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Taking control of your finances (finally!)

If you resolve (and fail) to manage your money wisely each year, Donna Skeels Cygan is here with 12 strategies to help you make a realistic plan to get on the path to financial security in 2015

As you look back on 2014 (and more preceding years than you'd like to admit), it's clear that you could have done a better job of managing your finances. Perhaps you're thinking: "Not to worry — 2015 is the year when I'll finally save more and spend less. In fact, I'll make that one of my New Year's resolutions!" However, if you want to rise above the 90 percent of Americans whose resolutions fail, you'll need more than just good intentions.

"As is the case with accomplishing most goals, getting on the path to financial security is easiest when you plan ahead and make a series of small, sustainable changes," says Donna Skeels Cygan, author of "The Joy of Financial Security: The art and science of becoming happier, managing your money wisely, and creating a secure financial future" (Sage Future Press, 2013, ISBN: 978-0-989-77844-2, $24.95, joyoffinancialsecurity.com). "So before the ball drops at midnight, it's a good idea to spend a little time deciding how, exactly, you're going to make your resolution a reality."

It's true that sitting down to tackle money issues isn't most people's idea of fun (especially during the holiday season), so to help motivate you, Cygan points out that the reward for taking control of your finances in 2015 isn't only monetary — you'll also be happier when you become financially responsible. Good, smart, sane money management feels great.

In "The Joy of Financial Security," Cygan combines her financial expertise with research from psychology, neuroscience, and economics to shine a light on the complex relationship between money and happiness. Here, she shares 12 specific strategies to help you keep your resolution and make 2015 the year you build a more financially secure future:

* Focus on saving, not on budgeting! Calculate how much you are currently saving. (For help, visit joyoffinancialsecurity.com. Click on “Resources,” then “Tools.” Use the “Current Savings Rate” chart to determine what percentage of your gross income you are currently saving.) This is an important first step, because saving is the primary factor in achieving financial security.

Next, look for ways by which you can increase your saving percentage. Strive to save 15 to 20 percent of your gross income. (Most people save much less than 15 percent!) First, look at where you are spending your money. Cygan says most people have one or two “problem areas.” Maybe yours is an expensive cell phone bill or a deluxe cable TV package, both of which are items that have crept into our budgets during the past 10 years. Or perhaps you have a tendency to spend too much money on clothing, on eating out, or on entertainment. Whenever you do find an area in which you can cut back, redirect that money to savings. For some people, this may be as simple as not buying junk food or soda at the grocery store, or going out to eat once per week instead of four times.

“I suggest making your savings automatic,” Cygan says. “Many people save through their 401(k) or 403(b) at work, and the money is swept into the account before it ever appears in a paycheck. This works great, and you can do the same thing with saving in a Roth IRA or a taxable account. Set your savings up so it is automatic, occurring on the first of each month or as soon as your paycheck is deposited into your checking account.”

While the “everyday savings” Cygan has mentioned will have a significant impact, she also advises being prepared to “save big” when the opportunity arises. For instance, if you are lucky enough to get a tax refund, send half of it to savings. If you get a bonus or a raise, send half of it to savings. If you pay off your car loan, send the amount of your former payment to savings each month.

“No matter how you do it, there are two hidden benefits to focusing on saving,” Cygan explains. “First, saving gets easier with practice. Setting it up to be automatic will allow you to see your investment accounts grow quickly. Second, if you are saving 15 to 20 percent of your taxable income, you don’t need to worry about your budget. Forget the budget and focus on saving!”

* Get serious about paying down debt. Although Cygan is passionate about focusing on saving, she points out that it’s not the only tool that can help you take control of your finances in 2015. Excessive debt creates stress — and getting rid of “bad debt” is an important step toward financial security. “Bad debt” is debt derived from actions that have no future benefit.

For instance, credit card bills (carried over from month to month) are typically from vacations, eating out, gifts, or clothing. The expenses were in the past, and there is no future benefit. For this reason, credit card debt that cannot be paid off each month is always considered to be “bad debt.” Contrast that with debt from a home mortgage. Your home provides long-term benefits and enjoyment. Home mortgage debt is “good debt.”

Cygan acknowledges that automobile loans are in a gray area, but they are most often bad debt.

The general rule is that a person should not buy a vehicle that they can't afford to purchase with cash. However, taking out an auto loan and working it into your monthly budget might also be considered good debt. The way to tell is to ask yourself, Would I be better off (financially and psychologically) if I did not have that car loan payment each month? If your answer is "yes," then pay off the car as soon as possible.

"If you're not sure where to start when it comes to eliminating debt, it's generally a good idea to focus on debt that carries the highest interest rate — likely credit card debt," Cygan advises. "Pull out all of your credit card statements (with a balance) and make a plan. Commit to paying off a significant amount each month and mark it on your calendar. Where there's a will, there's a way. Most families can cut expenses somewhere and put those funds toward paying down bad debt. And if your budget is already trimmed down to the essentials, consider getting a second part-time job, just a few hours a week, and putting that money toward paying down the debt quickly."

* Hold a family meeting to set some long-term financial goals. (And get specific with your strategy.) Maybe you'd like to save more for retirement, set up college savings accounts for your kids, and beef up your emergency fund. To make sure your long-term financial goals actually happen, you and your family need to sit down and figure out how you're going to get from here to there. Specifically, how much money will you put into your Roth IRA each month? What other expenditures will you need to adjust to ensure that happens?

At the same time, consider what really, truly brings you joy. How we spend our money says a lot about our values and priorities, Cygan points out. Take some time and think about what's really important to you and your family, and embrace the (possibly liberating!) responsibility of reprioritizing your life. With your values in mind, it may be less difficult than you thought to get rid of unnecessary and unwanted items, obligations, and self-imposed responsibilities.

"This will free up literal and figurative space for you to make new and wonderful changes, which will probably involve spending more time with the people you love," Cygan says. "Don't forget: Psychology research shows that improving our relationships with others is the number-one way to increase our happiness."

* Rethink what you're calling "necessities." For example, do you really need the expensive cable package with all the movie channels, or would you be able to get by with basic cable? Does your 12-year-old really need a cell phone with a data plan? In fact, extreme as it may seem, do you truly need the big house you're living in, or would downsizing to a more modest home work just as well for your family — and far better for your budget?

"Often we think we need things just because everyone else seems to have them," says Cygan. "But this is nothing more than peer pressure. There really are very few true needs. The rest are just wants. And when we really think about what brings us joy, we usually realize we don't want our 'wants' as much as we thought we did."

* Make sustainable small changes. If you are feeling overwhelmed at the thought of taking control of your finances, Cygan recommends that you start small. Perhaps you set up automatic savings of $50 per month into a Roth IRA. Perhaps you commit to not buying junk food or soda at the grocery store for the next month. Or perhaps you decide to change your cable TV package to something more affordable.

"The idea is to make smart adjustments in your lifestyle, not to turn your life upside down overnight," Cygan comments. "Small is sustainable—and baby steps in your financial life can add up quickly!"

* Start paying attention. A lot of our spending tends to happen while we're asleep at the wheel, so to speak. We sign up for expenses like cell phone plans and Internet services ... and then forget about them. (If payments are set up for autodraft, we may completely forget about them.) Take a closer look at these regular expenses. Is there a more affordable option out there? Are you paying for features you don't use? No, spending an evening researching cable-phone-Internet bundles might not be fun, but it might just save you a few hundred — or even a few thousand — dollars a year.

"Other ways to pay attention include watching sales circulars and using coupons," says Cygan. "Eat what's in your freezer instead of ordering a pizza. Commit to not buying clothes for the next three months and dig through your closet to find some clothing you forgot you had."

* Pay in cash whenever you can. Research has shown that we spend roughly 15 percent more when we pay with a credit card as opposed to using cash. If you have to reach into your wallet and count out bills in order to pay for a meal or an impulse buy at a retail store, you might just decide that it isn't worth the money after all.

* Avoid seasonal entitlement traps. We work (really) hard throughout the year, so it's easy to convince ourselves that we "deserve" a lavish vacation each summer and a no-holds-barred holiday celebration. But the truth is, you don't need to spend a fortune to relax, have fun, and make great memories with your family.

"You might find that a more financially sane approach lets you focus more on each other—and that your former traditions were cash drains that never really lived up to the hype," says Cygan. "Consider vacation options within a 200-mile radius. This might be a state park that you have never explored or a nearby small town. Consider taking more day or weekend trips in place of a major, expensive vacation."

* Focus more on experiences and less on things. From eating at expensive restaurants to making sure our homes are decked out with flat-screen TVs and sound systems, most of us don't mind pulling out our wallets in the name of enjoyment. (And often, we don't worry about the price tag until it's too late.) But psychology shows that experiences are always more impactful on our happiness than things.

"Do some soul searching before you get out the credit cards," Cygan suggests. "For instance, cooking a meal together as a family might bring all of you more joy than piling into the car and ordering from yet another overpriced menu."

* Get real about kids' needs. Stylish designer fashion. Electronic gadgets and all their upgrades. Summer camps. Traveling sports teams. Music, dance, and gymnastics lessons. Be honest: Is an alarming percentage of your budget going toward your kids' activities and desires? And how much enrichment are your children really receiving?

"The truth is, well-meant expenditures that were supposed to make your kids happy and fulfilled add up quickly and often leave kids themselves feeling overstressed and overscheduled (not to mention entitled)," Cygan observes.

* Don't hesitate to call in the professionals. If you're not sure where to start, which budget changes would be most effective, or how best to begin paying down debt, talk to a financial advisor. Many brokerage firms provide helpful information on their websites, but it is usually more helpful to sit down with a live person. Surf on websites such as napfa.org or garrettplanningnetwork.com for a financial advisor near you. These will lead you to fee-only financial advisors who won't be trying to sell you something. In addition, some of the advisors will work on an hourly basis, which may be a good fit for your needs.

"Your financial advisor can help you make sound financial decisions now and in the future," Cygan notes. "And remember, the more honest you are about your current situation and your financial goals, the more helpful your advisor can be."

"Action empowers and energizes," Cygan concludes. "So don't feel that you have to enact all of these strategies at once — pick one or two that you feel would be easiest to accomplish and start with them. Soon, you'll probably be inspired to make a few more changes and so on and so forth. Trust me; when you start taking the first steps toward smart money management — once you start 'paying attention' and making deliberate changes rather than trudging ahead on autopilot — you'll be surprised by how good it feels. You can make tremendous progress during 2015 if you start now, and by Jan. 1 of 2016, your financial reality will look positively, radically different."

About the author

Donna Skeels Cygan, CFP, MBA, is the owner of the financial advisory firm Sage Future Financial LLC and author of "The Joy of Financial Security: The art and science of becoming happier, managing your money wisely, and creating a secure financial future." She has been recognized numerous times as one of the top financial advisers in the United States.