So You're Broke, Now What?

How to identify spending problems and start managing your money to recuperate lost finances

So, you finally login to your banking app to transfer money from your savings account into your checking to buy a slice of pizza, only to realize you have no money in either. Or you go to take advantage of the friends and family sale at the department store, and your card is declined for insufficient funds. Regardless of the situation, the moment you realize you're broke is often a tough one filled with self-loathing questions. How did I get here? What happened to all my money? What is wrong with my spending?

If you find yourself asking these questions, then this article is for you! When you have enough for the necessities but not enough to save or pay down debt, you're broke and should take action immediately. Below, we cover how to identify your spending problems, tips to begin managing your money better, and suggest personal finance tools to assist you in your financial journey. The time to change your habits is now!

Identify the Problems

Cut back on unnecessary expenses

Like all skills, being good with money takes practice. At first, you may not be used to planning ahead and scheduling your purchases until you can comfortably afford them. However, the more you work to implement smart spending, the more money you will have in the long run! Once you identify the problem, you can take action with tangible steps to fix it.

You Don't Make Enough Money

This one may seem obvious, but if you are not making enough money to support your lifestyle then you need to make changes, and make them immediately. If you have already minimized your living expenses, cut all unnecessary spending and are still struggling to make ends meet, your only option is to increase your income.

There's only so much that you can save, but there is no limit on how much you make. If you feel it is appropriate, ask your boss for a raise. If this isn't feasible, you may want to start shopping around for other, higher-paying jobs that you are qualified for or consider taking up a side hustle!

You Have No Emergency Fund

An emergency fund is essential for all common, unforeseen problems and expenses. For example, as you're on your way to work your car breaks down and will require an expensive repair. You need your car to get to work, so getting it fixed is essential. This is where the emergency fund comes in. Without it, you will have to charge your already limited credit cards, or worse, you will have to take out a payday loan and add to your debt.

Because you have little to no disposable income right now, you will have to be extremely frugal in your spending to save for your emergency fund. Set a goal of saving $1000 to have on hand for emergencies at all times, and build from there to eventually save between three to six months of your expenses. Not only does an emergency fund give you a financial cushion to fall back on, but it will also prevent you from overcharging your credit cards or taking out any more loans.

You Lack Organization

Plain and simply, life is more expensive when you're disorganized. It is essential to not only keep your house, car and personal belongings organized to prevent repeat purchases and lost goods, but you also need to keep all of your files, receipts, and important financial documents well organized and safely stored.

Designate a system of organization that you can reasonably maintain, and stick to it! Clean out one closet or drawer a week until the whole house is done, and watch how much lighter you feel once all your unnecessary stuff is gone!

If you feel comfortable, set up automatic bill pay through your bank to avoid late fees from missed payments, and mark your bill due dates on a calendar that you check often. A lot of billing dates can also be changed, so we recommend changing as many as you can to the same one or two due dates coinciding with your payment cycle.

You Avoid Reviewing Your Finances

It's understandable to avoid reviewing your finances out of fear of what you may find, but the less you check your statements, the less likely you are to wisely manage your money. Double check the total balances in your account and compare them to your income on a regular basis, that way you can save money to make progress paying off any debts or student loans you may have accumulated.

Although it may be scary at first, the more comfortable you become with regularly checking your bank statements, the more you will begin to understand reasonable spending within your budget and can get a clearer picture of your situation. With a clear picture in mind, you can better take action to stop being broke and start managing your money better!

You Spend What You Don't Yet Have

You may have heard the old saying, "it's useless to worry about money because they print more every day." Unfortunately, this statement couldn't be farther from the truth. If you spend money before you have it, you are sure to run up credit card debt that you may not be able to pay off. However, if you do not earn enough money to cover these costs you have been accumulating, you will end up paying interest fees and digging yourself further into debt.

To solve this, pretend that your financial tomorrow may never come. Do not anticipate a big raise, or that your company stock options will blow up, because these things may never come to fruition and then you will not be able to pay for the things you thought you would be able to. It is always better to be safe than sorry, and spend based on what you make currently rather than what you think you will make soon.

Your Social Life Is Too Expensive

If you are struggling financially, it is important to take a good, hard look at how much your social life is costing you. How often do you go out per week? How much do you spend when you go out with friends? More than likely, it is much more than you can actually afford.

Thankfully, this is a simple fix. It is okay to decline an invitation every once in a while without alienating yourself, and instead you can host an inexpensive get together with some close friends. Food and drinks are expensive, especially in big cities, so limiting these purchases whenever possible can end up saving you a lot in the long run. Think of alternatives to meeting with people at restaurants or bars, and instead look into what free activities are offered where you live.

Start Managing Your Money

Allocate funds

Create a Budget and Stick to It!

The first and most important step in managing your money is to create a budget and stick to it. In creating your budget, you will be able to see the full transparency of your financial situation to then understand how to start saving to pay off debt and allocate money for retirement, mortgages, and car payments. To begin creating your budget, you will need a clear understanding of your expenses and income, which we discuss below.

Understand Your Expenses, and Understand Your Income

To begin creating your budget, you need to know how much money you spend per month and exactly what you spend it on. For one month, keep track of all of your expenses by saving and reviewing all of your receipts (such as groceries, utilities, gas, etc.) and check your bank statements to add up all of your expenses. Remember to keep track of expenses paid by cash as well as credit cards!

In recording all of your expenses, you see where you can start saving money by eliminating unnecessary expenses and compare your historical performance over time.

Likewise, although you may not have known your monthly expenses off the top of your head, you certainly know what your income is per month. When creating your budget, figure out your total expenses and subtract that from your total income for the month in question. If you end up with a negative number, this means you spent more than you made and shows that you need to reduce your spending and expenses until the total reaches zero. If you end up with a positive number, you spent less than you made, and could now begin to increase your debt payments or increase your savings. This is where you want to be!

Once you understand your expenses and income and have a firm understanding of the money coming in and out of your life, it's time to take some additional steps to best manage your money.

Consolidate Your Debt

If you are like the majority of Americans, then you most likely have debt and need help managing money to get out of this debt. The first thing to do is to get your debt under control and begin working to get rid of it. Whether you have credit card debts, student loans, or other debts, look to consolidate them and try to get the lowest interest rate possible.

There are options that allow you to combine several unsecured debts such as credit cards, personal loans, and payday loans into one bill rather than paying them individually which can help tremendously. If you only have a single credit card debt, try paying at least the minimum amount as soon as you get the credit card bill and then try to make the same payment a few weeks later if it is financially feasible. Keep this payment cycle until your debt is entirely paid off!

Eliminate Unnecessary Expenses

Cut all unnecessary expenses from your budget and put the money you would have spent towards paying off your debt or saving for retirement. Evaluate whether all of your memberships, subscriptions, and accounts are really necessary, or if you could live without them. And stop buying that morning coffee from Starbucks and instead make your coffee at home!

The idea is to learn how to manage your finances better by taking everything and every penny into account, so slash expenses wherever you see an opportunity and calculate how much this can save you per month and per year! You may be surprised to see how much you are actually spending on unnecessary things.

Start An Emergency Fund

As aforementioned, it is vital to have an emergency fund set aside so that you are prepared when unforeseen problems arise. Emergency funds are an important part of all healthy personal finance plans!

Take care not to touch or take money out of the fund, and instead let it sit and earn interest to maximize your money. Only tap into your emergency fund for, well, emergencies!

Save for Retirement

It may seem far off, but the sooner you begin saving for retirement the better off you will be when you finally reach it. Establish a savings target—one that tells you approximately how much you should set aside over time to meet your retirement goals for the lifestyle you envision.

If you are a young adult with a job paying around $40,000 per year, aim to save 10% of your income annually. That way, by the time you reach the retirement age of 67, you will have saved 2.5 million dollars.

Review and Understand Your Credit Report

A credit report is a number between 150 and 900 that serves as a score which factors in your present and past loans, credit cards, mortgages, and any other reported debts.

Your score determines how creditworthy you are and has a direct impact on your future borrowing ability.

It is important to review and understand your credit report to ensure all of your information is correct and up to date, and to identify any possible errors that could affect your overall credit score. You should always aim to have a good credit score, and to do so you need to keep your credit card balances low and work on paying off your debt instead of moving it from account to account.

Use a Personal Finance Tool

Finally, to make managing your finances as simple as possible, use a personal finance tool! There is a plethora of new and free tools that will manage your budget for you and show you ways to better manage your money. These apps do the computations and calculations, and are sure to save you a time and headaches.

Many tools such as Quicken for Windows or the free Cleo app will allow you to safely consolidate, manage and control your money all in one place.