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How to be smarter about money in 2014

Tips for actually keeping your financial New Year's resolutions

By Catey Hill  MarketWatch



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Every January many of us make financial New Year's resolutions to do things like spend less or contribute more to our 401(k)s. And every year more of us break them than keep them — and end up poorer for it. So how do you make sure this year will be different?

While it's not as popular a resolution as losing weight and getting fit (43% make this resolution), making smarter choices with money is the second most popular New Year's resolution, according to the annual New Year's Resolution Survey from Allianz Life Insurance Company. Nearly one in three Americans say they plan to make a resolution to improve their financial stability. Surveys show that the most popular resolutions include saving more money, paying down debt, spending less money and developing a long-term financial plan.

Unfortunately, many financial resolutions are short-lived. Fully 31% of Americans find financial resolutions harder to keep than other popular resolutions and 25% find them just as difficult to keep, according to Fidelity's 2014 New Year Financial Resolutions Study. To help ensure you don't end up in the failed-goals category this year, we asked experts how to make those financial goals stick this year.

Set positive achievable financial goals

One reason we find it so hard to keep financial goals is that we frame them in a negative manner, says Chicago-area psychologist Elizabeth Lombardo, author of "A Happy You." "We think of a goal like 'spending less' in terms of what it will deprive us of instead of what it will give us," she says. "Deprivation makes us want something more." Instead of doing that, write down your goal and all the specific, positive things it will give you if you achieve it. Keep this document where you can easily access it like on the refrigerator or in your bedside table.

Many people make goals that are too lofty to actually achieve, says psychologist Nancy Molitor, an assistant professor at Northwestern's Feinberg School of Medicine. She recommends that you ask yourself when making the goal if it is doable — a stretch is fine, but if there's only a very small chance you'll achieve the goal, you may want to rethink it. Once you write down your achievable goal, break it into doable chunks, says Lombardo. For example, someone who wants to save \$5,000 over the course of a year may want to plan to save \$100 per week (and a little more if you can on some weeks).

Make a specific plan with room for setbacks

Among the most popular resolutions are save more (54%), pay down debt (24%) and spend less (19%), according to a survey by Fidelity. The problem with goals like these, experts say, is that they aren't specific and often aren't accompanied with specific plans for how the individual will achieve these goals.



Travel resolutions for 2014

WSJ columnist Scott McCartney shares his travel resolutions for 2014. Photo: Getty Images.

For example, for a goal like saving more, people must: a) write down a specific amount of money they plan to save each week and/or month for the entire year; b) outline a proposal to make it happen that includes where they'll cut spending to get that extra savings, where they'll put the money (savings account, 401(k), etc.) and when they'll deposit that money (i.e. every paycheck, every month, etc.); and c) lay out a plan to deal with setbacks that addresses what happens going forward (i.e. you cut spending in a certain area like eating out for a certain amount of time) should something happen that prevents you from saving one month. To help foresee the kinds of setbacks you might encounter, take inventory of your resolutions from previous years and where you succeeded and where you experienced setbacks, says Molitor.

Lombardo says that you may even want to "build in a little cushion" for your goals because setbacks are almost inevitable. So if you wanted to save \$10,000 this year, you might plan to save \$210 per week, which if done perfectly would allow you to save nearly \$11,000.

Automate as much as you can

"The more you can make your goals automatic the better," says Lombardo. So, have a certain portion of your money automatically deducted from your paycheck and diverted into your retirement fund or savings account or put toward paying down debt on a regular basis, for example. "This takes the emotion out of it," says Molitor — and because of our "out of sight, out of mind" mentality, leaves you less tempted to spend the money since it's automatically taken out of your bank account or paycheck right when you get paid.

Get social support

Only 29% of individuals involve their spouse or significant other in their financial resolutions, according to Fidelity. That, Molitor says, could set them up for failure. "There's a ton of research to support this," she says. For couples, this means that you may want to create financial resolutions and plans together and arrange joint meetings throughout the year to assess your progress. Lombardo points out that it's sometimes a good idea — especially for goals around cutting spending — to get your friends in on it. "If all your friends are out spending a ton, you're going to want to too," she says. Come up with activities that you can do with friends that don't involve spending a ton, she adds.

Review goal progress regularly

Set up a recurring time to review your goal progress — weekly, monthly, quarterly or whatever makes the most sense for your goal — says Kimberly Foss, president of Emprion Wealth Management in Roseville, Calif. Lombardo recommends that you mark that time on your calendar (you can use a Google calendar to set automatic reminders) so you don't forget. During this review time, try to remember the positive reasons you made the goal in the first place and don't beat yourself up over any setbacks," says Lombardo.

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