Personal Financial Stress and Wellbeing

Manage your budget and avoid desperate measures.
Most of us worry about money at some time in our lives.
When you start out on your career, finances will likely be tight. When you're mid-career, you'll have a whole range of new commitments that you need to finance. And if you're a senior manager, you might have concerns about your kids' college funds, and an eye on a secure retirement.
On top of these daily anxieties, you might receive threatening letters from creditors, or find yourself excluded from your social circle because you can't pay your way. The resulting stress can drain your energy, distract you from your work, and cloud your judgment.
But, if you're worried about money, or if you have a team member who you think might be, this article can help.

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Money Management, Health and Productivity

The facts and figures are stark. According to research, 42 percent of U.S. employees may need to use money they hold in retirement plans for other expenses. [1] Meanwhile, as many as 30 percent of the working population are seen as "struggling" with their financial problems. [2]

People who are struggling financially often have poorer diets, can fear losing their homes, and typically experience strong feelings of shame about not being able to provide for themselves and their families. They also have higher rates of absence from work.

Whether you're planning for your long-term future or managing existing debt, getting your finances in order is essential to your physical, mental and emotional wellbeing.

Note:

Read our article on Maslow's Hierarchy of Needs to understand how performance and happiness at work are underpinned by more basic requirements – which are all threatened by personal financial problems.

8 Steps to Improve Your Financial Wellness

The following eight steps can help you to make money worries a thing of the past:

1. Take Control

You don't have to be an expert to improve your financial situation, but it's easy to feel that you're a victim of your circumstances, so now is the time to take control.

Sensible planning is vital to organizing your finances. Begin by listing the financial goals you have for the future. These may be modest and relatively short-term, like saving enough for a vacation. They might be urgent and essential, like clearing your rent arrears.

Or, they may be longer-term and more complex: planning college funds for your children, for example, or working out how to spend a comfortable retirement. Prioritize what's most important to you.

As with all goal-setting, make sure that yours are SMART goals. For example, if you're making a little above the national average salary, you probably won't be retiring to the Bahamas!

2. Organize Your Accounts

Different kinds of bank accounts offer vastly different services and facilities for bank customers, and also vary widely depending on where you live.

In general, use a current or checking account to manage day-to-day transactions. These accounts allow instant access. In the U.S. they charge monthly fees (usually between $5 and $15). However, they can be free if you satisfy certain criteria, which differ from bank to bank, or if you live in the U.K.

Most banks offer free online banking, so you can keep on top of income and outgoings from your laptop or phone. Some accounts require that you pay your salary into them, while others give you "cashback" or other benefits if you switch to them. Shop around for a good deal!

For savings and contingency funds (see below for more detail), look for interest-bearing accounts. These may also offer instant access, but the accounts that pay higher rates of interest usually require notice of withdrawal. This will often be as much as 30 days.

Tip:

Check your automated payments to see that they're all still necessary. Set up new ones to take care of any payments that you want to make sure you deal with. And always remember to take pending payments into consideration when you're checking your balance.

3. Create a Budget

Setting a personal budget may seem like a chore, but it's an important discipline, particularly if you're going to fulfill those goals that you set yourself. People who budget effectively are less likely to fall into debt or to be caught out by unexpected one-off costs.

First, make a list of all your regular income. This includes your salary and any scheduled payments from other sources. Don't include "possible" or "likely" income that you can't guarantee. If it doesn't materialize, you'll have a shortfall.

Make sure that your income is as high as it can be. Asking for a raise is never easy, but it's a good idea if you genuinely think you're not getting what you're worth. You may need to consider taking on a second job, at least in the short term. It's also worth making sure that you're being taxed correctly, and claiming any top-up payments or allowances.

Tip:

You may have some underused assets (for example, a second vehicle) that you can sell off to ease your short-term cash flow problems. Think carefully before you put anything up for sale, though – once it's gone, it's gone!

Second, list your essential expenditure. This includes payments for your mortgage or rent, water, fuel, food, and health insurance, work clothes, and the costs of your commute.

Third, make a list of non-essential outgoings. These will include leisure activities, vacations and your cable plan.

Then, target your non-essential list first, to see what you can reduce or eliminate. Do you really need all those channels? How about that gym membership that you've barely used? And look out for extra insurance payments that you don't really need to make, such as credit card protection fees.

Finally, look at your essentials. Price comparison websites can help you to save money on the basics, such as electricity, gas and water. Could you share your drive to the office, or work one day a week at home? And you'll likely be able to make significant savings by changing where you shop, or which brands you buy.

4. Manage Your Debts

Not all debt is bad. "Good debt" is a positive investment in your future. Good debt includes student loans, mortgages, and loans for reliable used cars.

"Bad debt" has no long-term return, and drains money away. A loan on a brand new car that loses value quickly is an example of bad debt. So is borrowing money at high interest rates to pay off other debts. Debt becomes a problem when responding to demands to pay it off makes it impossible to cover your essential expenditure – or when you ignore such demands!

So, if you have something spare after the essential spending in your budget, consider getting ahead of your creditors and paying off your debts using either the "snowball" or "avalanche" method.

With the snowball method, you first pay the minimum weekly or monthly payment on all of your debts. Then, you use your leftover money to pay off the debt with the smallest balance. When you've paid off that debt, you move on to pay off the next smallest debt, and so on.

The advantage of this method is that you get a series of small, morale-boosting wins, which can be important if debt is causing you stress. Also, as you pay off each debt, the amount you can afford to put toward paying off the next debt increases.

The debt "avalanche" method works like the snowball method, but with one important difference. After making minimum payments on all your debts, you pay off the debt that has the highest interest rate, rather than the smallest balance. You then work down through your debts until you pay off the debt with the lowest interest rate.

The avalanche method means that you pay less in total than with the snowball, but it's harder to achieve the quick wins that keep you motivated.

Tip:

Consider moving any credit card debt to a card that charges zero percent interest. This will buy you some time and make the debt easier to pay off, but it will depend on your credit rating. You can check this for free through [AnnualCreditReport.com]() (if you're in the U.S.) or by signing up to [Credit Karma]() or [ClearScore]() if you're in the U.K.

Warning:

Debt consolidation loans can seem attractive, as they pay off several debts at once. But they're usually "secured" against property, which means that you could lose your home if you default on payments. You should only consider them after taking expert advice.

5. Deal With Your Creditors

Sometimes, your debts may become urgent. Everyone you owe money to wants to be paid. However, you need to prioritize the debts according to what's at risk if you don't pay. If you're receiving repeated requests for payment, pay off debts in the following order:

- Mortgage or rent arrears.
- Federal or other government taxes.
- Court fines.
- Utility bills.
- Car loans.

- Credit cards.
- Store cards.
- Other debts.

If creditors demand payment, do contact them but don't just pay the one that "shouts the loudest." You might be able to negotiate lower repayments, or to arrange a temporary payment holiday while you improve your cash flow.
In any case, it's always better to deal directly with a creditor while the debt is still relatively new. Creditors often sell debt to collection agencies, which then add large fees to the debt. They're also less likely to negotiate.
Your credit rating will be seriously harmed if a creditor obtains a court judgment against you, and you'll owe even more fees. Legal action can also involve the seizing of your possessions, eviction from your home, or forced deductions from your earnings.

Warning:

Never ignore creditors' letters or calls. They can be frightening and shaming to face, but you need to give yourself as much time as possible to deal with your situation, and to show willing. So, be sure to take action before bailiffs or other "enforcement agents" arrive.

6. Develop a Contingency Fund

As soon as you have any surplus cash, start building up a contingency fund to protect you in case of a sudden financial crisis. Ideally, it should be large enough to cover three to six months of basic daily expenses.
This could bridge the gap before your next salary, if you're laid off suddenly. You can also use the fund for medical emergencies, or to replace essential household items that break down unexpectedly.

Tip:

Keep your contingency fund in a separate account from your day-to-day checking account, to avoid the temptation of spending it. Make sure that you can access the money quickly and easily, though, in case of emergency.

7. Save for the Future

Aim to save about 10 percent of your income for your retirement. Preferably, invest through a retirement savings account to reduce your taxes and to ensure that you're financially independent when you're no longer working.
There's a huge range of pension and savings schemes available, including the 401(k) Plan in the U.S., but they're complex, and the law that applies to them changes often. So be sure to check out

independent websites such as USA.gov or the U.K.'s equivalent, here, before setting up or cashing in such a plan.
In the longer term, consider writing a will, particularly if you have dependents. This helps to ensure that more of what you leave goes to the people you want it to, even if you have few assets.

8. Get Help

Financial worries can seem overwhelming, but there's plenty of help available. Simply talking to someone who understands your issues, and who can offer practical, impartial advice, can make a huge difference to how you feel. Chances are, it will also improve the outcome of your situation.
The Money and Credit section of USA.gov has a range of helpful advice, for free. So does thebalance.com. In the U.K., the Money Advice Service and Citizens Advice are expert, licensed sources of free debt advice and support, including welfare calculators and template creditor letters.
Look out for other workplace-based organizations that can provide help, such as an employee assistance program. Trade unions and religious, charitable, and veterans' groups can offer practical support, and family and friends can help emotionally, and perhaps financially.
Be sure to avoid isolating yourself, being dishonest about your situation, or trying to ignore the problem. It won't go away by itself!

Key Points

Struggling financially can impact your health and your work. To help you to deal with these issues:

1. Take control and set goals for your financial future. These may be modest, but will give you a structure to work to.
2. Set up bank accounts that work for you, so that you can keep track of your money.
3. Create a budget, maximizing your income and minimizing your expenditure.
4. Manage and prioritize your debts before they become a problem. Pay off the riskiest ones first, while protecting your essentials, such as rent and food.
5. Avoid hiding from your creditors. Instead, negotiate a payment holiday or plan as early as possible.
6. Develop a contingency fund, to deal with emergencies.
7. Take sensible steps to save for your retirement.
8. Ask for help. Overcome any fear or shame that you may be feeling and get the support you need.

References
[1] PwC, (2018). *2018 Employee Financial Wellness Survey* [online]. Available here. [Accessed September 29, 2021.]
[2] Willis Towers Watson (2017). *Infographic: Worries about financial situation grow among U.S. employees* [online]. Available here. [Accessed September 29, 2021.]