

PATHWAYS

GREENPATH NEWSLETTER

AlabamaONE®
Financial Wellness



Three Automatic Ways to Create Healthy Financial Habits

It can be tough to stick to healthy financial habits, especially the ones that relate to long-term goals. The great news is that we can make some relatively small changes that “nudge” us along in the direction of financial wellness.

In behavioral economics, the study of how people make choices, small changes that alter our default behavior are called “default nudges.” Automation enables us to enforce our intentions and priorities, and creates a barrier for spending decisions that fall outside those priorities.

Here are three ways to automate your financial life:

1. Meet your savings goals by setting up an automatic deposit for your savings account.

As legendary investor Warren Buffet puts it, “Don’t save what is left after spending; spend what is left after saving.” Set a savings goal and decide what percentage of your income you want to put toward that goal for every pay period. An automatic transfer puts that money into your savings account every time you get paid, making it easier to meet your savings goals and less tempting to spend that money on something else.

2. Simplify bill paying, save time, and avoid late fees by setting up auto-pay for your bills.

Another simple way to automate your financial life is to set up auto-payments for your bills. If you have recurring bills that you budget for every month (like a cell phone bill or a monthly loan payment), you can use auto-pay to make sure those bills are always paid on time. If you have the option to choose your payment dates, set them up shortly after your paycheck is deposited into your checking account. You can also use a service, such as [GreenPath’s Simple Payment Plan](#), which helps consumers automate their monthly payments and schedule them around payday.

With savings and bills withdrawn early in the month, you’ll have a better sense of what’s available for other expenditures. An added benefit: you’ll never be hit with late fees again!

3. Plan ahead and maximize your tax benefits by signing up for automatic contributions to a retirement account.

If your employer offers a retirement plan, such as a 401(k) or 403(b), sign up to have your contributions automatically deducted from your paycheck. These plans place a portion of your pre-tax income into a retirement account, giving you a lower taxable income during your working years, and growing your long-term savings to provide you income during your retirement. If you don’t have access to a retirement account through your employer, you can make automatic contributions into an IRA account instead. Automatically depositing part of your paycheck into a retirement account means that money never lands in your checking account, so you won’t be tempted to use it elsewhere.

All of these strategies are based on the idea that our spending rises to meet our income. We somehow always find a way to spend the money that is available to us. By using automation to transfer money toward meeting financial goals, we can ensure that we spend our money on what we intend to. It limits the resources that are available to spend on things that don’t line up with our goals and enables us to stay on track.