

Evaluating Your Finances



It's a good idea to evaluate your finances periodically, especially if you're planning a major purchase like a new car or home or if there are any significant changes in your income or expenses. Fortunately, most of the information you need is at your fingertips. When you assess your finances, follow these steps to ensure you're making smart decisions that prepare you for the future.



Create a Monthly Budget

Add up your income To create a monthly budget, you should first determine how much income you have by listing your monthly income including salaries, interest, pension and any other sources, such as a spouse's income. If you earn a salary, be sure to list your take-home pay rather than your gross pay. And if taxes aren't automatically taken out of your paycheck, remember to include them as another expense.

Estimate your expenses The best way to do this is to keep track of how much you spend in a month. To easily track your spending, check out the tools offered by your checking account, like downloading credit or debit card statements or scanning receipts with your smartphone. Divide your expenses into fixed costs (those that don't change from month to month, such as rent and insurance payments) and flexible expenses (costs that change, such as food and entertainment). If some of your expenses change significantly each month, estimate the monthly expense with a three-month average of that category's total.

Figure out the difference Once you've totaled up your yearly income and expenses, subtract the expense total from the income total to get the difference. It's a simple step that can reveal

a lot about your spending habits. If the result is a positive number, congratulations – you’re spending less than you earn. If it’s negative, your expenses are greater than your income, and you will need to trim them in order to begin living within your means.

Track it Creating a budget is just the first step. Keep track of your monthly income and expenses to make sure you’re sticking to your budget. It may take time to find the balance that works for you.

Build an Emergency Fund

After creating your budget, it’s important to protect the money you are saving for the future. Do you have funds set aside in case of a major unplanned expense? Building a substantial emergency fund that covers between three and six months’ worth of living expenses is key to a secure financial foundation. When reevaluating your finances, make sure to account for emergency fund savings so that you’re prepared to handle any unexpected costs. Think about ways you can divert money to your savings on a monthly basis to start building or growing an existing fund.

Manage Debt Load

Whether you’re working on paying off a mortgage or student debt, take time to evaluate how to most effectively pay down your loans. Managing your debt load — the sum total of all of your loans — will help you get a better handle on your financial health. Reducing these payments is an important step toward improving your financial well-being.