

Follow These 6 Steps to Lead Your Family Along the Path to Financial Independence

Accomplishing all of the different goals you and your family have established for the life you envision can seem like a formidable challenge. But like any large task, forging a clear path toward your goals is less daunting when broken down into manageable steps like those outlined below.

1. Follow a budget

A budget is the most important financial tool at your disposal. It enables you to make informed decisions about your money at every stage of your life. In fact, it's nearly impossible to complete the remaining steps on this list without one. That's because your budget takes the guesswork out of managing finances by assigning a purpose to each dollar that comes into and leaves your household. When managed properly, your budget provides the confidence that you can meet your current lifestyle expenses while continuing to support your long-term goals. Following a budget also makes it easier to share financial management responsibilities with a spouse or partner, and to teach children about the value of money. Consider one of the free budgeting apps available online or through your financial institution. Digital budgeting tools can aggregate data from your bank, investment, and credit card accounts so you can monitor spending and savings in real time.

2. Strive to live below your means

Living below your means requires spending less than you make so you can save money, avoid debt, and establish a safety net for unforeseen expenses. While living below your means isn't always easy, especially during periods of higher inflation or when you're faced with an unexpected expense, your budget can help you determine acceptable tradeoffs to keep you on track. For example, keeping a car that's paid-off for a year or two longer than anticipated will not only free up money that would otherwise go to a car payment, but will generally result in lower insurance costs and personal property taxes (if applicable) each year that you own the car. Even with annual maintenance costs factored in, your net savings should be higher, compared to a monthly car payment. Another effective approach is to designate a portion of annual raises, bonuses, or any windfall you receive, such as a cash gift or inheritance, to savings or toward paying down existing debt to free up more money.

3. Make long-term savings a priority

Saving is critical for achieving financial independence. One of the best ways to make savings a habit is to automatically transfer money from your paycheck to savings and investment accounts. One of the most effective ways to move closer to your long-term financial goals is to contribute as much as you can each year, up to the maximum annual contribution rate, to an employer retirement plan, such as a 401(k) or 403(b). Traditional contributions can help reduce your taxable income, and both traditional and Roth accounts benefit from tax-exempt compounding, meaning earnings can grow faster over time because they aren't taxed until they are withdrawn, usually in retirement. In 2024, you can contribute up to \$23,000 to your employer plan. If you're 50 or older, you can make an additional \$7,500 catch-up contribution, for a total maximum contribution of \$30,500. If you're not able to contribute the maximum, try to contribute up to the employer match level, if your employer offers one,



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so you're not leaving money on the table. If you're self-employed, consider an individual 401(k), profit-sharing plan, or SEP IRA to defer a percentage of your compensation.

4. Build an emergency fund

Setting money aside for unplanned expenses is also critical. Adequate emergency savings can prevent you from taking on unnecessary debt when faced with an unplanned expense, such as a medical bill or expensive car repair. Emergency reserves should be held in a liquid account, such as a bank or credit union savings or checking account. Even if you can only save a small amount now, you can continue to build savings over time by budgeting a designated amount each month.

5. Manage debt

Certain types of debt, such as mortgage, education, and vehicle loans, can help you accomplish some of your most important life goals. However, other types of debt can spiral out of control if not managed properly. For example, when used judiciously, credit cards can provide a lifeline in an emergency and help you build your credit rating—the score lenders use to determine your creditworthiness and the interest rate you qualify for when borrowing. However, revolving credit card balances are typically subject to high interest rates, which can prove costly over time. If you're unable to pay off credit card balances in full each month, make sure you're paying more than the minimum amount due, so you're paying down both interest and principal. Whenever you consider borrowing money, purchasing on credit, or taking out a loan, use your budget as a guide to determine the amount of debt you can comfortably manage and pay down each month.

6. Protect your family's future

Insurance helps to provide a financial safety net to guard against financial hardship resulting from unexpected life events. The types of insurance and coverage you may need will vary based on factors such as your age, income, marital status, number of dependents, property owned, estate planning goals, etc. Most people will need a variety of insurance types throughout their lifetimes, such as property and casualty insurance to help protect real property, such as homes, vehicles, boats, jewelry, and collectibles against damage or theft; life and disability insurance to protect your family's income needs; and long-term care insurance to help pay for certain extended healthcare support services. As part of a comprehensive financial strategy, insurance can also play a role in investment portfolio diversification and estate planning.

To learn more about strategies for pursuing financial independence, call the office to schedule a time to talk.

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