Budgets And Budgeting

Want to Start Saving? Follow This Game Plan.

by Tori Dunlap

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If you're overwhelmed with managing your savings — emergency fund? retirement? debt? — here's a clear, step-by-step plan to help you get started. In this HBR collaboration, entrepreneur and finance educator Tori Dunlap lays out which financial goals to prioritize first to best leverage your investment of time and money.

0:00 — How (and where) do you start your financial plan?
0:19 — Build an emergency fund in a high-yield savings account
0:40 — Pay off high-interest debt
1:22 — Save for retirement while paying off lower-interest debt
2:00 — Big life goals (ex. buying a house, starting a family, retiring early)
2:29 — Take advantage of an employer match through your retirement program
3:11 — Rely on your financial game plan to meet your financial goals
3:44 — Keep yourself motivated by knowing exactly what you're saving money for

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Transcript

TORI DUNLAP: Hi, my name is Tori Dunlap. I am the founder of Her First $100K, a money and career platform for women. And today, I am answering the most popular question I get asked, which is, "How do I start?"

So you have a bunch of different financial goals. You know that you need to be saving for emergencies, but you also have student loan debt. But you also want to buy a house someday. But also shouldn't you be saving for retirement? Where do you start?

The number one priority is an emergency fund. That is your first part of the financial game plan, making sure that you have at least three months of living expenses set aside in a high-yield savings account. The reason why we prioritize an emergency fund is we don't want you going into more debt trying to pay for an emergency, and it also just gives you this kind of mental stability and peace of mind, knowing that you have something in the bank should an emergency arise.

After your emergency fund, your second priority is to pay off your high-interest debt. I define high-interest debt as anything over 7% in interest. The reason 7% is our magic number is because 7% is the average return you can expect in the stock market. So, if your debt is higher than 7%, it is costing you more money than you could be making by investing in the stock market.

So we're going to prioritize paying off that debt first. All credit cards are high interest. They all start at typically around 15% and go up to 30%. So you want to work to pay down your credit cards before you proceed to your other goals.

OK, so number one is your emergency fund — three months of living expenses in a high-yield savings account. Number two is to pay off that high-interest debt and making sure you're staying out of high-interest debt. Number three, you want to start saving for retirement while paying down your lower-interest debt. It's kind of a two for one.

The reason we're going to do this is because we want to take advantage of the time in the market. We want to take advantage of as much time as possible to get started investing to allow our investments to grow. So you want to use a tax-advantaged retirement account like a 401(k) or an IRA to get started saving for retirement while also paying down your lower-interest debt.

We define lower-interest debt as anything under 7% in interest, so things like student loans, car loans, mortgages, et cetera. So we want to kind of do two things at once. We want to start saving or investing for retirement while also paying down that lower-interest debt.

We want to continue with number three while also doing number four, which is what I call the “big stuff.” You want to start saving for the big things in life that you need to prioritize first. We’re talking buying a house, having kids, starting a business, retiring early, taking a kick-ass vacation, getting married. These big things in your life that you want to save for. So, after you’ve saved an emergency fund, after you’ve paid off your high-interest debt, you want to start paying down your lower-interest debt while saving for retirement and starting to save for those big life goals.

Now, here’s the one exception to this financial game plan. We’re going to like, Lion King 1 and 1/2 it. In between one and two, after you save an emergency fund, but before you start paying off your high-interest debt, if you get an employer match through your retirement program, that’s the 1 and 1/2. We want to prioritize doing that before you pay down high-interest debt.

And the reason is because it’s free money. It is the only place in the world where your money is guaranteed to double. And an employer match is simply if they offer a 3% match, for example, of your salary. That means, if you contribute 3% of your salary to your 401(k), that company will double it. They will match you at 3% without you doing anything else.

They just doubled your money with you only doing half the work, which is why we want to take advantage of that.

So the financial game plan, this structure, is something that you will come back to for your entire life. It is something that you can use in order to figure out how to proceed through your financial goals. Personal finance can feel super overwhelming, and we want to give you an action plan. We want to give you that game plan so that you know where to start and how to proceed. If you've already saved an emergency fund, for example, you know to start in step two. Or, if you don't have any high-interest debt, you know to start prioritizing your retirement.

So this is something, again, you're going to continue to come back to as you progress through your financial goals and allow you to make specific goals. One of the things I see a lot from folks is they'll come to me, and they'll say, "Well, I want to start saving money." And I'll ask them, "Well, what for?" This gives you a very distinct purpose, which actually, psychologically, is going to make your goal-setting and achieving your goals even easier because your brain is going to be on board. You're going to have the exact reason why you're saving money or why you're paying off debt.

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Tori Dunlap is an entrepreneur, finance educator, and founder of Her First $100K.

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