

Five questions to determine financial health

The "five-finger" financial checkup encourages you to evaluate your financial health with five simple questions.

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July 10, 2016



Financial planning isn't all that complex. Whether you live paycheck to paycheck or have considerable wealth, it comes down to planning ahead to avoid the financial ruin or distress that afflicts so many.

I came up with a simple way to remember what you can do to reduce or eliminate debt, plan for the future, and live the life you want. I call it the "Five-Finger Checkup" — one question for each finger:

Thumb: Are you saving enough?

Index finger: Are your goals prioritized?

Middle finger: Are you ready for surprises, such as job loss or medical problems?

Ring finger: Do you have proper paperwork in case of illness or death?

Pinkie finger: Are you helping others?

Let's take them one at a time.

Saving enough?

To save enough, you have to make sure you have some of your paycheck left at the end of the month. There are all sorts of strategies that can lead to saving enough, and it takes time and effort to understand them. Ultimately it comes down to cutting back on unnecessary spending. Personal finance author [David Bach](#) coined the phrase "latte factor" to demonstrate easily identifiable discretionary spending that can be redirected to savings, even in small amounts.

Goals prioritized?

In general, the most important goals in descending order should be retirement savings and debt elimination. Depending on how well you are meeting those goals, other priorities, such as discretionary spending that allows you to live the life you want, can be addressed too.

Goals are important, but more important is making sure they are “SMART”: Specific, Measurable, Achievable, Realistic and Time-Bound. Whether it’s [saving enough money for retirement](#), or saving enough for a specific purpose such as a vacation or education, having a defined goal (e.g., contribute 1% more to my [401\(k\)](#) in 2016) can keep you on track. Prioritizing them means you can adapt to changing situations while keeping your eye on the finish line.

You can do this with your partner, too. As author [Jeff Motske](#) points out in his book, “The Couple’s Guide to Financial Compatibility,” setting up a financial date at least monthly provides a way to check on SMART financial goals and make changes in habits or priorities before it’s too late.

Ready for surprises?

Changing situations, such as an unexpected personal or health disaster, can disrupt financial plans if you’re not prepared. There are ways to stay ready, though. An [emergency fund](#), sufficient insurance, and support from friends and family are key components to making it through these difficult time periods that happen to most of us.

Paperwork ready?

In financial planning, it’s important to prepare [key documents](#) that assign responsibility for making important decisions when you’re no longer able, such as during an illness or after your death. These documents include a will and durable power of attorney for financial and health decisions. Having the proper paperwork ready during these stressful times prevents confusion, reduces stress, and allows for less participation by the legal industry.

Helping others?

One of the greatest rewards in life is helping others, whether it’s your family, your village, your religious institution, your country or your world. You meet the nicest people and gain the greatest satisfaction in donating your time, your talents and yes, your money. See what the happiest, most successful people you know do with their time and dollars in helping others, and do likewise.

Saving, prioritizing, preventing, preparing and helping: They’re just five fingers, but they can help you lead the most enjoyable life you can.

Jim Ludwick is the founder of [MainStreet Financial Planning](#).

This article first appeared at [NerdWallet](#).