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5 small steps that can make a big impact

Easy ways to manage spending, save more, and pay off debt.

Fidelity Viewpoints

Key takeaways

Budgeting can help you manage your day-to-day spending and saving.

Using an HSA or FSA can help you save on medical expenses.

A well-cushioned emergency fund can protect you when the unexpected happens.

If you have access to a workplace retirement plan, try to get the entire match offered by your employer. Continue increasing the amount you're able to save over time—an increase of just 1% can make a big difference.

Consider using a debt paydown strategy and take advantage of lower interest balance transfers if necessary to pay off high-interest debt.

Feedback

Do you feel like you're constantly playing catch up with your money? Like you're running just to stay in one place—forget about getting ahead.

You are far from alone. Money is a major source of significant stress for a majority of Americans.[1] Throw in worries about the economy, housing costs, and difficulty paying for necessities like food and health care, and money stress affects nearly everyone to some degree.

No one can control the housing market or grocery store prices, but your own money doesn't have to feel completely out of your control. Regularly using some basic money management tips can help you make the most of your money and break through the obstacles that are holding you back. Making small changes and being consistent over time can help you make progress and achieve financial stability.

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What is money management?

Money management is a broad term for all of the tasks you undertake to make sure you can maintain what you have and pursue future goals like buying a house or retiring one day. This includes budgeting, saving, investing, and spending your money.

Good money management does more than just ensure your bills are paid each month. When you are actively managing your money, you're thinking ahead and you have a plan for your income and expenses, you set money aside for future expenses, you invest money to seek mid- to long-term growth, and you feel confident about spending your money for needs and wants.

5 money management tips

Remember, every household will have a different style of managing money. The goal is to find a way that works for you to manage your income, expenses, savings, investments, and spending. Here are 5 ways you can get started. To avoid getting overwhelmed, pick one to focus on that will help you move forward while keeping everything else at maintenance, for instance making minimum payments on debt while you save more for emergencies.

Tip #1: Make sure your budget reflects your goals

A budget is a method of organizing your financial tasks to ensure that you know what's happening with your money. There are 4 components to a budget:

Tracking your income: How much money do you bring in each month?

Tracking your expenses: How much do you spend and where does it go each month? Be sure to consider the amount that goes to essential expenses versus discretionary or optional purchases as well.

Planning for your bills: How much do you owe for each bill and when are they due each month?

Balancing your budget: Does your income consistently cover your expenses and what can you change if it doesn't?

Consider using Fidelity's spending and saving guidelines: 50/15/5. Aim to put about 50% of take-home pay toward essential expenses, try to save 15% of pre-tax income for retirement savings, and keep 5% of take-home pay for short-term savings. (Your situation may be different, but you can use our framework as a starting point.)

On Fidelity.com you can easily create a budget to categorize expenses and help reach your savings goals: Help me budget

If you need help keeping day-to-day spending and saving on track, check out a money-management app like Fidelity Bloom®.

Tip #2: Save money on expenses you may be paying anyway with an HSA and/or FSA

If you're eligible, saving money in a flexible spending account (FSA) or health savings account (HSA) can help you save on health care costs. Both of these accounts allow you to save money pre-tax to pay for qualified health care expenses. With no federal income tax due on contributions or qualified withdrawals,[2] you could have more money to put toward costs you may be paying anyway.

That is one reason why saving in an HSA or FSA appears so high on this list. Not only can contributing to an HSA or FSA reduce your taxable income for the year, it also makes sure you're saving ahead of time for necessary expenses that are inevitable like doctor visits and prescriptions.

There are some key differences between the accounts. Money saved in an FSA generally needs to be spent by the end of the year as opposed to an HSA, which is not a "use-it-or-lose-it" account. You can leave your savings in your HSA year-to-year and even invest it if you don't need to spend all of it each year.

HSAs and FSAs are generally offered by employers as part of benefits packages, though you may be able to open an HSA on your own if you have an HSA-eligible health plan through work, your spouse's employer, private insurance, or the insurance marketplace.

Be aware that if you contribute to your HSA, you can't fund a regular FSA in the same year. You can have an HSA along with a limited purpose FSA, also known as an LPFSA. This type of FSA covers only those expenses not covered by your health plan, such as dental and vision care.

Read *Smart Money*℠ on Fidelity.com: HSA vs. FSA: Which is right for you?

If you have an HSA: Consider contributing at least enough to cover medical expenses you expect to incur next year. Contribute the maximum if you can, because you don't have to spend everything you contribute this year. Some employers even offer matching contributions to HSAs—that's like free money that can be saved for the future or used for health care right away. Contributions from your employer count toward the annual HSA contribution limit.

Read *Viewpoints* on Fidelity.com: 3 healthy habits for health savings accounts

Tip #3: Make sure you're prepared for unexpected expenses

Needing money quickly and not having any can be a terrible situation. You never know what could happen and how much it might cost to get out of a jam.

Having money set aside for those unexpected expenses is one of the best ways to avoid taking on debt or going over budget.

If you don't already have one, aim for a $1,000 emergency fund to start or 1 months' worth of essential expenses, whichever is more. Celebrate your success once you hit that milestone but don't stop contributing to the fund. Fidelity suggests saving enough to cover essential expenses for 3 to 6 months eventually. But having at least $1,000 at this stage is a great start. Consistently transferring a little money into the account with every paycheck will ensure you will have the money you need, even if you face multiple emergencies back-to-back.

Read *Viewpoints* on Fidelity.com: How much to save for emergencies

Tip #4: Get the full match to your workplace retirement plan—it's like free money

The earlier you're able to begin investing, the more time you have to take advantage of the power of compounding. Compounding refers to the value of an investment increasing because the earnings on an investment are reinvested and earn additional returns as time passes. Workers who have access to a workplace retirement plan, like a 401(k) or 403(b), can set up an automatic contribution to the account with every paycheck. If you can afford to contribute enough to receive your employer contribution match, that is a great way to help ensure that you're making the most of your money. If not, start contributing what you can afford, and increase the contribution amount each time you get a raise.

Make sure to invest that money for long-term growth potential too. There are 3 major groups of investments (there are others but these 3 are the big ones): Stocks, bonds, and short-term investments like certificates of deposit or money market funds. Over the long term, stocks have historically offered higher returns than bonds or short-term investments. If you have many years before retirement to ride out the ups and downs in the market, the potential compounding and growth that stocks can provide may help you reach your retirement goals.

The thing is, it's important to be able to stay invested when the market takes a turn for the worse. Research has shown that it's incredibly difficult to time the market and get in and out at the right time. So choosing a mix of investments that offers potential for growth while letting you sleep at night can be critical to staying invested over the decades. If you're not sure how to choose and manage investments, consider options that do the investing for you, like target date funds or managed accounts.

Read *Viewpoints* on Fidelity.com: 6 ways busy people can help build their wealth

Don't have access to a workplace retirement account? Consider an individual retirement account or IRA. You can set up automatic transfers from your checking account or have money directly deposited from your employer. At Fidelity, you can even have your contributions automatically invested into funds you already own. Fidelity Go®, our robo advisor, also offers automatic investment of contributions.

Read *Viewpoints* on Fidelity.com: Help your money grow with automation

Tip #5: Keep more money for yourself by paying down credit card debt

There are good reasons to use credit for big purchases—you might get cash back or other rewards that can add up. To make sure you're not overpaying, make a plan to pay off debt as quickly as possible. Paying the statement balance in full every month is the best option.

If that's not possible, consider picking a strategy to help you pay off debt fast: the debt snowball or avalanche method. Gather up your statements (or check online). Make a list of all your debts including the balances and interest rates. Then rank your debts first by balance, lowest to highest. Next rank them by interest rate.

For the debt snowball method, you would begin with the lowest balance debt. Pay the minimum on other debts while focusing extra payments on the lowest balance account. Once it's paid off, move on to the next lowest balance and do the same, putting all of your extra money into that account while paying the minimums on others. Eventually you'll knock out all of your debts.

The debt avalanche is similar, but you start with the highest interest account. This strategy can be more efficient and could save you more money than the snowball approach. But that strategy can be more emotionally satisfying as you can quickly see zero balances on smaller accounts.

Read *Viewpoints* on Fidelity.com: The debt snowball method vs. the debt avalanche method

Credit card companies often offer low- or no-interest balance transfers if you have good credit. Though it does cost money to transfer, typically about 3% of the balance, it can still save you money. It can really help reduce interest charges as you whittle down what you owe.

Money management for the win

Money management is an ongoing process. It takes time to develop money management skills and grow your confidence. Along the way, celebrate your victories and do the best you can day to day, month to month and year to year. Though it may take a little extra effort at first, it can be tremendously empowering to one day realize you've gone from struggling to stable. After that, the sky is the limit.

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1. "Stress in America," November 2023, APA.org, American Psychological Association, https://www.apa.org/news/press/releases/stress/2023/collective-trauma-recovery

2. With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation.

The Fidelity Bloom App is designed to help with your saving and spending behaviors through your Save and Spend accounts, which are brokerage accounts covered by SIPC. They are not bank accounts and therefore are not covered by FDIC insurance.

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