Are You Financially Healthy?

Many experts are concerned about Americans' money habits — including regulators such as the Consumer Financial Protection Bureau and financial think tanks such as the Center for Financial Services Innovation — are promoting the concept of financial health.

"Financial literacy is really what you know. Financial health is the outcome," says Rachel Schneider, the center's senior vice president. "You might know what to do, but the gap between knowing and behavior is huge."

The concept of financial health also acknowledges the forces beyond our control. Just as physical health is a combination of behavior, genes and access to good medical care, financial health is a result of personal decisions and abilities, the economy and access to good, unbiased financial services and advice.

"There is an element of personal responsibility, but it's more than that," Schneider says.

Definitions of financial health typically have three factors in common:

- You can manage your day-to-day financial life
- You can absorb a financial shock
- You're on track to meet your financial goals

How do you get there? These eight behaviors can help:

You spend less than you earn. This is the foundation for financial health. You can't get out of debt or save for the future if your expenses eat up all your available income.

You pay bills on time. You manage your cash flow and meet your regular financial obligations. Missing payments costs you money in late fees, hurts your credit and causes stress.

You have a decent emergency fund. "Decent" varies according to your circumstances. The Center for Financial Services Innovation, which developed ways financial institutions can measure consumer financial health, would like to see everyone have six months' worth of living expenses set aside. But as little as $250 can be enough to save a low-income family from a serious financial setback, according to a study by the Urban Institute, a policy research group. What's more important than the amount is developing a habit of saving regularly so you continually replenish your coffers.

You're on track with retirement savings. How much you need will vary by age and circumstance, but you've done the calculations and are setting aside money regularly to get there. If you have other goals, such as buying a home, you should be saving toward those as well.

Your debt load is sustainable. The Center for Financial Services Innovation recommends that mortgage payments consume no more than 28% of your pretax income and that all debt payments, including a mortgage, should be less than 36%. Another benchmark is the 50/30/20 budget: Keep housing payments and other must-have expenses — transportation, food, utilities, child care, insurance and minimum loan payments — to 50% or less of your after-tax income. That will leave you 30% for wants and 20% for debt repayment and savings. An even simpler gauge is whether your debt keeps you up at night.

You don't routinely carry credit card or other high-rate debt. Mortgages pay for homes that can increase in value, and student loans provide an education that can help increase your income. That's why they're often described as "good" debt, when used in moderation. There's typically nothing good about credit card debt, which often leaves you paying for items long after you've used them up.

You have good credit scores. Some people treat credit scores as a proxy for financial health. They really measure only how well you repay debt. But good credit is a safety net when you need it. It's also a money-saver even if you're not planning to borrow; bad credit can increase your insurance premiums, prevent you from getting an apartment and force you to pay larger deposits for utilities.

You're appropriately insured. You want to be protected against financial shocks that could wipe you out, including medical bills, lawsuits, natural disasters or the death of a family member. Health insurance is a must, and so is homeowners or renters insurance. If you have a vehicle, you need auto insurance with liability limits at least equal to your net worth. If anyone is dependent on your income or services — we're looking at you, too, stay-at-home parents — you likely need life and disability insurance.

How would your finances compare?

NerdWallet analyzed data from more than 2,000 Americans surveyed by Harris Poll, scoring them on each facet of financial health. About 10% of them nailed every element, but many more were struggling with debt, retirement and putting aside anything for emergencies.

Well-run personal finances don't happen overnight. Your financial health score matters much less than the next small step you take to improve your financial future.

Liz Weston is a certified financial planner and columnist at NerdWallet, a personal finance website, and author of "Your Credit Score." Email: lweston@nerdwallet.com. Twitter: @lizweston.

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