Are you financially sound? Ask yourself these 3 questions…

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Warner Bros/Courtesy Everett Collection
Having a high income doesn't guarantee financial stability for those who tend to spend.

Young Americans have struggled so much in recent years, they may not even know what being "financially sound" looks like.

A commenter on the popular social-networking site Reddit asked fellow members, "What exactly does financially sound mean? I just started working and don't know if I will ever reach that point."

Saving is no doubt harder with a lower income. But even people who aren't wealthy and young people in their 20s and 30s can be financially stable if they focus on saving rather than spending, said Rachel Podnos, an attorney and financial planner based in Washington, D.C. For people who receive a raise or bonus at work, for instance, she suggested saving half or more of it. "That will get you into a habit of living on less than you make, and you'll continue to save more and more," she said. Automating savings rather than spending is another useful and simple tactic.

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1. Do I spend all my salary every month?

The most popular answer on Reddit was also probably the most sensible, or at least widely-recognized, one. “Your income exceeds your expenses and you have enough set aside to cover emergencies, health issues, retirement, and be able to afford some of your wants.” Someone making $35,000 a year can be financially sound while someone making $150,000 a year may not be, the user wrote. “My grandma had a very meager income, lived most of her life as a widow, had a tiny house with a nicely kept yard, but was able to pay for a car in cash and live comfortably in retirement because she was very responsible with her money.”

It’s no wonder the answer escapes the young adult who posed that question. It’s one that millions of Americans are grappling with, especially with debt on the rise again. Americans have carried heavy debts for the past several years. The New York Federal Reserve published a new report this month showing U.S. collective household debt balances totaled $12.73 trillion in March 2017, surpassing the 2008 peak of $12.68 trillion. That includes more than $1 trillion in student-loan debt alone.

2. Do I have six months’ expenses in emergency savings?

Another Reddit user suggested creating an emergency fund with six months’ worth of expenses in it (a number many personal-finance experts suggest hitting.) “You could be injured or lose your job for half a year and still be able to make bills and survive. ”A majority of Americans (59%) don’t have enough available cash to pay for even a $1,000 emergency room bill or a $500 car repair, according to data released this year by the personal finance site Bankrate.com.

Not everyone is vulnerable to an unexpected bill, of course. Over a quarter of Americans in a recent HomeServe USA survey said they had $8,000 or more set aside for unexpected emergency expenses, and respondents aged 65 and over are likely to have the most money set aside for unplanned expenses, with nearly half (48%) of Americans within the age group reporting having $8,000 or more in emergency funds (versus just 20% of those aged 18 to 64).

3. How much of my salary have I saved for retirement?

The parameters of financial stability also depend on your age. Besides having an emergency fund, financial experts suggest adults in their early 20’s should try to start investing in a retirement account such as a 401(k), especially if their employer offers a match, to take advantage of the interest their savings can earn before they retire. By the time an individual is 30, it’s ideal to have a year’s worth of salary saved for retirement, according to the Boston-based investment firm Fidelity Investments. By 35, it’s best to have twice one year of salary. By the time you are in your 40s, you should ideally save at least 8% and 15% of salary each year.

But for many college graduates, achieving financial stability is an uphill battle. Some 55% of people who graduated from college with student loans say it prevents them from saving for emergencies, according to a survey of about 2,400 students and graduates by the financial services firm Prudential this month. Other costs, including the high price of rent in major cities, also contribute to this burden, Podnos said.

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