

1-2-3 Banking

Strong beginnings to a healthy financial future

Why you should set financial goals

A big step in successfully managing your money is learning to set and save toward financial goals. You will always have both short and long-term financial goals to work on. Short-term financial goals could include saving for a new video game, a phone, or a weekend trip with friends. Long-term financial goals might include saving for a new car or paying college expenses. You will also have goals for things like buying a house and saving for retirement.

Remember the acronym SMART. You may have heard about SMART goals before, and it applies to financial goals too. Goals should be **Specific, Measurable, Achievable, Realistic, and Time-based**. If you set a goal to save for a new car, you might save a little each month, but you will have no way to know if you are going to be able to buy the car you want at the time you want it. Instead, decide how much money you need to save for a new car. Decide when you want to purchase the vehicle. Now figure out how much per month you need to save to reach your goal. If you want \$2000 saved towards your new vehicle purchase in one year, you would need to save \$167 per month.



Look at your budget. Does the car fit with your current budget? If not, is there somewhere you can make an adjustment to make this work? If you can't, saving \$167 per month might not be realistic. When setting financial goals you need to fit the monthly savings into your budget, and keep track each month to be sure you are sticking to your goals. You will usually have more than one financial goal at a time, and you might not be able to make them all work with your current budget.

It can help to prioritize your goals. Which are most important? If you can't do one of them what would you cross off the list first? Maybe you can save for them all at one time, but won't be able to save as much as you hope. It's not uncommon to have more items than you would like to save for than what is realistically possible. You may have to make some adjustments to your budget and to your list of goals.

Remember the concept of "pay yourself first." Put your goal money in savings right away out of each paycheck before spending money on other short-term wants like going out to eat or a new shirt. Ask your employer if they can direct deposit paychecks into multiple accounts. This can make saving almost automatic.

If you really want to be creative while reaching your goals, consider using an online personal finance manager (PFM), like what Decorah Bank offers. PFM categorizes and tracks spending and saving from your accounts in easy to manage colorful charts.

It takes a little time to create and follow a budget based on financial goals. Mastering this skill, however, can help you for years to come. Knowing how much you need to save each month towards your goals and tracking your progress will ensure you stay on track and are able to meet your goals. Enjoy the journey!