Steps to Financial Freedom

Achieving lifelong financial success can sometimes seem like an overwhelming task. However, when developed step by step, you can gain long-term control of your finances. Setting goals, communicating with family members, creating a budget, building savings, reducing debt and using credit wisely, buying a home, evaluating insurance, understanding investing and taxes, and keeping good records are the steps to guide you on your way to financial freedom.

GreenPath™ debt solutions ◆ www.greenpath.com ◆ 888-893-2713

TAKING STOCK

Before you embark on any new adventure, it is important to determine the starting point. A thorough evaluation of your current financial picture is a major step in going forward.

Take a look at your personal financial situation. How does it look? Where are you now? How well have you done so far? Are family members involved with the family finances? Are you pleased with the results? These are some of the questions to ask as you take stock of your financial life.

SETTING GOALS

Before you can create a plan for spending and saving, financial goals must be set. Goals reflect your values and provide direction for planning. Setting goals will help you balance your needs and wants.

Characteristics of Goals

Understanding the difference between a dream and a goal is important. If you say that you want to live a comfortable retirement, then you have a dream. But, if you say that you will retire at x age, will need to save y dollars and it will need to last till age z, then you have a goal. What is the difference between the two?

Specific

Goals should be specific. How much do you need to save? How long of a time frame do you have before you need the money? How many pay periods are available to save the money? For example, you might need to save $5,000 in 2 years for a down payment to buy a house. Since you get paid once each month, you would have to save $208.33 each pay period to achieve your goal.

Measurable

You will have to measure and monitor your progress. Do it in a way that makes sense to you. As you save money each week or each month you can track it on a computer, or write it down, or even see it logged on your paycheck as money is moved from your paycheck to a savings account. In any event, measure your progress as you move toward achieving your goal.

Reasonable & Realistic

Set goals that are reasonable and realistic. Don't try to save too much each period and end up sacrificing other parts of the budget. You might have to lengthen your time frame to achieve a goal and decrease the amount you save each time. Remember, saving is a lifelong process and a consistent, systematic approach will pay off.

BUDGETING - YOUR SPENDING PLAN

Budgeting is the cornerstone to anyone's personal financial plan, whether you're saving a lot of money already or if you're behind on your financial obligations. A budget tells a financial story. The financial story that your budget tells will be a successful one by planning, tracking, and adjusting.

A Lifelong Must

In its most basic form the budget includes income, expenses, and debts. Income and debts are usually fairly straightforward categories and are easy to identify and list. You might have a few income sources depending on how many wage earners you have in the family. And with debts you might have a mortgage, a car loan, a student loan, a personal loan, and a number of credit cards for example. It's the expense side of the budget that always seems to be the most challenging for people. When preparing your budget include as many expense categories as possible in order to see where your money is really going. Spending too much can sabotage your goals. It's not how much you earn in your life, but how much you spend that keeps you from achieving your goals.

Keeping track of your income, expenses and debts will allow you to continually monitor your budget as you move toward accomplishing your goals. Remember, your budget is like a muscle. If it is not worked and exercised, it will get weak. So, exercise your budget every week to keep your finances strong.

SAVING TO ACHIEVE

Whether you have short-, mid-, or long-term goals, saving money is the key to achieving all of them.

Make It Part of Your Budget

Have you heard the saying, "Pay yourself first?" This slogan suggests that you save money for yourself when you get paid before you pay your bills. It is great advice. However, it is a challenge to achieve because many people want to pay their creditors before they pay themselves. When it's time to save at the end of the month, no money is left to save. When you plan to save, the "expense" called savings becomes a routine bill that you "pay" each month. With this bill, the recipient is you!

Start with an Emergency Savings Account

Most financial experts agree that keeping 3-6 months of income in an emergency savings account is solid financial guidance. Money worries are common concerns for most Americans. Having a safety net, like an emergency savings account, can help minimize your worry, protect you against uncertainty, prevent the need to liquidate assets, and give you access to cash rather than credit. Create your emergency savings before you begin investing for other financial goals.

USE CREDIT WISELY

Credit itself is neither a positive nor a negative thing; it can either be used wisely or poorly. Unwise use of credit can lead to serious financial problems. Therefore, consider the advantages and disadvantages of credit transactions.

Some of the advantages of credit include:

- Helps improve one's general way of living
- Gives ability to take advantage of sales
- Enables the purchasing of large or expensive items and paying for them over time
- Replaces need for carrying large sums of cash
- Makes managing overall expenditures more effective
- Provides establishment of a credit rating
- Can help beat inflation
- Helps handle financial emergencies
- Provides method for keeping savings intact

Some of the disadvantages of credit include:

- Commits future earnings
- Provides a false sense of financial security
- Decreases cash savings
- May include paying finance charges and/or interest in addition to the cost of the product or service
- Promotes temptation to overspend
- Presents opportunity for credit cards to be lost or stolen

Keep Debt Low

Credit adds flexibility to your financial planning and allows you to have the things you need and want by buying now and paying later. It allows you to buy big-ticket items like a car or a house more easily. When treated as a privilege, credit can help you have and enjoy more. However, you need to control credit or it can control you!

If your goal is to reduce your debt load, here are some helpful hints to plan your strategy:

- ***Reduce interest*** – by requesting an interest reduction, transferring balances, or using a home equity loan
- ***Shorten repayment period*** – by increasing your monthly payments
- ***Aggressively pay most expensive debt*** – by reviewing finance charges and annual fees and sending excess income to the most expensive account

HOME SWEET HOME

If you're like most Americans, owning your own home is a major part of the American dream. It is a symbol that you've made it - that your life is secure. Home ownership is a big responsibility, one that you will need to accept for many years to come. Yet, it's worth the effort. Most people rate a home purchase as their best long-term investment.

Buying a home is also the largest purchase most people will ever make. Finding and financing a home brings complex decisions to make and great satisfaction.

The American Dream

Saving for a home purchase takes commitment, research, and sacrifice. It is an emotional time for the homebuyer who will experience excitement, pride, achievement, fulfillment, and independence. The advantages of owning your own home are well documented. ***You:***

- Build equity (or ownership) in property, which you may sell at a profit
- Can deduct mortgage interest and property taxes on your tax return
- Are protected against rent increases (though not property tax increases)
- Can rent your property to produce income
- Can often get more living space for less money
- Can borrow against home equity

So where do you start? Set goals and budget to save the money needed to achieve your American dream.

INVEST IN YOUR FUTURE

Once you have your emergency savings account funded you will begin to diversify your savings through other types of investments. A plethora of investment options are available to you. You can invest directly in stocks and bonds. You can keep your money in cash. You can invest in mutual funds, IRAs, and annuities. Which one will be best for you?

Making the Investment Choice

There are a wide variety of investment vehicles available to the individual investor. You could invest in many different assets. However, investing is often about owning publicly traded securities like stocks, bonds, money market instruments, or mutual funds that hold such investments. A convenient way to prepare for retirement is to invest in retirement savings plans that are available to you.

401(k) and 403(b) Plans

For simplicity, convenience, and tax savings, it's hard to find a better deal than a 401(k), or a 403(b) in government and tax-exempt organizations.

A 401(k) is a retirement plan that allows you to make deductible contributions that will grow tax-deferred until you withdraw them. If your employer offers a 401(k) salary deferral plan, take full advantage of it. With a 401(k) plan, you contribute part of your pay to a retirement plan account set up just for you. IRS and plan limits may apply to the amount you may contribute. You don't pay taxes on the amount you contribute or on the investment earnings in your plan account until you withdraw funds from the plan. If your employer matches any of your contributions, this is an added tax-deferred benefit.

The amount you contribute is not reported on your W-2 to the IRS, reducing your taxable income for the year. For example, if you contributed, $4,000 of your $60,000 salary to a 401(k) plan, only $56,000 would be reported as income.

TAKE ADVANTAGE OF TAX ADVANTAGES

There isn't much you can do to avoid taxes altogether. But you can take advantage of a number of strategies to pay less tax. Tax-deferred and tax-free investments, year-end tax planning, and taking full advantage of the tax laws can all save you money on April 15th.

INSURANCE

Along with your emergency savings account, insurance is a key component to building a strong financial foundation. An emergency savings fund normally can't prepare you for a catastrophic loss or illness. For these costly emergencies, people usually buy insurance.

A key to financial freedom is to review your insurance coverage. Are there gaps that need to be filled? What do you own of measurable value that can't be easily or economically replaced without insurance? Is there coverage that you can safely drop? Review the potential damage from being underinsured. And review the impact on lost investments as a result of paying for non-productive insurance.

KEEP GOOD RECORDS - A MUST!

Keeping good records is always a good idea. Creating and maintaining a system that works best for you will make your job of managing your financial life easier and more efficient. Write things down, keep necessary records, discard unnecessary items, and do it on an ongoing basis to keep things in order. Not only will such practices benefit you now, but they will also benefit those who will manage your affairs when you are gone.

Letter of Last Instruction

A letter of last instruction is a valuable document that you can write to assist your heirs. The idea is to put together a road map that will allow your family to take over your finances and ensure that your wishes are carried out. There is an additional benefit to writing a letter of last instruction – it forces you to organize your affairs. The letter should include a financial inventory that lists your investments, bank accounts, credit cards, insurance policies and brokerage accounts, as well as names of your lawyer, accountant, broker, and insurance agent. Your financial inventory should also detail company benefits you are entitled to and specify the location of items such as your safe deposit box, tax returns, stock certificates, and your will and other estate planning documents. Your letter of last instruction might discuss burial arrangements and other wishes.

A Will

Part of financial planning should include a strategy to protect your assets for your family and heirs. One of the simplest strategies is to make a will. A will is a legal document that transfers what you own to your beneficiaries when you die. It also names the people, called executors, whom you want to carry out your wishes.

You should make a will as soon as you have sizeable assets, get married, or certainly by the time you have children. A will clarifies your intent and may save your heirs hefty legal and court fees.

You can take advantage of GreenPath, a financial education and counseling program. GreenPath counselors are available Monday through Thursday 8 a.m. to 10 p.m. (EST), Friday 8 a.m. to 7 p.m. and Saturday from 9 a.m. to 1 p.m. To use this service, simply call 1-888-893-2713.