How to Set Financial Goals for Your Future

Personal finance is the term used to describe all aspects of an individual's money management, including saving and investing. It encompasses budgeting, banking, insurance, mortgages, investments, retirement, tax, and estate planning. The term often refers to the entire industry that provides financial services to individuals and households and advises them on financial and investment opportunities.

Individual goals and desires—and a plan to fulfill those needs within your financial constraints—also impact how you approach the above items. To make the most of your income and savings, it's essential to become financially savvy—it will help you distinguish between good and bad advice and make intelligent financial decisions.

Personal financeis about meeting your personal financial goals. These goals could be anything—having enough for short-term financial needs, planning for retirement, or saving for your child’s college education. It depends on your income, spending, saving, investing, and financial protections (insurance and estate planning).

Not understanding how to manage finances or be financially disciplined has led Americans to accumulate enormous debt. In Q3 2024, the Federal Reserve Bank reported household debt had increased by $3.8 trillion since December 2019, prior to the recession. In addition, the following balances increased from the second quarter of 2024 to the third:

Americans are taking on an ever-increasing amount of debt to finance purchases, making managing personal finances more critical than ever, especially when inflation is eating away at purchasing power and prices are rising.

The five areas of personal finance are income, saving, spending, investing, and protection.

Income is the starting point of personal finance. It is the entire amount of cash inflow that you receive and can allocate to expenses, savings, investments, and protection. Income is all the money you bring in. This includes salaries, wages, dividends, and other sources of cash inflow.

Spending is an outflow of cash and is typically where the bulk of income goes. Spending is whatever you use your income to buy. This includes rent, mortgage, groceries, hobbies, eating out, home furnishings, home repairs, travel, and entertainment.

Being able to manage spending is a critical aspect of personal finance. You should ensure your spending is less than your income; otherwise, you won't have enough money to cover your expenses or will fall into debt. Debt can be devastating financially, particularly with the high interest rates credit cards charge.

Savings are the income left over after spending. Everyone should aim to have savings to cover large expenses or emergencies. However, this means not using all your income, which can be difficult. Regardless of the difficulty, everyone should strive to have some savings to meet any fluctuations in income and spending—somewhere between three and 12 months of expenses.

Beyond that, cash idling in a savings account becomes wasteful because it loses purchasing power to inflation over time. Instead, cash not tied up in an emergency or spending account should be placed in something that will help it maintain its value or grow, such as investments.

Investing involves purchasing assets, usually stocks and bonds, to earn a return on the money invested. Investing aims to increase an individual's wealth beyond the amount they invested. Investing does come with risks, as not all assets appreciate and can incur a loss.

Investing can be difficult for those unfamiliar with it—it helps to dedicate some time to gain an understanding through reading and studying. If you don't have time, you might benefit from hiring a professional to help you invest your money.

Protection refers to the methods people take to protect themselves from unexpected events, such as illnesses or accidents, and as a means to preserve wealth. Protection includes life and health insurance and estate and retirement planning.

Several financial planning services fall under one or more of the five areas. You're likely to find many businesses that provide these services to clients to help them plan and manage their finances. These services include:

The sooner you startfinancial planning, the better, but it’s never too late tocreate financial goalsto give yourself and your family financial security and freedom. Here are some best practices and tips for personal finance.

The2022 Investopedia Financial Literacy Surveysurveyed 4,000 adults and found that the majority of participants were concerned about personal finance basics, retirement funding, and investing in crypto.

It's all for nothing if you don't know how much you bring home after taxes and withholding. So, before deciding anything, ensure you know exactly how much take-home pay you receive.

A budget is essential to living within your means and saving enough to meet your long-term goals. The 50/30/20 budgeting method offers a great framework. It breaks down like this:

It’s never been easier to manage money, thanks to a growing number of smartphone personal budgeting apps that put day-to-day finances in the palm of your hand. Here are just two examples:

It’s important to “pay yourself first” to ensure money is set aside for unexpected expenses, such as medical bills, a significant car repair, day-to-day expenses if you get laid off, and more. The ideal safety net is three to 12 months of living expenses.

Financial experts generally recommend putting away 20% of each paycheck every month. Once you’ve filled up your emergency fund, don’t stop. Continue funneling the monthly 20% toward other financial goals, such as a retirement fund or a down payment ona home.

It sounds simple enough: Don't spend more than you earn to keep debt from getting out of hand. But, of course, most people have to borrow from time to time, and sometimes going into debt can be advantageous—for example, if it leads to acquiring an asset.

Taking out a mortgage to buy a house might be one such case. Still, leasing can sometimes be more economical than buying outright, whether it's renting a property, leasing a car, or even getting a subscription to computer software.

On the other hand, minimizing repayments (to interest only, for instance) can free up income to invest elsewhere or put into retirement savings while you're young: This is also one of the best times for your nest egg to get the maximum benefit fromcompounding interest. Some private and federal student loans are even eligible for a rate reduction if the borrower enrolls in autopay.

Student loans account for $1.61 trillion of consumer debt—if you have an outstanding student loan, you should prioritize it. There are myriad loan repayment plans and payment reduction strategies available. If you're stuck with a high interest rate, paying off the principal faster can make sense.

Flexible federal repayment programsworth checking out include:

Credit cards can be major debt traps, but it’s unrealistic not to own any in the contemporary world. Furthermore, they have applications beyond buying things. They are crucial to establishing your credit rating and a great way to track spending, which can be a considerable budgeting aid.

Credit needs to be managed correctly, meaning you should pay off your entire balance every month or keep your credit utilization ratio at a minimum (that is, keep your account balances below 30% of your total available credit).

Given the extraordinary rewards and incentives offered these days (such as cashback), it makes sense to charge as many purchases as possible—if you can pay your bills in full.

Using a debit card, which takes money directly from your bank account, is another way to ensure that you will not be paying for accumulated small purchases over an extended period with interest.

Avoid maxing out credit cards at all costs, and always pay bills on time. One of the fastest ways to ruin your credit score is to constantly pay bills late—or even worse, miss payments.

Credit cards are the primary vehicle through which your credit score is built and maintained, so watching credit spending goes hand in hand with monitoring your credit score. If you ever want to obtain a lease, mortgage, or any other type of financing, then you'll need a solid credit report. There are a variety of credit scores available, but the most popular one is theFICO score.

Factors that determine your FICO score include:

FICO scores range from 300 to 850. Here's how your credit is rated:

To pay bills, set up direct debiting where possible (so you never miss a payment) and subscribe to reporting agencies that provide regular credit score updates. In addition, you can detect and address mistakes or fraudulent activity by monitoring your credit report. Federal law allows you to obtain free credit reports once a year from the "Big Three" major credit bureaus: Equifax, Experian, and TransUnion.

Reports can be obtained directly from each agency, or you can sign up at AnnualCreditReport.com, a federally authorized site sponsored by the Big Three.

Some credit card providers, such as Capital One, will provide customers with complimentary, regular credit score updates, but it may not be your FICO score. Instead, Capital One's CreditWise program offers yourVantageScore.

During the COVID-19 pandemic, the three major credit bureaus provided free credit reports weekly. The program was extended twice in 2022 and is now permanent.

To protect the assets in your estate and ensure that your wishes are followed when you die, be sure you make a will and—depending on your needs—possibly set up one or more trusts. You also should look into insurance and find ways to reduce your premiums, if possible: auto, home, life, disability, and long-term care (LTC). Periodically review your policy to ensure it meets your family’s needs through life’s major milestones.

Other critical documents include a living will and a healthcare power of attorney. While not all of these documents directly affect you, all of them can save your next of kin considerable time and expense when you fall ill or become otherwise incapacitated.

Retirement may seem like a lifetime away, but it arrives much sooner than expected. Experts suggest that most people will need about 80% of their current salary in retirement. The younger you start, the more you benefit from what advisors call the magic of compounding interest—how small amounts grow over time.

Setting aside money now for your retirement not only allows it to grow over the long term but also can reduce your current income taxes if funds are placed in a tax-advantaged plan, such as anindividual retirement account (IRA), a 401(k), or a 403(b).

While your children are young, take the time to teach them about the value of money and how to save, invest, and spend wisely.

If your employer offers a 401(k) or 403(b) plan, start paying into it immediately, especially if your employer matches your contribution. By not doing so, you’re giving up free money. Take time to learn the difference between a Roth 401(k) and a traditional 401(k) if your company offers both.

Investing is only one part of planning for retirement. Other strategies include waiting as long as possible before opting to receive Social Security benefits (which is smart for most people) and converting aterm life insurancepolicy to apermanent lifepolicy.

As you age, it's natural for you to accumulate many of the same things your parents did—a family, home or apartment, belongings, and health issues. Insurance can be expensive if you wait too long to get it.

Healthcare, long-term care insurance, and life insurance all increase in cost the older you get. Additionally, you never know what life will send your way. If you're the sole breadwinner for the family, or you and your partner both work to make ends meet, a lot depends on your ability to work.

Insurance can cover most of the hospital bills as you age, leaving your hard-earned savings in your family's hands; medical expenses are one of the leading reasons for debt. If something happens to you, life insurance can give those you leave behind a buffer zone to deal with the loss and get back on their feet financially.

Due to an overly complex tax code, many people leave hundreds or even thousands of dollars sitting on the table every year. By maximizing your tax savings, you’ll free up money that can be invested in reducing past debts, enjoying the present, and planning for the future.

You should start saving receipts and tracking expenditures to take advantage of all possible tax deductions and credits. Many office supply stores sell helpful “tax organizers” that have the main categories already labeled.

After you’re organized, you’ll want to focus on taking advantage of every tax deduction and credit available, as well as deciding between the two when necessary. In short, a tax deduction reduces the amount of income on which you are taxed, whereas a tax credit reduces the amount of tax that you owe. This means that a $1,000 tax credit will save you much more than a $1,000 deduction.

Budgeting and planningcan seem full of deprivations. Make sure to reward yourself occasionally. Whether it’s a vacation, a purchase, or an occasional night on the town, you need to enjoy the fruits of your labor. Doing so gives you a taste of the financial independence you’re working so hard for.

Last but not least, don’t forget to delegate when needed. Even though you might be competent enough to do your own taxes or manage a portfolio of individual stocks, it doesn’t mean you should. Setting up an account at a brokerage and spending a few hundred dollars on a certified public accountant (CPA) or a financial planner—at least once—might be a good way to jump-start your planning.

The key to getting your finances on the right track is using skills you likely already have. It’salso about understanding that the principlesthat contribute to success in business and your career work just as well in personal money management. Three key skills are finance prioritization, assessing the costs and benefits, and restraining your spending.

Personal money managementisn't one of the most popular topics in educational systems. Many college degrees require some financial education, but it isn't geared toward individuals, which means that most of us will need to get our personal finance education from our parents (if we're lucky) or learn it ourselvesthrough self-educationand emulating the ultrarich.

Fortunately, you don't have to spend much money to find out how to manage it better. You can learn everything you need to know for free online and from library books. Almost all media publications regularly dole out personal finance advice, too.

Reading personal finance blogs is a great way to start learning about personal finance. Instead of the general advice you’ll get in personal finance articles, you’ll learn exactly which challenges real people face and how they address them.

Mr. Money Mustache has hundreds of posts full of insights on escaping the rat race and retiring early by making unconventional lifestyle choices. CentSai helps you navigate a myriad of financial decisions via first-person accounts.

Million Mile Secrets and The Points Guy each teach you how to travel for a fraction of the retail price using credit card rewards. These sites often link to other blogs, so you’ll discover more sites as you read.

Of course, we can’t help tooting our own horn in this category. Investopedia offers a wealth of free personal finance education. You might start with our special sections on budgeting, buying a home, and planning for retirement—or the thousands of other articles in our personal finance section.

You may need to visit your library in person to get a library card if you don't already have one, but after that, you can check out personal finance audiobooks and e-books online without leaving home.

Some of the following bestsellers may be available at your local library: "I Will Teach You to Be Rich," "The Millionaire Next Door," "Your Money or Your Life," and "Rich Dad Poor Dad." Personal finance classics such as "Personal Finance for Dummies," "The Total Money Makeover," "The Little Book of Common Sense Investing," and "Think and Grow Rich" are also available as audiobooks.

If you enjoy the structure of lessons and quizzes, try one of these free digital personal finance courses:

Personal finance podcasts are a great way to learn how to manage your money if you're short on free time. While you're getting ready in the morning, exercising, driving to work, running errands, or preparing for bed, you can listen to expert advice on becoming more financially secure. In addition to "The Investopedia Express with Caleb Silver," you may find these valuable:

The most important thing is to find resources that work for your learning style and that you find interesting and engaging. If one blog, book, course, or podcast is dull or difficult to understand, keep trying until you find something that clicks.

Education shouldn't stop once you learn the basics. The economy changes, and new financial tools like the budgeting apps mentioned earlier are always being developed. Find resources you enjoy and trust, and continually refine your money skills throughout retirement.

Personal finance education is a great idea for consumers, especially for those people just starting and who want to learn investing basics or credit management; however, understanding the basic concepts is not a guaranteed path to financial sense.

Human nature can often derail the best intentions to achieve a perfect credit score or build a substantial retirement nest egg. These three key character traits can help you stay on track:

One of the most important tenets of personal finance is systematic saving. For example, say your net earnings are $60,000 per year, and your monthly living expenses—housing, food, transportation, and the like—amount to $3,200 per month.

There are choices to make surrounding your remaining $1,800 in monthly salary. Ideally, the first step is to establish an emergency fund or perhaps a tax-advantagedhealth savings account (HSA).

To be eligible for a health savings account, your health insurance must be ahigh-deductible health plan (HDHP).

Establishing an emergency fund takes financial discipline—without it, giving in to the temptation to spend rather than save can have dire consequences. In the event of an emergency, you may not have the money to pay the expenses, leading you to finance them through debt.

Once you have your emergency stash, you'll need to develop investing discipline—it's not just for institutional money managers who make their living buying and selling stocks. Average retail investors tend to do better by setting an investment target and sticking to it, rather than buying and selling stocks in an attempt to time the market.

Timing can be crucial. For instance, imagine you're three years out of college, have established your emergency fund, and want to reward yourself. A Jet Ski costs $3,000, but you want to start investing also. "Investing in growth stocks can wait another year," you say. "I have plenty of time to launch an investment portfolio."

However, putting off investing for one year can have significant consequences. The opportunity cost of buying a personal watercraft can be illustrated through the time value of money.

The $3,000 used to buy the Jet Ski would have amounted to nearly $49,000 in 40 years at 7% interest, a reasonable average annual return for a growth mutual fund over the long haul. Thus, delaying the decision to invest wisely may likewise delay the ability to reach your goal of retiring at age 65.

Doing tomorrow what you could do today also extends to debt payment. If you were to put the Jet Ski on your credit card, the $3,000 credit card balance would take 222 months (18.5 years) to pay off if you only made minimum payments of $75 each month. And don't forget the interest you're paying: at an 18% annual percentage rate (APR), it comes to $3,923 over those months.

So, if you were to plunk down the $3,000 to pay the balance rather than let it compound, you'd see substantial savings—nearly $1,000.

Personal finance matters are business, and business should not be personal. A difficult but necessary facet of sound financial decision-making involves removing emotions from a transaction.

Making impulsive purchases feels good, but can significantly impact long-term investment goals. So can making unwise loans to family members. Your cousin Fred, who has already burned your brother and sister, will likely not pay you back, either. The smart thing to do is decline his requests for help—you're trying to make ends meet also.

The key to prudentpersonal financial managementis to separate feelings from reason. However, when loved ones are experiencing real trouble, it pays to help if you can—just try not to take it out of your investments and retirement.

Many people have loved ones who always seem to need financial help—it is difficult to refuse to help them. If you include planning to assist them in real emergencies using your emergency fund, it can make the burden easier.

The personal finance realm may have more guidelines and tips to follow than any other. Although these rules are good to know, everyone has their own circumstances. Here are some rules prudent people, especially young adults, are never supposed to break—but can break if necessary.

An ideal budget includes saving a portion of your paycheck every month for retirement, usually around 10% to 20%. However, while being fiscally responsible is important and thinking about your future is crucial, the general rule of saving a fixed amount for retirement may not always be the best choice, especially for young people just starting out.

For one thing, many young adults and students need to consider paying for their biggest expenses, such as a new car, home, or postsecondary education. Taking away 10% to 20% of available funds would be a definite setback in making those purchases.

Additionally, saving for retirement doesn’t make much sense if you have credit cards or interestbearing loans to pay off. The 19% interest rate on your Visa card probably would negate the returns you get from your balanced mutual fund retirement portfolio five times over.

Finally, saving money to travel and experience new places and cultures can be especially rewarding for a young person who's still unsure about their life path.

The rule of thumb for young investors is that they should have a long-term outlook and stick to a buy-and-hold philosophy. This rule is one of the easier ones to justify breaking. Adapting to changing markets can be the difference between making money and limiting your losses and sitting idly by and watching your hard-earned savings shrink. Short-term investing has its advantages at any age.

Common investing logic suggests that because young investors have such a long investment time horizon, they should be investing in higher-risk ventures; after all, they have the rest of their lives to recover from any losses that they may suffer; however, you don't have to take on undueriskin your short- to medium-term investments if you don't want to.

The idea of diversification is an important part of creating a strong investment portfolio; this includes both the riskiness of individual stocks and their intendedinvestment horizon.

At the other end of the age spectrum, investors near and at retirement are encouraged to cut back to the safest investments—even though these may yield less than inflation—to preserve capital. Taking fewer risks is important as the number of years you have to earn money and recover from bad financial times dwindles, but at age 60 or 65, you could have 20, 30, or even more years to go. Some growth investments could still make sense for you.

Personal finance is the knowledge, instruments, and techniques used to manage your finances. When you understand the principles and concepts behind personal finance, you can manage debt, savings, living expenses, and retirement savings.

The five main components are income, spending, savings, investing, and protection.

One of the key ideas behind personal finance is not to spend more than you make. For instance, if you make $50,000 a year but spend $65,000, you'll end up with debt that continues to compound because you'll be spending more than you make to pay for past expenses.

The concepts behind managing your personal finances can guide you in making intelligent financial decisions. In addition, the decisions you make throughout your life on what to buy, sell, hold, or own can affect how you live when you can no longer work.

Personal finance is managing your money to cover expenses and save for the future. It is a topic that covers a broad array of areas, including managing expenses and debt, how to save and invest, and how to plan for retirement.

In addition, it can include ways to protect yourself with insurance,build wealth, and ensure wealth is passed on to the people you want it to pass to.

Understanding how to manage your finances is a crucial life-planning tool that can help set you up for a life without debt. Yougain control over financial stressesand have a way to manage the unexpected expenses that life can throw at you.