Basic Budgeting Part 2 – Setting Financial Goals

The key to financial goal setting begins with knowing where you are and where you’d like to end up. To start, ask yourself a few questions about your financial habits.

Do you:

- Spend more than you make?
- Live beyond your means?
- Pay yourself last?
- Charge instead of save?
- Always mean to start an emergency savings but never get around to it?

If you answered “yes” to any of these questions, you have probably identified some areas for improvement; areas where you could set some strong financial goals.

Your goals should be S.M.A.R.T. goals. S.M.A.R.T. is an acronym for:

- SPECIFIC:
- MEASURABLE:
- ATTAINABLE:
- REALISTIC, and
- TIME BOUND

Specific: the goal cannot be general. For example, saying, “I want to pay off my credit card debt” is too general to be a goal – that’s more of a wishful statement. On the other hand, “I will pay off my $1200 credit card debt in the next 6 months, by paying $200 per month”, is a specific enough goal.

Measurable: A goal must be measurable. Saying “I will pay off my $1200 credit card debt in the next 6 months, by paying $200 per month”, can be measured by the balance going down $200 each month (assuming you’re not charging anything else on the card)

Attainable: The goal must be attainable. Something that is doable.

Realistic: Using the goal to pay off your $1200 credit card debt. You decide you’d like to pay it off within one month instead of six but you only make $1300 a month. Assuming you have other living expenses it is simply not realistic.
Time Bound: Finally, a SMART goal must be book marked by beginning and ending time frames. If you say you’ll pay off your credit card in six months make sure you specify which six month period? Will you start this month or next? That decision will determine your completion date.

Financial goals should meet each one of the five S.M.A.R.T. criteria.

Next, break your S.M.A.R.T. goals into three time frames: short-term, mid-term, and long-term.

A Short-term goal is a goal you want to achieve within the next six - 12 months like paying off a credit card, or paying off new furniture, or new tires on car.

A Mid-term goal is a goal that you will achieve within the next one to five years like paying off your car, paying your mortgage down below $50,000.00, OR getting that emergency savings put into place.

A Long-term goal is a goal that you’ll work toward and accomplish in more than five years away like retirement or saving for your child’s education.

Realize that you might not be able to save for all three types of financial goals at the same time. You might have to put off saving for your long term goals while you’re funding your short term goals. But once you have your short term goals in place you can begin toward funding your mid and long term goals.

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