5 Vital Signs That You're Financially Fit

ESSENCE partnered with Northwestern Mutual to get expert advice on how to make sure you're financially healthy. Learn how to keep tabs on your "money vitals" at Northwestern Mutual.

Everyone knows it's important to see a doctor once a year to check vital signs like your blood pressure and heart rate. But what about your financial health? Keeping tabs on your "money vitals" can give you insight into whether your long-term planning is on the right path.

Wondering where to start? Review this checklist and start looking at your financial vital signs.

1. Rainy Day Fund

Maintaining an emergency fund can keep unexpected short-term costs—like a job loss or major medical event—from having a long-term negative impact on your finances. Keeping six months' worth of living expenses in your rainy day fund is a reasonable goal. For couples in which both people work, as little as three months' worth of savings may be OK.

The prescription: Set up automatic transfers to a dedicated emergency savings account. Even small contributions can add up, and watching that balance grow will give you the confidence to keep at it.

2. Retirement Savings Rate

You should always put enough into your retirement accounts to get any matching contributions your employer offers, but that's typically not enough. You should aim to save 20 percent or more of your income toward retirement each year. If 20 percent seems lofty for you at the moment, start with 10 percent and increase your savings by 1 percent each year to move toward 20.

The prescription: Take a look at your budget to see whether you can cut some expenses in order to boost your retirement savings. Then increase your savings rate every time you get a raise at work, so that additional contributions take a smaller bite out of your take-home pay.

3. Debt Levels

Certain debt—such as a home mortgage or low-interest college loans—can be a powerful tool to help you reach major life goals. But high-interest debt such as credit credits can become a major financial burden. High-interest rates over a long period can make even a small credit card balance incredibly expensive and difficult to pay off.

The prescription: Check with your bank on whether you can pay less interest by making a balance transfer to a low- or no-interest card. Then make it a priority to pay down that debt before the promotional period expires.

4. Credit Score

A score of 700 or higher can save you money on everything from mortgage rates to car insurance. A low score can hurt your ability to rent an apartment and may even impact your employment prospects.

The prescription: Your payment history is one of the biggest factors that goes into your credit score. Set up automatic payments for recurring bills to make sure that you never miss a payment again. Pull your credit report at AnnualCreditReport.com to make sure that there aren’t any errors that are pulling down your score.

5. Asset Allocation

If you’re already investing, you’re on the right track. But are you investing wisely? Diversifying your investments among stocks, bonds and other asset classes may help lessen the impact of marketing swings. Your investment mix should reflect your risk tolerance as well as your time horizon.

The prescription: Even if you’ve settled on the right allocation, market volatility can throw it out of whack. If your mix is no longer in line with the plan, rebalance as necessary. If that seems too time-consuming, consider reaching out to a financial professional for help.

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