

Are Your Financial Realities Keeping Up With Your Financial Priorities?

Happy New Year! It isn't three months late, it's just a different calendar. That's because filing your taxes effectively closes the book on the financial year gone by while opening up a world of possibilities. Will this be the year you break free from the clutches of debt? Will you set up an emergency fund? Maybe you'll finally start saving for retirement! New years are typically a time of reflection, and the financial new year is no exception. It's time to kick back and dream big about what goals you'll achieve in the financial year to come (provided you've finished your taxes first)!



Whatever their goals are, many Americans are about to get a big chunk of change back from the federal government in the form of a tax refund. How they choose to spend that money will be a good indicator of their financial priorities. Here, it is worth noting that there's a big disconnect between what they say those priorities are and how they act in reality.

When surveys ask Americans what their top financial priorities are, they most commonly name managing bills, paying off debt and saving. Yet, only about half of Americans plan to save their tax refund or use it to reduce debt. Worse still, the number of Americans planning to use their tax refund in those two ways is down for the third straight year.

If you want to know what someone's priorities are, don't ask them. The answer you'll get is more about what they think you want to hear than what relates to their actual priorities. If you want to know what someone prioritizes, see where they spend their money.

Do you ever get the feeling that your financial priorities might be out of whack? Since you've already got your receipts, account statements, credit card bills and other piles of paper that comprise your recent financial history, it's a good time to find out. Don't worry – this won't be nearly as hard as filing your taxes! Try this 3-step process.

1. Establish your priorities

Going through the daily motions of life, you may never have time to think about the reasons for which you're earning money. Very few people are getting up and punching the clock every morning with the hope of building a Scrooge McDuck-style money room. Most of us are trying to put food on the table, keep the lights on and provide for our loved ones. Those things are our priorities.

Write down on a sheet of paper the top five things you want to achieve with your money. Number one will likely be paying bills, but there's quite a bit of flexibility in the rest of the list. Are you saving for a down payment for a house? Maybe you want to take a dream vacation or start a small business. Perhaps

financing your children's higher education is a priority for your family. You might have charities you like to support, or dreams of retiring early.

Spend some quality time thinking about where you want to spend your money. If five options feels too limiting, feel free to go beyond that. Just keep the list in order of what you want to do. There aren't right and wrong answers here. If your priority is owning the world's largest Barney the Friendly Dinosaur costume collection, that's fine. What matters is that your list reflects your values and commitments.

2. Identify your realities

This is where that mountain of paper in front of you comes in handy. Take stock of your spending in any given month. For each of your financial priorities, how much of your paycheck goes to each?

Make a list of your top 10 categories of spending. Try to account for as much of your paycheck as you can. Put your biggest expenses at the top, and then list all the way down to the smallest. Feel free to make categories as you go and reshuffle them as patterns become more apparent. Don't stress too much about where to categorize things. Just go with your gut.

Now, compare the list of expenditures to the list of priorities. Is your money going where your mouth is? Are you spending to bring yourself closer to your priorities, or do they just exist on that sheet of paper you had in step one?

3. Make a plan to fix it

Don't get discouraged if you find you're nowhere near your priorities. Remember the statistic in the beginning. Half of Americans are going to spend their tax refund on a big-ticket purchase or a vacation, and most of them also say they want to save for retirement and get out of debt. You're not alone in living far away from your financial ideals.

It might not be a bad idea to revisit your priorities briefly. Perhaps you were too strict when you set your priorities. It might be that you prioritize day-to-day comfort. There's nothing wrong with doing so, but look where it ranks on your list of priorities. Is the joy you get from your daily indulgences worth the trade-offs it brings? In short, given the plans you have, do you regret any purchases? Those are the ones you want to cut from your budget and lifestyle.

You don't need to switch overnight from your current financial attitude to one that's totally in line with what you want your money to do. Making too strict of a plan will make you unhappy, frustrated and more likely to bend back the other way. Don't let perfect be the enemy of good.

Pick one action you can take tomorrow to bring yourself closer to achieving your priorities. Cancel a monthly music subscription and put the \$10 into a savings account. Cook in one more time next week and put the difference toward your credit card bill. Once these changes start to feel effortless, look for more ways you can tweak your spending habits to make your priorities and realities line up a bit better.

If you need help reaching your savings goals, [CREDIT UNION] can help. There are many ways you can automate your savings and assist in keeping you on the right track. Call, click or stop by [CREDIT UNION] today!

SOURCES*:

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