Three Ideas to Tackle Financial Ghosts.

Is money distress part of your life? Do the dollars & cents of poor decisions past sneak up on you and rattle around your house like chains? What if I could provide three ideas to tackle 2022's financial ghosts and put them at rest for good?

Listen, ghosts of the financial past are notorious for creeping into the present, especially when holidays roll around. Oh, and watch out for the ghosts of the financial future. They're dark and ominous and portend to money mistakes for generations!

Perhaps, you've unpacked an ornament from 30 years ago or got lost in memory while watching A Charlie Brown Christmas, then you understand.

Unfortunately, the ghosts of Financial Mistakes Past are sometimes not so kind. They aren't warm and fuzzy, either.

Rattling chains of the ghosts of financial mistakes can be uninvited guests for years to come.

Post-pandemic household financial conditions have just made ghosts stronger.

I wrongfully believed Americans would change their fiscal ways post-pandemic. The personal savings rate is currently at levels we haven't seen since 2005. Total bank card balances are a record $866 billion for the third quarter, up 19% from last year's period. According to Bankrate.com, the average outstanding revolving credit card balance stands at $5,474 over last year. The average credit card interest rate is 19.20% per Moneygeek.com.

December is the month to objectively review your financial history.

This month, expose the good and bad ? then outline tactics to sever ominous chains and sprout wings to the beneficial for 2023.

Just because I partner with others on personal finance challenges doesn't mean I don't own my share of mistakes. Thankfully, my Ghosts of Financial Mistakes Past lost their power to frighten me. I, too, assess my consistent progress to slay them. As a financial professional, I remain 'fiscally aware' throughout the year.

Hey, it's my job.

This month, as you prepare your favorite meals from recipes in the family for decades, watch a timeless film (White Christmas is my favorite), go through old photographs, take some time to unwrap financial gifts, and pack away the mistakes.

Here are three ideas to tackle 2022's financial ghosts.

Calculate your household debt-to-income ratios.

I know. **Math.** I promise this isn't a difficult task. As a society, we tend to base our lifestyle on the ability to meet monthly payments but rarely consider the damage to net worth by spending too much or taking on excessive debt.

I complete a couple of calculations for my household. I'll also share with you RIA's financial guardrails. I won't lie: Our tenets are tough; I promise your net worth will thank me ten Decembers from now.

First, I isolate my mortgage, HOA, and homeowner's insurance payments and divide the sum by my NET or 'take-home' monthly income.

Currently, my ratio is **6.6%**. The standard rule in finance is a house payment **shouldn't exceed 28% of pre-tax income**. It's a horrible rule. It's designed to push the boundaries on cash flow and sell you more house than is necessary.

Throw it out if you desire financial flexibility, cash to cover emergencies, and save for a prosperous financial future.

Dave Ramsey suggests 25% of after-tax income. Not bad. However, you can do better.

Our rule at RIA is a total mortgage payment **should not exceed 15% of after-tax income.** I didn't extract this percentage out of thin air. Over the last two decades, I've watched how households who utilized this rule continue to increase their wealth by thinking of a primary residence as a place to live, not an investment.

In other words, an intimidating mortgage obligation was just too painful for couples who employed long-term consideration of other important goals they sought to fund.

I then consider my household's variable and specific fixed expenses.

Entertainment, groceries, and clothing. I also examine costs for utilities and car insurance (not cheap with a college-bound daughter driving). The general rule is 30% of after-tax income for 'wants.' Auto insurance is a need, not a want. However, with the ability to shop around for better rates or utilize insurance company 'drive-pay' programs that reward responsible drivers, I place auto insurance into the variable category.

My current variable expenses are **9%** of my monthly after-tax household income. I understand I no longer have a household with young children where variable expenses are greater. However, my personal inflation rate stands at 7.7%. Want to calculate yours? Click here.

However, that doesn't mean as a growing family, you shouldn't create your own rules, which still allow for a robust savings rate. At RIA, we believe variable monthly expenses **shouldn't exceed 20% of after-tax income.**

If you're disappointed by your ratio results, be grateful for new awareness and schedule a meeting with your financial professional in January to create an action plan for improvement. Hence, when ratios are calculated next year, they're much healthier.

Openly communicate about money, especially mistakes, with loved ones.

Holidays, when there is downtime from work and family gathers, seem to allow communication flow about money.

Children: Your children are monitoring your relationship with money. What is your outward expression towards debt, savings, and general household financial management, especially when communicating with immediate family?

Your children will learn from the example if your relationship with money is positive or one of control and discipline. If your relationship with money is negative, stressful, extravagant, or reckless, the kids will pick up on that, too.

Smart money beliefs and actions can lead to smart money scripts by the younger generations around you.

Generally, if you're a saver, your children will be too. According to a www.moneyconfidentkids.com survey from 2017, parents with three or more types of savings are more likely to have kids who discuss money with them and less likely to have kids who spend money as soon as they get it or lie about their spending.

I have found that parents who openly communicate their financial failures and how they worked through them raise fiscally intuitive children. Get the kids to help you with three ideas to tackle financial ghosts.

Kids want to know you're human. You mess up!

Most important is how you acknowledged and changed erroneous behavior. Give the gift of wisdom this season!

Parents: Older parents are challenged to communicate final intentions with their children, or they decide to let estate planning documents speak for them. **Big mistake**. If you seek to create a Ghost of Future Turmoil for heirs, go ahead and remain tight-lipped about how you wish assets dispersed, including family heirlooms and whom you selected as the executor of your will and why.

Perhaps John doesn't want great-grandmother's fine China, but Erica does.

Or Alan is bitter and wondering why your younger son, his brother, Edward is the executor of the estate instead of him. These are not small things. I've witnessed them generate irreparable family rifts. Make December the month where you communicate with the children and ask questions about the items they'd wish to inherit upon your passing. Take a moment to explain to siblings why one sibling is selected as executor and the logic that drove the decision.

Trim the expense tree.

The evergreen fir has been a part of winter festivals for roughly 1,000 years.

Per www.whychristmas.com

The first documented use of a tree at Christmas and New Year celebrations is argued between the cities of Tallinn in Estonia and Riga in Latvia! Both claim they had the first trees; Tallinn in 1441 and Riga in 1510. Both trees were put up by the Brotherhood of Blackheads, an association of local unmarried merchants, ship owners, and foreigners in Livonia (now Estonia and Latvia).

Little is known about either tree apart from being put in the town square, danced around by the Brotherhood of Blackheads, and then set on fire. This is like the custom of the Yule Log. The word used for the 'tree' could also mean a mast or pole. A tree might have been like a 'Paradise Tree' or a tree-shaped wooden candelabra rather than a 'real' tree.

Year-end credit card and checking account statements should be available from your financial institutions the first week of January. Today's statements do an excellent job of categorizing expenses. Access, print, and review all statements.

Analyze your household spending for 2022.

Many statements outline prior years' spending by category and how it compares to the current. From there, begin to outline a spending budget for 2023 focusing on expense reduction and debt-to-income ratio improvement.

Let's all try to make our financial ghosts the ones we don't mind inviting into our homes at any time of year and use these three ideas to tackle 2022's financial ghosts!