest your money		
7	You know how much risk you're willing to take with your investments		
8	You know what your top five financial goals are		
9	You know the key types of insurance you need to protect your loved ones and assets		
10	You know where your essential documents are stored		

STEP 7 CONT.

	Behavior	Yes	No
1	You always pay your bills on time		
2	You track your progress in terms of meeting your financial goals		
3	You regularly look at your bank or other financial account balances		
4	You are on track to save 10% or more of your before-tax income for retirement (if not today, you are committed to over time)		
5	You are paying off debt in a planned, systematic way - i.e. starting with the highest interest rate first		
6	You regularly check your credit reports to make sure there are no errors (or that identity theft has not occurred) and you know what your credit score is		
7	Any money that you invest in individual stocks (not mutual funds) is money that you can afford to lose		
8	You have a will or living trust and an appropriate loved one/trustee also has a copy		
9	You have enough insurance to cover your needs, including sufficient life insurance if you have kids		
10	You ask financial professionals for help when you need it		

	Interests	Yes	No
1	You enjoy reading financial books, magazines, newsletters, or blogs		
2	You enjoy watching financial TV shows or listening to radio programs		
3	You enjoy talking about financial matters		
4	You often think about your personal financial situation and how to improve it		
5	You often think about whether you are on track to meet your retirement and other big financial goals		

STEP 7 CONT.

	Interests (continued)	Yes	No
6	You are interested in the financial details of your day-to-day life		
7	You believe money issues need to be addressed today, rather than letting them “resolve themselves” over time		
8	You prioritize having financial security and stability in your life		
9	You spend time thinking about protecting your assets		
10	You believe having money leads to good outcomes		

	Your Result	Your Partner's Result
Knowledge	___ / 10	___ / 10
Interest	___ / 10	___ / 10
Behavior	___ / 10	___ / 10

Great job on completing this journey. We hope you're feeling increased calm, confidence, and clarity about your financial well-being.