

# **BEST PRACTICES FOR LIVING A HEALTHY FINANCIAL LIFE**

How to decrease your debt and increase your wealth

# KNOWING YOUR FINANCES MATTERS

When it comes to money, being aware of where it's going and what you're doing with it—being financially aware—matters for a multitude of reasons. Not only because it can impact your bottom line, but because it can have an impact on other areas of your life as well.

Are you stressed? That's often money related. One recent study reported that 83 percent of employees report at least some financial stress. And 16 percent say their money-related stress is either high or overwhelming.<sup>1</sup>

Do you have poor health? A recent study from Northwestern University concluded that high financial debt is associated with higher blood pressure and both poorer overall and mental health in adults in their mid-twenties to early thirties.<sup>2</sup>

Hitting a rough patch in a relationship? It's long been discussed that money issues are a top contributing factor to divorce.<sup>3,4</sup> Stress over finances has recently even been found to be bad for your brain too, with a study showing that chronic financial stress can lower a person's IQ as much as pulling an all-nighter.<sup>5</sup>

"Extended periods of stress can take their toll on physical, mental, and emotional health."

Laura Choi

Federal Reserve Bank of San Francisco

---

<sup>1</sup> Carter, Erik. "Are You Financially Stressed?" Forbes. June 13, 2013. [www.forbes.com/sites/financialfinesse/2013/06/13/are-you-financially-stressed/](http://www.forbes.com/sites/financialfinesse/2013/06/13/are-you-financially-stressed/)

<sup>2</sup> White, Erin. "High Debt Could Be Hazardous to Your Health." Northwestern University. August 15, 2013. [www.northwestern.edu/newscenter/stories/2013/08/high-debt-could-be-hazardous-to-your-health.html](http://www.northwestern.edu/newscenter/stories/2013/08/high-debt-could-be-hazardous-to-your-health.html)

<sup>3</sup> Dew, Jeffrey. Britt, Sonya. and Huston, Sandra. "Examining the Relationship between Financial Issues and Divorce." Family Relations. Volume 61, Issue 4. October 2012.

<sup>4</sup> "Divorce Study: Financial Arguments Early In Relationship May Predict Divorce." Huffington Post. July 12, 2013. [www.huffingtonpost.com/2013/07/12/divorce-study\\_n\\_3587811.html](http://www.huffingtonpost.com/2013/07/12/divorce-study_n_3587811.html)

<sup>5</sup> Karimi, Sabah. "Study: Financial Stress Dramatically Lowers your IQ." Money. US News. October 23, 2013. [money.usnews.com/money/blogs/my-money/2013/10/23/study-financial-stress-dramatically-lowers-your-iq](http://money.usnews.com/money/blogs/my-money/2013/10/23/study-financial-stress-dramatically-lowers-your-iq)

# IT'S TIME TO CHANGE YOUR FINANCIAL FUTURE

So, you're ready to get rid of the negative impact money has on your life.

Now that you've got the right mindset, what's next? It's time to determine what your ONE Thing is in your financial life. Fundamentally, there are two priorities where all personal financial activities fall: (1) getting out from under debt and (2) building wealth. Which category do you fall into?

You don't have to be a seasoned financial planner to develop a smart approach to improving your financial situation for either priority. Rather, if you are financially aware, there are a few simple, yet vital, actions you can take to bring yourself to the next level of financial success.

## GET OUT FROM UNDER YOUR DEBT

If you have debt and your ONE Thing is wanting to get out from under it, you are not alone. In fact, the Federal Reserve estimated that household debt was \$13.4 trillion in 2014.<sup>6</sup> Getting out of debt is a process and won't happen overnight. Your goal may be to be debt-free someday, but you have to work backward from that end point to determine what you must do right now.

It's called Goal Setting to the Now with your finances in mind. You've determined that someday you want to be debt-free, so what will you have to accomplish in the next three or five years to be on track to achieve that goal? And then work backward again and ask yourself what you'd have to achieve in the next year to still be on track to be debt-free. Eventually, you'll drill down enough that you can ask yourself, "What is the ONE Thing I could do right now such that by doing it everything else will be easier or unnecessary?" The answer to this immediate question will help you to rid yourself of debt down the road.

One answer is to pay off your debt by starting with the lowest balance first. Dave Ramsey uses this idea in his approach to paying down debt called the Debt Snowball Plan<sup>7</sup>, which, by its direction to pay off small debts first so that results can compound and larger results will follow, is in alignment with the principles of *The ONE Thing*.

## THE SNOWBALL PLAN

Follow this approach by first listing your debts in order from smallest to largest balance. (The interest rate owed isn't factored into the equation with this method.) Then, attack your smallest debt first, while simultaneously continuing to pay the minimum balance on your other debt payments. Don't lose sight of how important it is to pay the minimum balance on your other debts while you've committed to paying off the first balance, or you'll wind up increasing your liabilities rather than decreasing them. The point

---

<sup>6</sup>Federal Reserve Statistical Release. Third Quarter 2014.

<sup>7</sup>"Get Out of Debt with the Debt Snowball Plan." DaveRamsey.com. August 1, 2009.

of this plan isn't to simply put a minimum payment toward the smallest debt, but rather to throw as much money as you can toward paying off what is owed on that first debt as fast as possible so that you can begin to compound your results.

Once your first debt is paid off—pat yourself on the back! You've achieved your "right now" goal in the Goal Setting to the Now exercise and can move onto working on your next debt pay-down goal. Think of it as the very first domino on the trail of becoming debt-free. This is your first victory and now you have one fewer debt to juggle. Don't use this victory as an excuse to take a breather on your payment—instead, start working on the next domino in your run, which is to pay off the next lowest balance on your list. This is where Ramsey's "Snowball" effect can really take shape.

Take the debt payment you were originally paying toward your first debt, and now apply that same amount to the next debt in your list, adding it to the amount you were initially paying on the second debt while you were paying off the first. By putting that extra money toward the second debt, you will pay off that debt even faster. Each time you pay off a debt, take a moment to recognize that yet another domino in your debt progression has fallen and celebrate that huge accomplishment. Then move forward by using your Goal Setting to the Now exercise to redefine your ONE Thing right now as the next debt balance on your list. Continue knocking over your debt dominos by paying off your list of debts in this fashion, adding previous payment amounts to the new debt. Figure 1 shows how this method may work for your payments.

The method of paying your smallest debt first works in part because of the mental victories it delivers. Each time you pay off a debt, it provides a positive feeling and a sense of accomplishment. By paying off the lowest balance debt and knocking over that first domino, you've set a goal and achieved it. This behavior creates the momentum you need to work on the next bigger domino—a larger debt. As two researchers from the Kellogg School of Management at Northwestern University recently said, "We found that closing debt accounts—independent of the dollar balances of the closed accounts—predicted successful debt elimination."<sup>8</sup> When you achieve a goal, no matter how small it may seem, it's a victory to be celebrated.

"Personal finance is 20 percent head knowledge and 80 percent behavior. You need some quick wins in order to stay pumped enough to get out of debt completely. When you start knocking off the easier debts, you will start to see results and you will start to win in debt reduction."

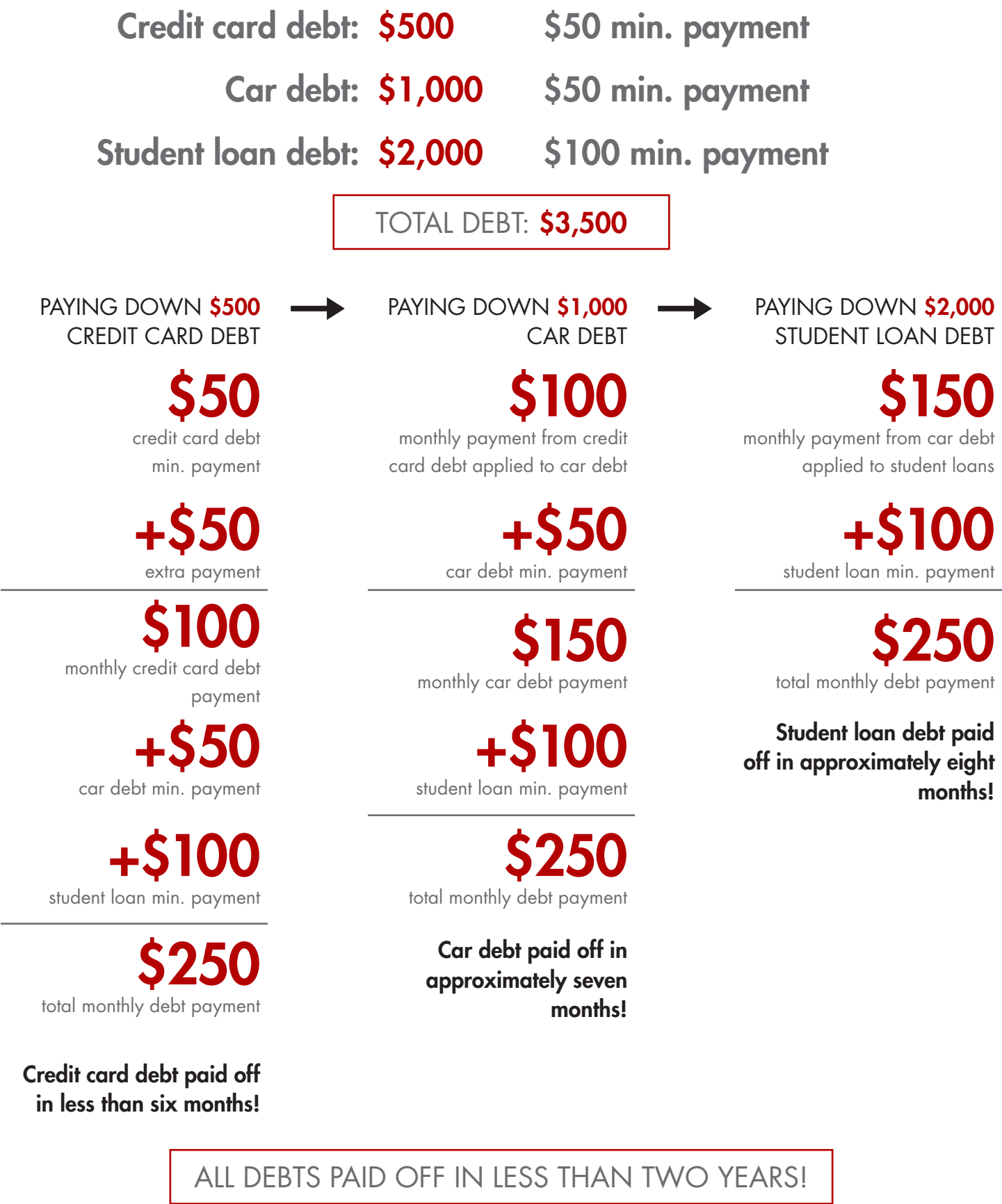
Dave Ramsey

It should go without saying, but if paying down debt is your ONE Thing, make sure you are walking the walk and talking the talk in all aspects of your financial life. That means while you are knocking down your existing debt dominos, don't create new ones. Avoid accumulating new debt and decrease your spending on other things as much as possible. Any bonuses, tax refunds, or unexpected windfalls you might receive during this debt pay-down period shouldn't be viewed as extra spending money, but rather should be applied to your debt to further shorten the time it takes for you to become debt-free.

---

<sup>8</sup>Boyer, Ray. "The 'Snowball Approach' to Debt." Kellogg School of Management. August 7, 2012. [www.kellogg.northwestern.edu/news\\_articles/2012/snowball-approach.aspx](http://www.kellogg.northwestern.edu/news_articles/2012/snowball-approach.aspx)

Figure 1: How the “Snowball” method of paying down debt works.



Source: “Debt Snowball Breakdown.” DaveRamsey.com. November 30, 2010.

# BUILD WEALTH

If paying down debt isn't your concern, it's likely your ONE Thing for your financial life is making your money go further via wealth building. Goal Setting to the Now comes in handy in this scenario also. Everyone has financial goals. With awareness and planning, you will be able to work backward from your ultimate financial goals and take the necessary steps to build your wealth along the way. Wealth building is a wise ONE Thing, because the earlier you put your money to work for you, the better your outcome will be.

"Building wealth requires having the right information, planning, and making good choices."

Federal Reserve Bank of Dallas

How much wealth you will ultimately need to build to meet your financial "Someday" goals is a personal question. To understand how much money you will need, take some time to determine your end goal. You'll need to understand your "Big Why"—that is, what you are ultimately building your wealth for? This is a key part of your "Someday" goal. Then, again, work backward from this point to determine the steps you'll need to take to get there. In order to build your wealth to finance your "Big Why," you'll need to ask yourself four key questions:

## DO THE MATH TO REACH YOUR "SOMEDAY" GOALS

If you want to do the math to understand how to finance your "Someday" goals but don't know where to start, consider using an online calculator as a basic guide and as a conversation-starter for your financial adviser. Try plugging in your own numbers in one of the following resources:

Retirement Nest Egg Calculator:

- [www.bankrate.com/calculators/retirement/nest-egg-calculator.aspx](http://www.bankrate.com/calculators/retirement/nest-egg-calculator.aspx)

Other Retirement Calculators:

- [www.money.cnn.com/calculator/retirement/retirement-need/](http://www.money.cnn.com/calculator/retirement/retirement-need/)
- [www.bloomberg.com/personal-finance/calculators/retirement/](http://www.bloomberg.com/personal-finance/calculators/retirement/)
- [www.kiplinger.com/tool/retirement/T047-S001-retirement-savings-calculator-how-much-money-do-i/](http://www.kiplinger.com/tool/retirement/T047-S001-retirement-savings-calculator-how-much-money-do-i/)

1. HOW MUCH MONEY WILL YOU NEED ANNUALLY?
2. HOW LONG DO YOU HAVE?
3. HOW FAST WILL IT GROW?
4. WHAT WILL IT YIELD?

Don't just guess when it comes to knowing the numbers you are working toward. Do the math. And to start, you need to know where you financially stand today. That means knowing your net worth.

## NET WORTH

Simply put, the first domino you must knock over when it comes to wealth building is being aware of your net worth. What is net worth? The Federal Reserve Bank of Dallas defines it as the difference between your assets (what you own) and your liabilities (what you owe). Your net worth is your wealth<sup>9</sup>.

Knowing what your net worth is requires an honest look at your spending habits. To begin, make a list of your assets. These are generally items that increase in value or provide a return. Then, make a list of your liabilities or debts. Figure 2 provides a list of possible assets and liabilities you may have in your own life. Make this list as exhaustive as you can, and then subtract the liabilities from your assets. The result is your current net worth. It's where you stand at the present time.

Figure 2: Your potential assets and liabilities.

ASSETS	LIABILITIES
House(s)	Mortgage(s)
Other investment properties	Home equity loans
Cash	Auto loans
Checking and money market accounts	Student loans
Savings	Personal loans
Pensions	Other loans
Retirement Accounts	Credit card debt
Stocks/Bonds	Other debt and bills
Other investments	
Life insurance cash value	
Personal property	
Market value of car(s)	

Source: Folger, Jean. "How to Calculate Your Tangible Net Worth." Investopedia.  
[www.investopedia.com/articles/pf/13/calculating-your-tangible-net-worth.asp](http://www.investopedia.com/articles/pf/13/calculating-your-tangible-net-worth.asp)

With the net worth domino knocked over, you'll have a better understanding of what your personal financial picture looks like. This will allow you to tackle the next domino of wealth building—putting together a monthly budget so you can begin to make the smaller scale changes you need to start building your wealth. This financial domino, your budget, will allow you to get really serious about what your monthly expenses are and live within your means.

You don't have to start from scratch by creating a worksheet—we've created a sample you can find in appendix 1 of this guide that you can use. While they are called monthly budgets, you'll want to refer to yours on a weekly basis at the very least, so you don't find yourself inadvertently off-track at the end of

---

<sup>9</sup>"Building Wealth: A Beginner's Guide to Securing Your Financial Future." Federal Reserve Bank of Dallas.

the month. When you use a monthly budget, you can determine your personal flow of money, or what you are actually taking in and what you are spending. Making changes based on your monthly budget, so that you spend less than you make, is one of the most important things you can do for your financial health.

### **FINANCIAL TIP:**

If you receive a raise, put a large portion of it directly into savings. If you never get used to having the extra money in your monthly budget it is much easier to divert it into wealth building.

With your budgeted living expenses as a guide, it's wise to put aside money from each paycheck directly into a savings account. This is a money tactic we call "paying yourself first." You'll be less likely to miss or spend the money from your checking account if it is never actually there. Likewise, before you make the mistake of accounting for your entire paycheck as usable income in your monthly budget, allocate a portion of it for a tax-deferred savings plan such as a 401(k). If your employer provides a matching contribution, be sure you contribute at least enough to get the maximum employer match—this is basically extra money that will help you take another step in the right direction toward wealth building.

Focusing on the budget domino will help you establish your next dominos on the wealth building progression: determining how to pay down whatever debt you may have and how much to invest. When your monthly budget shows you have a surplus of money, invest it (and grow your wealth).

## **BUILD THE RIGHT HABITS FOR BUILDING WEALTH**

It may come as a surprise, but it's not just luck or family money that makes some people have a higher net worth than others. Actually, those individuals with a higher net worth also tend to make other life choices that differ from others. Financial planner and author Thomas C. Corley spent five years researching the everyday life habits of both affluent and poverty-stricken people<sup>10</sup>. He found that the habits of the wealthy show that they are intentional, goal and action-oriented in everything they do, from their money choices down to their health choices. It's how they've made their money, grown their nest egg, and held on to it successfully over the years.

*"Your daily habits unconsciously control your behavior, thinking, beliefs, and the choices you make. They determine the type of house you live in, the type of education your children receive, the level of freedom you have, your material possessions, and your level of happiness in life. That's how important habits are."*

Thomas C. Corley

So, if you want to build wealth like the wealthy, take on the mindset of being intentional with everything you do. Figure out what your financial end goal is, your ONE Thing, and work backward, planning what you need to do in the years, months, and days ahead, as well as right now, in order to reach it. In appendix 2, we've included a GPS worksheet that you can use to help map out the action steps you'll need to take in order to achieve the big financial goal that ultimately powers your "Big Why." If you want to acquire a sizable net worth, acquiring the right habits in all areas of your life matter.

---

<sup>10</sup>Corley, Thomas. Rich Habits. Minneapolis: Langdon Street Press. 2009.

# TAKING CHARGE OF YOUR FINANCIAL LIFE

Whether your ONE Thing involves getting rid of your debt or building your wealth, both are goals that require commitment and active involvement from you. Each time you knock down a domino on the progression toward your “Someday” financial goal, you are building momentum to prove to yourself that it is achievable.

## DID YOU KNOW:

- 44 percent of the wealthy wake up three hours before work.
- 79 percent of the wealthy network five or more hours each month.
- 88 percent of the wealthy read 30 minutes or more each day for education or career-related reasons.

Sources: Corley, Thomas. Rich Habits. Minneapolis: Langdon Street Press. 2009. Interviews with CBS News, Dallas; CBS News, Boston; Dave Ramsey Show; [www.richhabitsinstitute.com/rich-habits-buzz-media-kit/](http://www.richhabitsinstitute.com/rich-habits-buzz-media-kit/)

## NOW IT'S YOUR TURN!

We hope you've found this guide on improving your financial life valuable. Now put the advice in it to good use! We'd love to hear about how you've seen success in your financial life by determining your ONE Thing and the domino progression you needed to achieve it.



Follow us on Twitter **@the1thingbook** and tweet at us to share how you've applied these best practices to your financial life. Make sure to use the hashtag **#theONEthing**

We look forward to learning about your financial success!

# APPENDIX 1: THE MONTHLY BUDGET

Click the image below to download a budget template that you can use to track your personal finances.  
(Note: template requires Microsoft Excel)

Category	Monthly Budget	Monthly Actual	Difference
<b>Income</b>			
Monthly pay (after taxes)			0
Other income			0
<i>Total income</i>	0	0	0
<b>Expenses: Savings/Large Expenses</b>			
Savings account			0
Gifts (holidays/birthdays)			0
Maintenance repairs			0
Vacation			0
Charities			0
<i>Total Savings/Large Expenses</i>	0	0	0
<b>Expenses: Housing</b>			
Mortgage or rent			0
Real estate property tax			0
Personal property tax			0
Homeowner or renter's insurance			0
Other fees			0
<i>Total Housing Expenses</i>	0	0	0
<b>Expenses: Utilities</b>			
Electric			0
Heat			0
Water/sewage			0
Phone			0
Trash			0
TV			0
Internet			0
Cell phone			0
<i>Total Utilities Expenses</i>	0	0	0
<b>Expenses: Health/Medical</b>			
Medical insurance			0
Dental insurance			0
Doctor			0
Dentist			0
Medicines			0
Emergency			0
Other			0
<i>Total Health/Medical Expenses</i>	0	0	0
<b>Expenses: Transportation</b>			
Car payment			0
Car insurance			0
Car maintenance			0
Mass transit costs			0
Gas			0
Parking/tolls			0
Tags/Inspection			0
Other			0
<i>Total Transportation Expenses</i>	0	0	0

## APPENDIX 2: GPS WORKSHEET

Just as you use your car's GPS system to navigate your journey, use this GPS to plot your one-year trip in your financial life. Determine your ONE Thing for the year, then list three priorities to reach that financial destination. Drive yourself further by writing out five strategies to achieve each priority. Congratulations, you just completed your yearly financial plan.



MY ONE THING FOR THE YEAR: \_\_\_\_\_

1. PRIORITY #1 TO ACHIEVE MY ONE THING FOR THE YEAR:

- i. Strategy #1 to achieve Priority #1: \_\_\_\_\_
- ii. Strategy #2 to achieve Priority #1: \_\_\_\_\_
- iii. Strategy #3 to achieve Priority #1: \_\_\_\_\_
- iv. Strategy #4 to achieve Priority #1: \_\_\_\_\_
- v. Strategy #5 to achieve Priority #1: \_\_\_\_\_

2. PRIORITY #2 TO ACHIEVE MY ONE THING FOR THE YEAR:

- i. Strategy #1 to achieve Priority #2: \_\_\_\_\_
- ii. Strategy #2 to achieve Priority #2: \_\_\_\_\_
- iii. Strategy #3 to achieve Priority #2: \_\_\_\_\_
- iv. Strategy #4 to achieve Priority #2: \_\_\_\_\_
- v. Strategy #5 to achieve Priority #2: \_\_\_\_\_

3. PRIORITY #3 TO ACHIEVE MY ONE THING FOR THE YEAR:

- i. Strategy #1 to achieve Priority #3: \_\_\_\_\_
- ii. Strategy #2 to achieve Priority #3: \_\_\_\_\_
- iii. Strategy #3 to achieve Priority #3: \_\_\_\_\_
- iv. Strategy #4 to achieve Priority #3: \_\_\_\_\_
- v. Strategy #5 to achieve Priority #3: \_\_\_\_\_

# FOR MORE INFORMATION

Read *The ONE Thing* and refer to the resources at [www.the1thing.com](http://www.the1thing.com) to develop the insights, skills, and habits that will help you take each step of your journey with power and passion. Find up-to-date information on seminars and coaching programs, as well as exclusive ONE Thing tools that will keep you on the journey you want to be on. It matters. It's your life.



[www.facebook.com/garykeller](http://www.facebook.com/garykeller)



[@the1thingbook](https://twitter.com/the1thingbook)



WHAT'S YOUR  
**ONE**  
**THING?**

[www.The1Thing.com](http://www.The1Thing.com)

