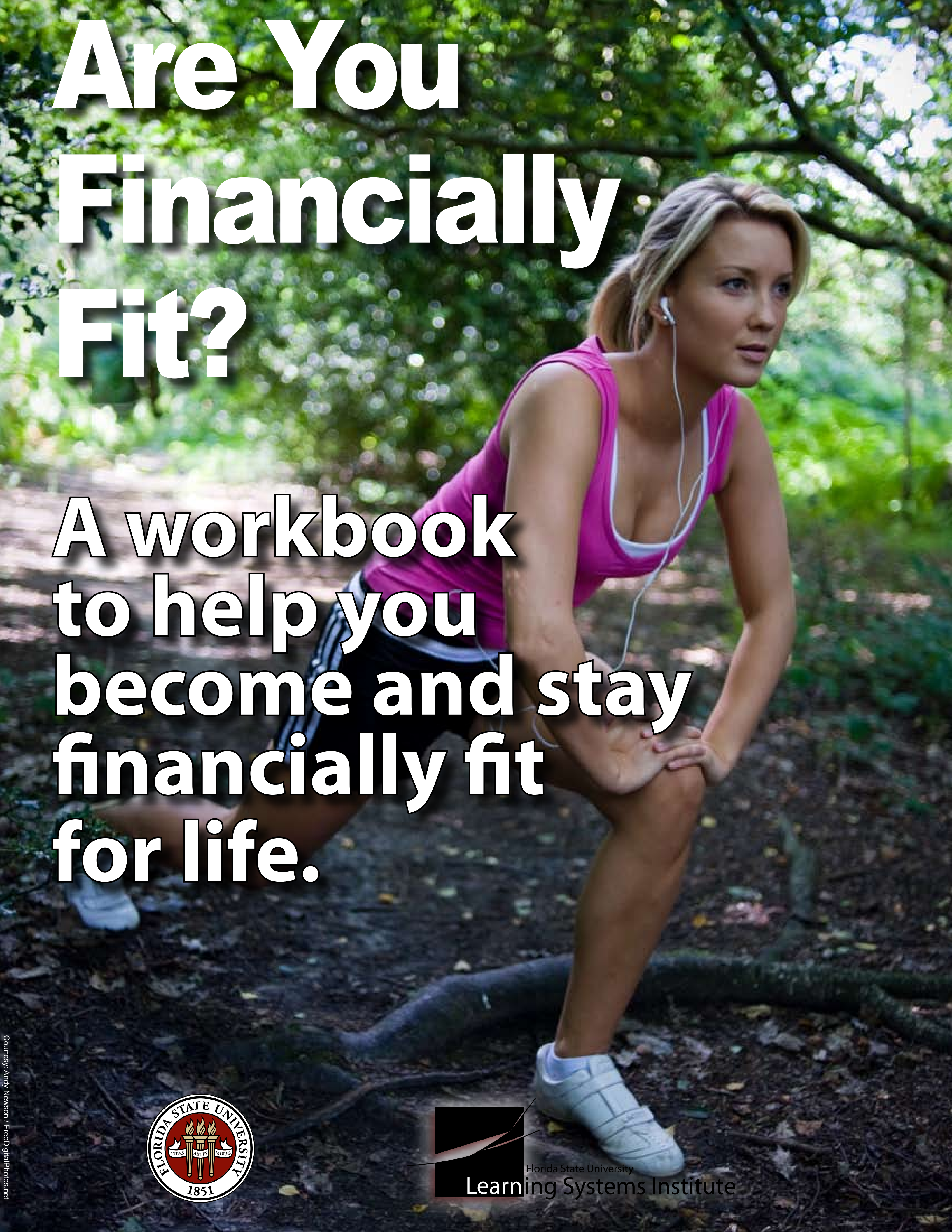
Are You Financially Fit?

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



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What is Financial Fitness?

Consider Financial Fitness to be just like physical fitness. Why? Because your physical health and your financial health are arguably the most important factors affecting your wellbeing, security, and quality of life (and your family's).

So How Can I Increase My Financial Fitness?

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

In our research, we were able to contrast the personal financial strategies of individuals who had very similar opportunities to accumulate wealth over their lifetimes but ended up with very different amounts of wealth as they neared retirement. We focused our investigation in particular on the personal financial strategies used in "top performing" households; those households containing householders who were the most Financially Fit as they approached retirement.

Based on our findings, we have created various exercises within this workbook aimed at helping you and your family improve your Financial Fitness.

In the first exercise, you'll assess your Financial Fitness based on your current use of various personal financial strategies that, according to our research, are associated with the accumulation of household wealth and Financial Fitness. Next, you'll review various 15 minute workouts aimed at improving your financial fitness. And finally you'll gain insights into the kinds of activities that the most Financially Fit householders in our study undertook over a three week period of their lives. You might be able to compare these activities with your own to see where there are similarities and differences.

Courtesy: David Eccles / Florida State University

Exercise #1: The Financial Fitness Test

In the Financial Fitness test, we'll assess your Financial Fitness based on your current use of certain personal financial strategies. In our research, we found that the householders in the most Financially Fit households reported frequent use of these strategies. Follow the instructions outlined in the table below to see how you compare.

Take the Financial Fitness test!					
	Instructions: i. Decide how often you do each of the activities described below; write your score in to the right. ii. Then add all your scores and write in your total score below. iii. Next, see what your total score means for your Financial Fitness using the How Well Did You Do? box, located over the page.	Never	Sometimes	Often	**Write your score here** ↓
1	My partner and I discuss our household finances and investments	1	2	3	
2	I actively share any new information and knowledge I gain about personal finance and investing with my partner	1	2	3	
3	My partner actively shares new information and knowledge about personal finance and investing he/she gains with me	1	2	3	
4	I actively seek out personal finance and investing related information from my employer	1	2	3	
5	My partner actively seeks out personal finance and investing related information from his/her employer	1	2	3	
6	I (or my partner and I) work out how much my partner and I will need for retirement	1	2	3	
7	I (or my partner and I) forecast how much my partner and I will have in retirement given our current savings and retirement plans	1	2	3	
8	I save something from my paycheck into a savings or retirement account	1	2	3	
8	My partner saves something from his/her paycheck into a savings or retirement account	1	2	3	
9	I (or my partner and I) save up to buy expensive items to avoid borrowing too much	1	2	3	
10	I (or my partner and I) pay the household bills on time	1	2	3	
11	I pay my monthly credit card balances in full	1	2	3	
12	My partner pays his/her monthly credit card balances in full	1	2	3	
13	When I (or my partner and I) pay the mortgage, I (or we) pay a little extra towards the mortgage principal	1	2	3	
14	I (or my partner and I) have an emergency fund; that is, some savings that are not touched except in the case of financial emergencies	No = 1		Yes = 3	
	Write in your total your score here →				

How well did you do?		
Your total score	**Your Financial Fitness!**	**What next?**
Less than 25	Poor	You scored well below the householders in the most Financially Fit households in our research. It's time to take action! To see a dramatic improvement in your Financial Fitness, we suggest you plan right now to undertake a different "15 minute Financial Fitness workout" (described below) each week for the next four weeks.
Between 25 and 30	Baseline	While you have a basic level of Financial Fitness, you scored below the householders in the most Financially Fit households in our research. There's definitely room for improvement. Check through our "15 minute Financial Fitness workouts" (described below) to see which workout will help you improve your current fitness level. Identify the most useful and set a time and day right now to undertake the workout and enhance your fitness.
Between 31 and 36	Good	You have a good level of Financial Fitness and scored nearly as well as the householders in the most Financially Fit households in our research. Still, you might be able to learn how to tweak your fitness by reading through our "15 minute Financial Fitness workouts" (described below). Are there any workouts you have not tried? If so, now's the time to schedule the workout so that you can move beyond your current level of fitness.
More than 36	Very good	You have a very good level of Financial Fitness, scoring similarly to the householders in the most Financially Fit households in our research. Still, make sure you keep you the good work so that you can maintain your fitness level. It is worth checking the "15 minute Financial Fitness workouts" (described below) to see if there are any you have not tried.

Exercise #2: Four 15 Minute Workouts to Transform your Financial Fitness

The following workouts were designed based on financial strategies used frequently by the householders in the most Financially Fit households in our research. They are relatively simple and time-friendly to complete and we are confident that they will enhance your Financial Fitness, especially if you pay particular attention to each workout's Golden Rule.

15 Minute Workout #1: Create an Emergency Fund

An emergency fund involves saving for unanticipated but critical expenses, not intended purchases. In other words, an emergency fund is a sum of money that remains untouched in an easily accessible savings account except in the case of emergencies, such as those incurred when your car, which is your only means to get to work, breaks down. While financial experts differ on how much is required for an emergency fund, something is better than nothing, because an emergency fund helps you to avoid borrowing (as much) money when an unanticipated and unavoidable expense suddenly presents itself; borrowing that nearly always involves you paying interest. The following steps will help you set up an emergency fund that, once created, takes care of itself.

Step 1: Identify a savings account that allows you to set up an automatic monthly transfer from your checking account. Online savings accounts typically allow this and often pay good interest. Typing "online savings account" into an internet search engine should allow you to easily identify online savings accounts. However, be sure that any account you open is "FDIC insured"; this way, any money you deposit up to $250,000 is currently insured by the federal government.

Step 2: Once your account is open, set up an automatically recurring monthly transfer from your checking account for a set amount, even if it is for as little as $10. This way the money will be sent to your account each month without you needing to think or take action. Financial Fitness without any effort; now that's what we're talking about!

Step 3: The Golden Rule: Never, ever touch the account outside of a genuine financial emergency.

15 Minute Workout #2: Set Up an Independent Retirement Account

Your second Financial Fitness workout involves opening an independent retirement account (often abbreviated to IRA) that gives you some tax advantages. This is especially useful if you have no retirement plans available to you from your employer but is also useful if you do because every little bit helps.

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Step 1: Retirement accounts can be complicated so spend some time reading about independent retirement accounts (e.g., on the IRS' website devoted to retirement information: www.irs.gov/retirement).

Step 2: Identify an independent retirement account (e.g., a Roth IRA) that allows you to set up an automatic monthly transfer from your checking account. Many online retirement accounts allow this. Typing "online Roth IRA" into an internet search engine should allow you to easily identify an online Roth account.

Step 3: Once your account is open, set up an automatically recurring transfer from your checking account for a set amount. Some accounts require a minimum opening deposit that may involve more money than you currently have, but you can always save a little money each month until you reach the minimum amount. And, some accounts, when opened, require a minimum transfer amount such as $100. If this is the case and the minimum amount is too high to transfer each month, most accounts will allow you to automatically transfer a set amount on a yearly basis. This way the money will be sent to your account each year without you needing to think or take action. So, just like with Workout #1 above, you will gain Financial Fitness without any effort!

Step 4: The Golden Rule: Never, ever touch your retirement account prior to retirement. Not only will you need the account during retirement, there are often tax penalties associated with withdrawals prior to retirement.

15 Minute Workout #3: Pay Your Monthly Credit Card Balances in Full

Your third Financial Fitness workout involves three steps to eliminating any current balance on your credit cards and then being able to pay your credit card balance in full at the end of the month.

Step 1: Credit cards charge very high interest rates on the amount that you borrow. However, it has become easy to just accept this level of interest because using a credit card has become such a normal, conventional part of daily life. But you can combat this way of thinking. First, for each of your cards, consider whether you will have any balance on the card that you cannot pay in full at the end of this month (note: we don't mean the minimum permissible card payment, we mean the entire balance on the card). If so, stop using the card TODAY. Take it out of your wallet or purse before you leave home and put it somewhere secure.

Step 2: Next, in the best case scenario, pay off your credit balance in its entirety at the end of this month. If you are not able to do this, pay as much as possible, even if that is only a little more than the minimum card payment.

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Step 3: Once you have no balance on your credit card, you can put your credit card back into your wallet or purse, on one very strict condition: You must create a written budget that includes on the first line exactly what you have to spend each month; that is, your take-home pay. Record on this budget every item you know you must pay during the month (e.g., the rent or mortgage) and every other purchase you make. In addition, at the beginning of the month, record a "purchase" of, say, $100 for your credit card. This way, you know you are only able to spend $100 on the card because you have the $100 available at the end of the month to pay the balance in full. The Golden Rule: Never, ever spend any more than this amount. This way you will always be able to pay the balance in full and will never need to pay the very high interest associated with the credit card. This will help keep you Financially Fit.

15 Minute Workout #4: Talk about Finances with your Partner.

The last Financial Fitness workout concerns talking about the household finances with your partner. This workout is an important one because managing the household's finances is a joint endeavor, so a joint approach is required. It's also worth considering that household finances are a key cause of relationship strife, so time spent working out how best to manage them together as a couple is worthwhile.

Step 1: Be proactive, not reactive: Arrange a regular day and time – for example, the first Wednesday of the month at 7pm - to talk about the household's finances and together plan your household's upcoming expenditures. This approach is much better than the common "reactive" alternative, which is to only sit down and attempt to sort out the household's finances when one partner announces a problem, such as "I don't know how I am going to pay my credit card bill this month". With the reactive approach, emotions can run high: one partner tends to be frustrated, and the other defensive. Not good.

Step 2: Talking about the household finances with your partner is not only about discussing how to budget, it's also about sharing information. To elaborate, try to avoid allocating one partner in the relationship the job of sorting out the household finances. Instead, aim to make finding out about how to manage the household's finances the job of both partners and share any new information you obtain about household financial management with your partner. For example, if you discover a better way to track your spending, explain it to your partner; if he or she discovers that the government is offering a new tax break that might benefit your household, ask him or her to explain it to you. Two heads are better than one, but only when they talk to one another.


Courtesy: David Eccles / Florida State University

Step 3: The Golden Rule: Don't hide financial activity from your partner. A household is a joint endeavor and requires a joint approach. Honest, open, and patient communication is required.

Exercise #3: The Financially Fit Schedule

The following schedule presents three typical weeks, in terms of personal financial habits, in the lives of the most Financially Fit Householders in our study. We asked many householders in Financially Fit households to keep a diary of all their personal finance habits over a three week period. The husband and wife in each household filled the diary at the end of each day and we took the average of how often they undertook a wide range of personal finance activities. We then created this schedule on the basis of the averages.

Let's consider that activities in the first half of Week 1 in more detail. During his lunchtime on Monday, the husband views the household's checking account balance online. On Tuesday at 7.00pm, he reads a financial newspaper or magazine. And on Wednesday evening, the husband first reads a financial newspaper or magazine before joining his wife to watch a financial TV show. A little later, the husband pays some household bills.


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Now, two points of caution. First, within our research, we could not tell in very much detail exactly what activity was undertaken – just what general type of activity was being undertaken - and we could not tell why the activity was undertaken. For example, when a householder reported reading a financial newspaper or magazine, we could not tell exactly which financial newspaper or magazine was read or why it was being read. Nonetheless, we believe the schedule will help you reflect on what personal finance activities you undertake and how often, as we outline in the following section.
How to use the schedule to enhance your Financial Fitness

There are two ways you might use the schedule to enhance your Financial Fitness.

First, simply look over the schedule to get a feel of the different types of activity undertaken by the householders. Also, consider how often each activity was undertaken during the three week period. Ask yourself how you think that the schedule of activities compares to what you know about your own schedule of personal finance activities.

Second, even better than trying to mentally construct your own schedule of personal finance activities for comparison with the schedule presented here, try to record all your personal finance activities for a three week period. Use a diary or planner to record in writing at the end of each day any personal finance activities you undertook that day. Don't delay writing an entry more than one day otherwise you will likely forget to enter it. Ask yourself how you think that the schedule of activities compares to what you know about your own schedule of personal finance activities.

We're confident that if you try the exercise outlined here, you'll be on your way to becoming more Financially Fit in no time.

Three Weeks in the Life of a Financially Fit Household

	MON.	TUES.	WED.	THURS.	FRI.	SAT.	SUN.
Week One	1.00pm: Husband views checking account balance online	7.00pm: Husband reads financial newspaper or magazine	7.15pm: Husband read financial newspaper or magazine 8.00pm: Husband and wife watch financial TV show 9.30pm: Husband pays household bills		12.30pm: Husband reads financial information online	10.45am: Wife reads financial newspaper or magazine	11.45am: Husband and wife discuss household finances 12.15pm: Husband manages investments online
Week Two	12.15pm: Wife reads financial information online	7.00pm: Wife pays household bills 7.15pm: Husband and wife do household budgeting		1.00pm: Husband views checking account balance online	7.00pm: Wife views checking account balance online	12.45pm: Wife researches future purchase	10.00am: Wife reads financial newspaper or magazine 5.30pm:Wife pays household bills 8.15pm: Wife researches long-term healthcare
Week Three	5.00pm: Husband listens to financial radio show 6.00pm: Husband reads financial newspaper or magazine		12.30pm: Husband reads financial information online 8.00pm: Husband watches financial TV show 8.45pm: Husband manages investments online	12.30pm: Husband views financial information online 7.45pm: Wife discusses financial matters with family member		9.00am: Husband reads financial newspaper or magazine	2.45pm: Husband reads financial information online 6.45pm: Husband views checking account balance online

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About us

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