Building Good Financial Habits

The first step to financial security is to build good habits. All this entails is making a few easy changes to the way you manage your money every day. If you make some small changes to start, it will be easy for you to get into a routine that will allow you to manage your money well.

Here are a few easy ways to make sure your financial future is secure:

- Organize your financial information and records. Buying a financial planning box or accordion file is a good start. Knowing where important financial information is located and having a system for paying and archiving your monthly bills will save you time and aggravation.

- If you are not already using it, switch to direct deposit for your paycheck. It saves you time and gets your money working for you faster. It is also much safer—there are no checks to lose or bank transactions to process. Consider switching to direct deposit for things like tax returns and Social Security, as well.

- Use an automated savings plan to save for short-term purchases and long-term financial goals. You can do this by asking your bank or your employer to transfer a set amount into your savings account each month or pay period. An automated savings plan can also help you build up an emergency savings fund because you never know when that extra cash is going to come in handy.

Life Lesson: When Sofia was setting up her bank accounts after she got her first job, she was offered the opportunity to automatically transfer money each month from her checking to savings. She didn't understand the point of it then, but she decided to transfer $25 a month. She almost forgot about the automatic transfer because she never saw that $25. It was transferred almost directly from her paycheck to the savings account. Three years later, she needed to get a new transmission in her car. That $900 tucked away in her savings account allowed her to pay cash for her transmission and prevented her from going into credit card debt to pay for the car repairs.

- Boost your retirement savings by setting up an automated transfer to your 401(k) or IRA from every paycheck. Does your employer offer a matching contribution? Make sure you're saving enough to max out your employer's match.

- Prepare a household budget. There's nothing magical about a household budget. A budget is simply a list of expenses that you have. It includes things like your rent or mortgage payment, your car payment, utilities, clothing, food and your cell phone bill. Simply write down on a piece of paper everything you spend to live. That becomes your budget. Once you know what it costs you to live, you can decide where you want to spend your paycheck, and where you might want to cut back. There are many online examples of budgets at sites like Mint.com or Quicken.com and there are literally hundreds of books you can check out from the library. Preparing your first budget will help you understand where your money is going on a monthly basis and identify potential areas where you can reduce expenses. For example, you can save a significant amount of money by brewing coffee at home instead of buying it at a coffee shop. If you cut out a trip to the movies once a month, you can save another $30.

- Continue analyzing your spending on a regular basis. Looking at your household budget weekly or monthly will help you monitor your spending and develop savings habits as they evolve.

Again, there are several online programs that can help you track this; many banks also offer their own programs to track your spending habits.

- Balance your checking account each month. This is the best way to avoid bouncing checks and incurring fees that may be charged by your bank if your balance is too low. Keeping on top of it every month saves you the headache of having to pore over multiple statements when you have a problem.

- Review all your bills and statements as soon as you receive them. Even if you have a month where you can't make your entire payment, it's better to review for errors right away so you can correct any mistakes before you get a late fee.

- Set up automatic payments or online payments. This is the best way to ensure you're never late paying a bill. You can schedule your payments as soon as you receive the bills so you don't have to worry about them for another month.

- Make credit card payments promptly and pay more than the minimum. Paying only the minimum will cost you more interest—and it will take much longer to pay off the balance. Avoid late-payment fees and reduce the amount of interest you may owe on unpaid balances by making sure your payments arrive before the due date.

- Be aware of the fees you are paying. Some fees can't be avoided—like annual fees from your credit card and bank—but most can with a little bit of effort. Schedule your payments on time. Look up all local ATM locations for your bank, even if you have to go a bit out of your way to access some of them; you may be paying a fee every time you use another bank's ATM, and walking an extra block or two could save you $20 a month. Also, be aware that your bank may charge you fees if your checking or savings account falls below the bank's determined minimum balance. The key is understanding the rules and penalties; there is no sense in paying fees if you don't have to.

- Continue to educate yourself. Just as there are advances in science that can affect your health, there is always more to learn to improve your financial health. Try to read the personal finance columns in your newspaper or subscribe to a personal finance magazine or a blog. The more you know about your money, the easier handling your finances will seem and the more in control you will be.