Are You Financially Healthy?

What does it mean to be financially healthy? It is so much more than the one score everyone asks you about today – your credit score. While there are lots of ways to check this score, it's only one piece of the equation. True financial health is based on four key components: Spend, Save, Borrow, and Plan. With these materials, you'll get a chance to confidentially determine your own Financial Health Score and the steps you can take to improve that score. Your attitude and approach toward money can impact your overall score, which has nothing to do with how much money you actually make, but more how you use and plan with your money.

Definition of Financial Health

According to the Consumer Financial Protection Bureau (CFPB), the definition of financial health is:

- Being in control of day-to-day and month-to-month finances
- Having enough of a financial cushion or savings to absorb any unexpected expenses
- On track to meet personal financial goals
- Enjoying financial freedom without constantly worrying about money

You will notice that each of these aspects of financial health influence the others. If you do not have enough of a financial cushion when you experience unexpected expenses, you will feel as though you are not in control of your day-to-day finances. Similarly, if you are on track to meet your personal finance goals, you will enjoy financial freedom without constantly worrying about money. By taking charge of several areas of your financial situation you will improve your overall financial health.

Core Aspects of Financial Health

One of the core aspects of financial health is having the knowledge of resources that will help fund education and living expenses. By researching grants, scholarships and loans you will understand the different options available for funding education and will understand how those financial decisions will impact your overall financial health. Becoming aware of resources that will assist in covering living expenses will assist in freeing up funds that can be attributed towards other financial goals.

The ability to maintain a balanced budget is an instrumental aspect of securing your financial health. Sustaining a balanced budget is what ensures a strong financial foundation, without which you will likely find yourself in financial trouble. When you have a balanced budget your expenses total less than your monthly income and therefore you are able to save for other financial goals.

Another important aspect of financial health is preparedness for all expenses, including short-term, long-term, and emergencies. If you have savings that will satisfy your long-term goals, but don't have the funds to cover short-term goals, you will find yourself in a situation where the timeframe for your short-term goal passes and you do not have the funds. In addition, if you are only focusing on the short-term and not planning for the long-term, you will not have the funds to achieve your long-term goal. It is vital to your financial health to plan for both. Emergencies can derail the best short-term and long term plans. Although we may not be able to plan for exactly what an emergency may be, we are able to plan for the fact that things will likely come in our lives that are unexpected. By having funds set aside specifically for emergencies, you will ensure that you don't have to use the funds set aside for your short-term and long-term financial goals.

Four Core Components of Financial Health

There are four core components of Financial Health according to the Center for Financial Services Innovation: Spend, Save, Borrow, and Plan. These four components mirror your daily activities and based on what you do will either add or detract to your current and future financial wellness. For example, how well are you prepared for a car breakdown or an unexpected medical bill? Will you be able to save for college or go on your dream vacation without having to incur debt? Take the "How Financially Healthy Are You?" quiz to calculate your Financial Health Score.

Improving Your Financial Health

If you have excellent financial health, congratulations on effectively combining financial products and using planning tools. If you have good financial health you may be effectively using financials products to build resilience or create opportunities, but have room to improve.

If you have poor financial health, don't worry you can improve. You should explore new methods for managing your financial life, focusing on balancing income and expenses, mitigating risks, and saving for the future.

Let's examine each of the core components and what makes up good financial health next.

You are financially healthy when you ...

1) Spend less than income
2) Pay bills on time and in full

Creating a budget is key to spending – in fact, we like to call it a Spending Plan to determine where you want to spend. It might help to determine fixed expenses and variable expenses. This will also help you get a handle on all bills and determine where money is going. Sometimes you'll be surprised where you spend money. Start by reviewing all of your bills and financial institution statements, but also track where you might be spending small amounts of money throughout your day over the course of a month. You'll be surprised at how that coffee, gum, or small toy adds up. Variable expenses are likely a spot you can balance your Spending Plan if you are over in expenses.

You are financially healthy when you ...

1) Have sufficient living expenses in liquid savings
2) Have sufficient long term savings or assets

Creating emergency savings is great first start to saving. You may think that you have to save a lot, but starting at even ten dollars a month is a positive start toward building a savings. Once you have set aside an emergency savings plan, the next step is to plan for long terms savings – which might be saving toward a specific goal or the start of retirement savings. If your employer offers direct deposit, this is the best place to start because you are creating an automatic savings habit. Another helpful tip – when you get a raise, bonus, or any extra cash, don't spend it! Put it toward one of your savings account immediately and don't even factor it into your Spending Plan.

You are financially healthy when you ...

1) Have a sustainable debt load
2) Have a prime credit score

A sustainable debt load is one that isn't causing you stress in meeting your monthly obligations. If you must use a credit card, make sure to pay it off every month. As a general rule, your total debts excluding mortgage should be no more than 10 to 15 percent of your take home pay. A sustainable debt load is one that isn't causing you stress in meeting your monthly obligations. If you must use a credit card, make sure to pay it off every month. As a general rule, your total debts excluding mortgage should be no more than 10 to 15 percent of your take home pay. With regards to your housing expenses (mortgage, utilities, maintenance, etc.) it is recommended that amount does not exceed 35% of your take home pay.

When applying for financing, you will likely hear the term "debt-to-income ratio" and this is referring to a consumer's monthly debt payments divided by their gross monthly income. The debt payments included in this calculation are mortgage or rent in addition to all other debt payments. Most lenders are looking for this ratio to be less than 43% in order to provide financing approval. Keep in mind that this ratio is based off of your gross monthly income, but when constructing your monthly budget, you want to use your net income and stick to the recommended budgeting guidelines mentioned above.

Prime credit is considered good credit by a lender. Does anyone know what makes up a credit score and what is considered prime? Use this as an interactive discussion on what the audience thinks goes into a credit score, including what is considered prime and what is considered subprime.

Breaking Down Prime Credit

Credit score ranges vary be credit bureaus because each bureau has a slightly different score range. FICO credit scores range 300 to 800. Equifax credit scores range from 280 to 850, Experian credit scores range from 330 to 830 and TransUnion credit scores range from 150 to 950. Consumers with scores at the highest end of these ranges are considered to have super-prime credit, and consumers whose scores fall just below that range are considered to have prime credit. For example, Experian classifies super-prime credit as a score ranging from 740 to 830, and prime credit as a score ranging from 680 to 739. Borrowers with prime credit can expect to pay slightly higher interest rates than borrowers with super-prime credit since they are considered to have a slightly higher risk of not repaying their loans. Having a prime credit score might mean paying 1% more on an auto loan than a borrower with a super-prime credit score would pay, for example. Having prime credit usually means you can get a new loan and retain access to your existing credit lines even when the overall credit market is tight. Even in a strong economy where credit is readily available, prime and super-prime borrowers receive most of the credit that banks issue.

The consequences of having a subprime credit score vary. For some consumers, it will mean having to pay higher interest rates for mortgages, auto loans and credit cards. Other consumers may not qualify for conventional loans at all, requiring them to turn to riskier and more expensive ways of borrowing, such as payday loans or car title loans.

Tips To Improving Your Credit

- Keep balances low on credit cards
- Pay off debt rather than moving it around
- Don't close unused credit cards as a short-term strategy to raise your scores
- Don't open a number of new credit cards that you don't need, just to increase your available credit

It's important to note that repairing bad credit is a bit like losing weight: It takes time and there is no quick way to fix a credit score. In fact, out of all of the ways to improve a credit score, quick-fix efforts are the most likely to backfire, so beware of any advice that claims to improve your credit score fast. The best advice for rebuilding credit is to manage it responsibly over time. If you haven't done that, then you need to repair your credit history before you see credit score improvement.

Tips to Getting Out of Debt

- Make a List
- Lower Your Rates
- Know How Much You Owe
- Plan Your Strategy
- Monitor and Adjust

Make a List - Having everything written out in front of you is really the key to success here. Plus, once you've written it all out, and it's right there in black and white, it may not seem as insurmountable as it did before. Make a list of all your debts: name of creditor, interest rate, balance, minimum monthly payment. Also list how much you'll need to pay in order to zero-out the cards' debt within three years, as found on credit card statements.

Lower Your Rates - Paying high interest rates on existing debt causes your debt to really mount, and makes paying it off much more difficult. If possible, you want to lower those interest rates. Based on your credit, you may qualify for much better interest rates on credit cards – call and ask. Also, check into consolidation loans and refinance options for auto and mortgage. Your Credit Union is always a great place to start.

Know How Much You Owe - Once you know what your total payoff number is, you'll have a real, complete goal to work towards. Total the three-year pay-off amount for all your credit cards. Add the monthly payments for all other debts. This amount is Your Total Monthly Payment.

Plan Your Strategy - There are plenty of ways to attack this problem and you'll likely approach this using a variety of tools and methods. Plan your strategy carefully. Determine if you can afford to pay the Total Monthly Payment until your debt is paid off. If not doable, contact a credit counseling agency and/or bankruptcy attorney for advice. If doable, decide which debt to pay off first. Set up "auto pay" for required minimum for all debts except target debt. Pay as much as possible toward target debt until paid off. Choose new target debt and pay extra toward that one, and so on.

Monitor & Adjust - Once your plan is set, don't get too comfortable. You'll need to track your behavior closely to make sure you're making progress, and you'll want to make adjustments when necessary. Monitor your credit score each month to see if your credit score improves (over time it should). As your credit score improves, reconsider a consolidation loan or balance transfers to save money often spent on interest charges for remaining debts. But remember, if you're working on improving your credit score, then a consolidation loan or a balance transfer will harm it. But if you're solely focused on reducing your debt, then a consolidation loan or a balance transfer may be worth it. Stick with your plan until your debt is paid off.

As you begin to work this system, keep in mind that it's not easy. Just like losing weight, losing your debt takes work, but if you genuinely want to slough of that stressful debt, your perseverance can make it happen. And don't fret if you need to make adjustments along the way. This isn't about a quick fix, it's about changing your habits and behaviors so you can achieve your financial goals.

You are financially healthy when you ...

1) Have appropriate insurance
2) Plan ahead for expenses

Life throws many unexpected things at all of us. While we usually can't stop these things from occurring, we can opt to give our lives a bit of protection through appropriate levels of insurance. Insurance is meant to give us some measure of protection, at least financially, should a disaster happen. There are numerous insurance options available, and many financial experts tell us that we need to have these insurance policies in place. Yet, with so many options, it can be difficult to determine what insurance you really need. Purchasing the right insurance is always determined by your specific situation so it's important to get unbiased advice from a licensed advisor. Some key insurance everyone should consider include life insurance, health insurance, auto insurance, mortgage and/or rental insurance, and disability insurance.

Planning ahead for expenses starts with budgeting and also getting that emergency savings plan started.

You Are Financially Healthy When ...

- You spend less money than you make.
- You have enough savings to cover 3 to 6 months' worth of expenses.
- You can come up with $3000 to cover emergency expenses. This money could come from your savings, interest-free borrowing or the sale of assets.
- You feel confident that you are on track to retire when you plan to.
- You are paying no more than 30 percent of your monthly income towards outstanding debts.
- Your credit score is good or you are actively taking steps to improve it.
- Your financial planning horizon is longer than 1 year.
- Your insurance policies provide you with enough cover in case of an emergency.

How Financially Healthy Are You?

Take this quick quiz to find your Financial Health Score. The quiz contains five sections: Spend, Save, Borrow, Plan, and Overall Preparedness & Confidence.

For each question, circle the answer that most closely matches your financial situation, then write your score in the green box. Use the scale at the end of the quiz to review your Financial Health Score.

SPEND

1. Over the past year, how would you describe your spending patterns relative to income and expenses?

	Spend much less than income	Spend a little less than income	Spend about equal to income	Spend a little more than income	Spend much more than income	
Score (circle one):	5	4	3	2	1	

2. Over the past year, which of the following statements best describes how well your household is keeping up with your bills and credit card payments?

	Pay all bills and credit card payments on time and in full	Pay most bills and credit card payments on time and in full	Struggle to keep up with bills and credit card payments	
Score (circle one):	5	3	1	

SAVE

3. How many months would you be able to live off of your savings? Exclude savings that are set aside in retirement accounts or the sale of assets. Consider basic monthly expenses such as housing, food, taxes, and healthcare.

	More than a year	More than 6 months	4 – 6 months	1 – 3 months	Less than a month	
Score (circle one):	5	4	3	2	1	

4. Consider a long-term financial goal you have (buying a home, starting a business, retirement). How confident are you that you could reach these goals in the time frame that you hope to achieve them?

	Very confident	Confident	Slightly confident	Not at all confident	
Score (circle one):	5	4	2	1	

BORROW

5. As of today, how would you describe the debt your household currently has? Please consider money owed on bank loans, student loans, mortgages, medical debt, past-due utilities, etc., money owed to friends and family, and any credit card balances you carried over from the previous month.					
	Do not have any debt	About the right amount of debt	Have a bit too much debt	Have far too much debt	
Score (circle one):	3	2	1	0	

6. What percentage of your monthly income goes to your debt payments? Please consider money owed on bank loans, mortgages, student loans, medical debt, past-due utilities, etc., money owed to friends and family, and any credit card balances you carried over from the previous month.					
	Under 25%	25% - 50%	50% - 75%	75% - 100%	
Score (circle one):	3	2	1	0	

7. What is your household's credit score?						
	Excellent	Good	Fair	Poor	I don't know my score	
Score (circle one):	4	3	2	1	1	

PLAN

8. Do you take steps to maintain or improve your credit score?				
	Yes, I take active steps	No, I do not take active steps	I do not need to improve my score	
Score (circle one):	4	1	5	

9. How far in advance does your household plan for upcoming financial obligations or opportunities? (for example, annual bills, life events such as weddings, large purchases, etc.)					
	More than a year	Between a year and six months	Less than six months	We do not plan ahead for large expenses	
Score (circle one):	5	3	2	0	

OVERALL PREPAREDNESS & CONFIDENCE

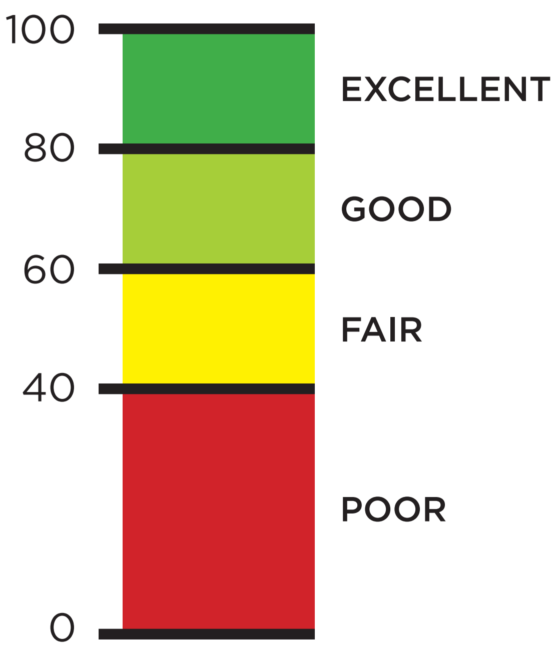
10. How confident are you that the insurance policies your household owns will provide you with enough support in case of an emergency? Please consider your health insurance, home/rental insurance, life insurance and disability insurance.						
	Very confident	Somewhat confident	Only slightly confident	Not at all confident	I don't have insurance	
Score (circle one):	5	4	3	1	1	

11. How possible would it be for your household to come up with $3000 in the next month to deal with an emergency?						
	Very possible	Somewhat possible	Not very possible	Not at all possible	I don't know	
Score (circle one):	5	4	3	1	1	

Add up all of the numbers in the orange boxes to get your score out of 50	**Total:**	**_____/50**

Review Your Financial Health Score:

To assess your overall score, add all the green scores and write the total at the end of the quiz. To get your financial health score, multiply your number by 2.



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