Money Secret: Tips for Smart Financial Decision-Making

UNIVERSITY OF NEBRASKA–LINCOLN
STUDENT MONEY MANAGEMENT CENTER
ASUN Student Government • Child, Youth & Family Studies • Student Affairs

Setting SMART Financial Goals

Saving for a down payment for a house
Savings for a down payment on a car
Increasing retirement savings
Saving for a vacation

Specific. State exactly what you want to achieve, how you're going to do it, and when you want to achieve it.

I want to pay off my medical bill in 8 months by negotiating a payment plan with my doctor.

Measurable. A goal should be measurable so you know when you have achieved it.

In the next six months, I will pay three of my five credit card bills in full.

Attainable. Make sure the goal is within reasonable reach.

I will save $1,000 in a year by putting aside $3 each day.

Realistic. Is the goal realistic for you? Don't ignore your limitations.

By managing my money well, next year I will be debt free and will have an emergency fund equal to three months of living expenses.

Trackable. Being able to track your progress encourages you to keep going and reach your goal.

Each year I will save 10 percent more than the previous year in my IRA.

Financial Guidelines

Financial rules of thumb are useful when you are in the beginning stages of making a major financial decision. However, rules of thumb often oversimplify complex issues. So start with the rule of thumb, but then do the math to ensure you're making the absolute best financial decision for your situation.

Emergency Fund & Life Insurance

The rule: Most financial experts agree you want 6 months of living expenses in your emergency fund. This money should be where it can be easily accessed, in a savings account or money market account.

The rule: You should have at least six times your gross salary in life insurance coverage. This rule gives breadwinners a good guideline for how much money their families will need to meet their day-to-day costs and adjust financially to life without them.

Learn More

Retirement Savings

The rule: You should try to save AT LEAST 10% of your income each month in a 401K or IRA. MORE IS BETTER!

The rule: Save at least 20 times your gross income. You can calculate the exact amount you need to save by using the CNN Money Retirement Calculator at: money.cnn.com/calculator/retirement/retirement-need/

The rule: To make sure your retirement lasts, never withdraw more than 4 percent a year. This simple formula has proven accurate over time, helping people easily figure out a guideline for how much they should withdraw so as not to exhaust their retirement savings.

Retirement Portfolio

The rule: The percentage of your portfolio invested in bonds should equal your age. This rule of thumb helps investors keep in mind that their portfolios need to change as they age, becoming more focused on avoiding risk in their investing than on higher growth. That's because older people have less time to recover from stock market shocks than younger.

The rule: Over time, a diversified stock portfolio will return an average of 10 percent per year. Knowing that the returns of the stock market even out over time can help people stay in the market rather than selling when the markets are down. However, take this rule with a grain of salt. Past performance is no indication of future returns. Learn More

Mortgage & Homeowner's Insurance

The rule: The house shouldn't cost more than two and one half times your annual salary. Another rule of thumb: All your monthly home payments should not exceed 36% of your gross monthly income.
The rule: Aim for a down payment of 20% of the price of the home.
Learn More

The rule: Insure your home for its replacement cost – that is, the amount it would cost to rebuild it if it were totally destroyed. That means determining the average local building cost in your region, and applying it to your home's size, style, and quality of construction.
Learn More

Car Loan

The rule: If you're looking to finance, consider the 20-4-10 rule: 20 percent down; financing that lasts no longer than four years; and principal, interest and insurance that doesn't exceed 10 percent of your gross household income.

It's a formula that can help change the way we think about how we define the affordability of a car, and potentially start to free up some extra cash for other, more important financial needs such as retirement or even the more basic emergency savings fund.
Learn More