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Let's Recap

Just like physical fitness relies on eating a good diet, taking exercise, and avoiding smoking and alcohol, Financial Fitness relies on you doing a few useful things – the Simple 6. Let's revisit those 6 here.

Strategy 1: Talk about it
Strategy 2: Ask your employer
Strategy 3: Work out what you'll need
Strategy 4: Forecast what you'll have
Strategy 5: Maximize saving and earning interest
Strategy 6: Minimize debt and paying interest

We're confident that if you follow the Simple 6, you'll be on your way to becoming more Financially Fit in no time.

About us

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The mission of the FINRA Investor Education Foundation, a nonprofit organization, is to provide underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The FINRA Foundation envisions a society characterized by universal financial literacy. For more information and financial literacy resources, visit: www.finrafoundation.org

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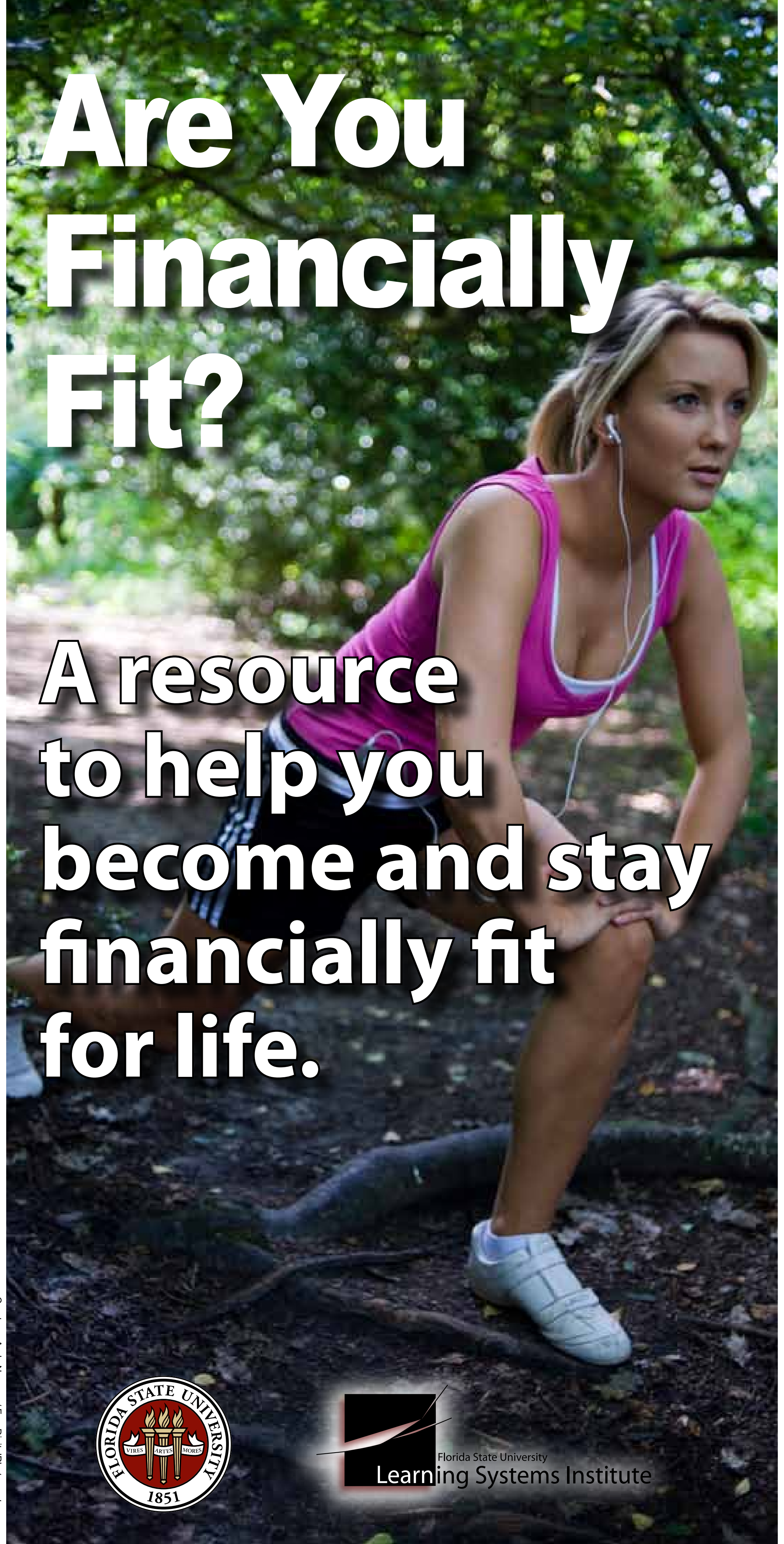

Are You Financially Fit?

A resource to help you become and stay financially fit for life.

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What is Financial Fitness?

Financial Fitness is like physical fitness. Why? Because your physical health and your financial health are important factors affecting your wellbeing and security.

While physical fitness involves building muscle and becoming more aerobically efficient, Financial Fitness involves building financial reserves and making your money work more efficiently. And while physical fitness helps you cope better with life's challenges and increases your chances of living well in old age, Financial Fitness helps you cope with life's financial challenges and increases your ability to retire comfortably.

But just like physical fitness, Financial Fitness doesn't happen automatically; we must work at it. And just as it is often difficult to find time to work on our physical fitness, it is often difficult to find time to think about our Financial Fitness.

However, the benefits of being prepared for the future, safeguarding your family, and providing yourself with more free time and better opportunities for healthcare, far outweigh the costs in terms of time. So no more excuses! Help shape your future! You deserve to give yourself the gift of living well through Financial Fitness.

Why is Getting Financially Fit More Important than Ever?

Because we are living longer than ever! Average life expectancy for someone born in 1900 was 47 years but this increased to 68 years for someone born in 1950 and to 77 years for those born in 2000. This is obviously great but it does mean that we need more funds for retirement. So, action is needed now to ensure you are financially fit for the future.

So How Can I Increase My Financial Fitness?

For three years our research team at Florida State University has been searching for answers to this question. However, rather than drawing on ideas commonly held about personal finance to come up with these answers, we've been carefully researching personal financial strategies that actually helped real householders accumulate wealth and become Financially Fit. And we feel confident that our research findings will be useful to all Americans.

In our research, we contrasted the personal financial strategies of householders who had similar opportunities to accumulate wealth over their lifetimes but ended up with very different amounts of wealth nearing retirement. We focused in particular on the personal financial strategies used in "top performing" households; those containing householders who were the most Financially Fit approaching retirement. Our investigations revealed six such strategies, which we have called the *Simple 6*.

The Simple 6: Six Strategies for Increasing Financial Fitness

Strategy 1: Talk about it

Put simply: Try to communicate more with your partner (should you have one) about your household's finances

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And for more information: We found that Financially Fit households contained couples who communicated more about the household's finances. Try to regularly discuss, and work out strategies together for how to deal with, your household's finances. Also, try to share any understanding you might gain about managing your household's finances with your partner, because it seems as if two heads are better than one when it comes to getting Financially Fit.

Strategy 2: Ask your employer

Put simply: Ask your employer for information about any available financial and retirement advice and plans within your workplace

And for more information: We found that the most Financially Fit households contained couples, and wives in particular, who had often sought out financial information from their employers. Not all employers offer retirement plans or will refer you to professionals who can provide you with financial advice. However, if you have an employer that offers these services, take advantage of any information they can provide about these services. You may discover that your employer offers more retirement and related benefits than you first thought.

Strategy 3: Work out what you'll need

Put simply: Work out now how much money you think you will need to live on during retirement

And for more information: No matter what your age now, the sooner you work out how much money you'll need for retirement, the better. We found that the most Financially Fit householders had attempted to work this out quite frequently. There are a variety of ways to learn how to do this. Many government and non-profit agencies have free resources to help you learn (e.g., American Savings Education Council: http://www.choosetosave.org/ballpark/). You can also consult a financial professional, such as a certified financial planner (search for one via the certified financial planner website: www.cfp.net), although these professionals usually charge after the first consultation.

Courtesy: Michelle Meiklejohn / FreeDigitalPhotos.net

Strategy 4: Forecast what you'll have

Put simply: Forecast how much money you think you will have by the time you will retire

And for more information: As a counterpart to Strategy 3, we found that the most Financially Fit households frequently worked out how much they would have as they neared retirement if they continued to save and invest the same way that they had done to that point. By working this out, and then comparing it to how much you'll think you'll need, you can gain some idea of how you might need to change the way you save so that you will be able to retire comfortably. To learn for free how to work this out, try using an online retirement calculator (e.g., www.bankrate.com/calculators). As mentioned above, you can also consult a financial professional, such as a certified financial planner (www.cfp.net).

Strategy 5: Maximize saving and earning interest

Put simply: Open a savings or retirement account and save something from each paycheck into it. Save up to buy expensive items such as cars.

Courtesy: Michelle Meiklejohn / FreeDigitalPhotos.net

And for more information: In our research, we found that householders in the most Financially Fit households frequently undertook two key savings activities. First, these householders owned a savings account and strived to save into it from each paycheck. So, if you don't own a savings or retirement account, open one and try to save some amount, however small it may be, into it from each paycheck you receive. When times are tough, this is hard to do, but it's worth evaluating your cash flow to see if there's any excess that can be diverted towards a savings account as the interest on the savings will add up significantly over time. For example, let's say you began at 20 years old to pay $2.50 from your bi-weekly paycheck into a CD account paying 5% interest per year and continue to do this until age 67. At age 67, the amount in your account would be a staggering $11,373.57.

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Second, when the most Financially Fit householders wanted to buy an expensive item, such as a car, they saved money to pay for that item, helping them borrow less money to purchase the item. Try to forecast when you might need to purchase an expensive item and set a goal to regularly put aside some amount, however small, so that you have some available funds when it comes time to purchase the item.

Strategy 6: Minimize debt and paying interest

Put simply: Pay your household bills on time and your credit card balances in full each month. Pay a little extra towards your mortgage principal each month. Build an emergency fund.

We found that Financially Fit householders undertook three key activities to minimize their debts and consequently their need to pay interest. First, the householders frequently paid their household bills on time and monthly credit card balances in full. This is easier said than done when times are tough. Nonetheless, failing to pay bills and credit card balances means you end up paying more than "list price" for the things you buy. Credit cards involve very high borrowing rates, so prioritize paying all of the balance each month, not just the minimum amount. Unless absolutely necessary, never buy anything using a credit card unless you already have money available to pay for it at the end of the month.

Second, the householders in our Financially Fit households paid a little extra on their mortgage principal each month. If your mortgage allows you to do this, consider paying a little extra each month as even small amounts make a big difference over time. If you borrowed $100,000 over 30 years at 6% interest, your mortgage payment would be $599.55 monthly. But if you paid an extra $7.50 per month to the principal, you would pay off your mortgage one year earlier. That's one whole year of mortgage payments you never have to make! Check out how a little extra can make a big difference to mortgage repayments using an online mortgage calculator (e.g., www.bankrate.com/calculators).

Third, the most Financially Fit householders also helped reduce their debt by building an emergency fund. This is just like a fund saved towards the purchase of an expensive item (mentioned earlier) except that you are saving for unanticipated but critical expenses, not intended purchases. In other words, an emergency fund remains untouched but easily accessible in the case of emergencies, such as those incurred when your car, which is your only means to get to work, breaks down. Something saved in an emergency fund is better than nothing, because it helps you avoid borrowing (as much) money when an unanticipated expense suddenly presents itself; borrowing that nearly always involves you paying interest.

Courtesy: David Eccles / Florida State University