

4 tips to help keep your New Year's financial resolutions on track

The beginning of each year brings hope as we consider starting something new or making improvements to something we have started. Many of us reflect on what should be different and commit to making a change often referred to as a "New Year's resolution." Making a New Year's resolution can be positive if done correctly, as it requires us to reflect and analyze our personal position as well as set goals that can motivate change. However, it is not uncommon for individuals to finish the year unsuccessfully and with regrets.

According to *U.S. News and World Report*, 80% of New Year's resolutions fail by mid-February¹. Although some failures have fewer consequences than others, the inability to maintain financial goals, especially in the current environment, can have negative long-term implications. As we go into the new year, it is important for us to revisit our resolutions and make adjustments where necessary so we can have more to celebrate at the end of the year. We should also be aware of any threats to resolutions and better understand how to avoid them.

Common financial resolutions

I am going to have more control over my money

Tip 1: This broad statement often results in failure because it expresses a desire, but does not clearly explain how to meet goals and objectives that lead to success. It can be compared to intentions such as losing weight or quitting smoking without a clearly defined strategy to implement toward these goals. To achieve good results, a defined plan to change behavior is needed. Developing a budget is the first step to gaining control over money. Budgeting requires a thorough understanding of cash inflows, such as all your sources of income, and outflows, such as spending for food, housing and leisure.

Like dieting, maintaining a budget is often best achieved when you have an accountability partner. Researchers at the University of Notre Dame and the University of Cambridge found that couples with joint bank accounts made more practical purchases because they were accountable to each other.² If you do not have an accountability partner at home, working with a financial advisor may be beneficial.

I am going to eliminate spending

Tip 2: A benefit of the pandemic environment is that it forced individuals to recognize how they spend money. Hopefully, this realization will allow households to find a healthier balance between spending and saving going forward. However, aggressive spending reductions may be difficult to adjust to and cause individuals to feel defeated. Changes to your budget should be realistic and sustainable. A budget that requires sacrifices is good; however, if it is too strict it may not be properly maintained. Proper budgeting should also set rewards for milestones hit so you will be motivated to continue the process.

I am going to pay off my credit cards

Tip 3: Reducing credit card debt can be challenging, especially if you do not know where to start. Reducing and eliminating debt is often associated with lowering stress and improving health conditions, therefore this is a resolution you should work hard to keep. Monthly credit card payments should be made on time to eliminate late fees and penalties, which add 10-15% to the bill.³ Also, you should create and follow a debt repayment schedule so you can set expectations for when each card should be fully repaid.

I am going to save more for retirement

Tip 4: Saving for retirement is now a requirement, not an option. Less than 25% of employers offer defined benefit pension plans, thereby leaving more of the financial risk of retirement on employees. However, many employers offer retirement plans such as a 401k, 403b or 457 to allow employees to save on a tax-deferred basis. In addition, many employers provide matching funds on a percentage of the money individual employees contribute to their accounts. Saving for retirement may seem difficult at first, but it is a healthy habit to develop. If you cannot afford to contribute the maximum amount annually, start with a smaller dollar amount and increase it as your earnings grow. Participating in your employer plan forces a discipline of saving on a regular basis because your employer withdraws the funds from your pay *before* you have a chance to spend the money.

Stay on track

If you are falling behind with your New Year's financial resolutions, now is a good time to reset and refocus. Remind yourself why you set your goals and what outcomes are important. If you are struggling to change your habits, revisit your strategy to make sure you have clear action steps that can lead to success and someone to hold you accountable for executing them. If you do not, consulting a trusted advisor such as a financial planner or accountant may be a good solution. Such professionals may help you more holistically address your needs now and in the future.

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1. <https://health.usnews.com/health-news/blogs/eat-run/articles/2015-12-29/why-80-percent-of-new-years-resolutions-fail>
2. <http://acrwebsite.org/volumes/1023767/volumes/v45/NA-45> and <https://www.fa-mag.com/news/should-spouses-pool-their-money-or-not-31741.html>
3. <https://money.usnews.com/money/personal-finance/saving-and-budgeting/slideshows/financial-new-years-resolutions?slide=3>

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