The Hierarchy of Financial Needs

Helping you build a strong financial foundation and make the smartest financial decisions so you can enjoy your life.

The most common financial queries we hear fall under the umbrella of one major question: “What should I be doing with my money?” This comprehensive question spurred the creation of our “Hierarchy of Financial Needs." This hierarchy serves as the framework for our financial wellness program, and we use this hierarchy to help individuals properly prioritize their financial lives.

Before exploring this hierarchy, it’s important to know what your current financial situation is. Take some time to review your monthly spending to ensure you know where every dollar you earn is going. Once you have a sense of your current financial picture, think of our hierarchy as your linear road map to financial success and independence. Our hierarchy begins at the bottom with the most important needs and highest priority items with each step building on the previous one until you reach the top.

Everyone is currently somewhere on this hierarchy. Ideally, you want to fully meet the goals of one level before moving up to the next rung; however, we recognize that life doesn’t always allow you to move in such an orderly fashion.

Additionally, after successfully making it through the hierarchy, you may find yourself needing to revisit certain steps to make adjustments to account for any changes to your financial life, such as salary increases, job changes, new expenses, and living costs, to name a few.

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The Breakdown of Every Step on the Hierarchy of Financial Needs

1. **Emergency Savings:** A rainy-day fund for unexpected and necessary expenses. This account should be separate from your everyday spending accounts and should be invested in cash or a cash-equivalent fund (e.g. money market fund). This account should hold sufficient funds to cover at least $1,000 per person in your financial plan.

2. **HSA Savings to Cover Deductible:** A health savings account (HSA) is offered in conjunction with a qualified High Deductible Health Plan (HDHP) as a savings vehicle used to fund qualified medical expenses. Make sure you rebuild your account as you use the funds to cover your medical deductible expenses throughout the year.

3. **Retirement Savings to Get Full Match:** If your employer matches up to a certain percentage of your contributions to your employer-sponsored retirement plan, ensure you contribute enough to receive the match, at a minimum.

4. **High-Interest Debt:** This is your bad debt that involves items that quickly lose value over time. The most common forms of bad, high-interest debt include credit cards, private student loans, payday loans, personal loans, and some automobile loans.

5. **Emergency Savings to Cover 3 Months of Expenses:** Ideally, your emergency fund should be sufficient to cover three months of your living expenses, including food, rent or mortgage payments, loan payments, transportation costs, etc.

6. **Retirement Savings to Get 100% on Track:** There are numerous calculators available to help you determine how much you are on track to have in retirement vs. how much you will likely need in retirement. You only want to retire once.

7. **Goal-Based Savings:** When saving for short-, medium-, and long-term goals, it is important to have a well-defined picture of what those goals are and how much those goals will cost. This goal-based savings account should be separate from your everyday spending accounts.

8. **Max HSA Savings:** 2024 HSA contribution limits are $4,150 for individual coverage and $8,300 for family coverage. There is also a $1,000 catch-up contribution for those age 55 and over.

9. **Max Retirement Savings:** 2024 401(k) retirement plan contribution limits are $23,000 for those under age 50 and $30,500 for those age 50 and over. 2024 individual retirement account (IRA) contribution limits are $7,000 for those under age 50 and $8,000 for those age 50 and over.

10. **Low-Interest Debt:** Not all debt is bad; good debt known as low-interest debt involves an asset that increases in value over time. The most common types of good debt are home mortgages and low-interest federal student loans.

11. **Other Investing:** Building a personal investment portfolio is a valuable final step to help you make work optional. When it comes to investing, make sure you know your risk profile and time horizon.