

Working Toward Financial Freedom

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It's a sad fact that most people aren't just lacking wealth, but they're burdened by debt, not making enough money, and suffering from anxiety over their finances. For some, it will *always* be a struggle.

They'll never learn how to eliminate what they owe and earn enough money to experience wealth in their lives. All of that could change if they made an effort – but they don't.

Some of it's due to ignorance about *how* to implement a plan that would offer them financial freedom. They simply weren't taught about managing money and growing wealth.

Others are living in the mindset of instant consumer gratification – charging things and spending any leftover cash simultaneously. What happens to those people is they eventually get to a place where all *minimum* payments meet or exceed their current cash flow – and then there's nothing left over and no credit available.

You want a life where you owe no one anything – life where every bit of your money is either spent on basic necessities (like your electric bill), saved for the future, or used to allow you to enjoy life the way you always dreamed it could be.

The Shame of Being a Financial Cautionary Tale

Not having money (and not having good credit) can be such a shameful feeling. You might be beating yourself up about all the needless things you spent your money on – whether it was for you or to make someone else in your life happy.

Or maybe you're kicking yourself for not making the kind of money you always thought you would. There are a million reasons why you might be hanging your head in shame over financial ruin.

Every corner you turn, you're met with something you need or want but can't get because of the situation you've put yourself in. Maybe an unexpected emergency happens – like a plumbing catastrophe – and suddenly you need \$5,000 to fix it.

You have two choices – find the money somehow or let it ruin your home. But your credit cards are maxed out, the bank won't loan you any money, and you have no one you can turn to who will personally rescue you from this situation.

Or maybe you'd really love to send your kids on the school trip to France this summer – but there's no way it's going to happen. You can barely pay tuition, and every extra bit is going to pay the bare minimums on your debt load.

Having to tell a company you can't afford to fix the plumbing (or get a car repaired, etc.) is embarrassing. Standing there with a stranger, acknowledging that you don't have a penny to your name – and horrible credit to boot - is uncomfortable.

Having your child ask you if they can do something – even something simple that costs just a little bit – and having to say no because there's no money – makes you feel like a failure as a parent.

After implementing this plan, you're going to feel much better about where you are and where you're headed. You're going to be able to hold your head up high because this is all about regaining control.

To date, you've been out of control. Whether it was caused by your bad decisions in spending or not earning enough, or something unexpected hit you that knocked you off your feet (like a medical emergency with tens of thousands of dollars in debt) – you're going to start taking back control today.

What Does Wealth Mean?

Wealth is different to everyone. For some, it means extreme riches – private jets, travel all over the world on a continual basis, and \$30,000 a night hotel suites. That's extreme – and most people aren't striving for that kind of wealth on a day-to-day basis.

What most people want is to not owe anyone anything, to have ample money to set aside to keep them comfortable in their future, and cash left over to enjoy the here and now.

That is very doable!

Paying cash for everything you buy should be a top goal for you. That doesn't mean you can't have credit – even charging something and knowing you can write a check for it in full to the credit card company is like paying cash – you're not paying interest on it, and you're building or maintaining your credit along the way.

Having peace of mind that all bills will be paid on time (or before they're due) each month will be a sign that you've achieved a certain amount of wealth in your life. No more late payments or living paycheck to paycheck.

No using one credit card to pay for another one. This is the type of juggling in your life that's not fun. It leaves you feeling insecure and riddled with anxiety every day.

Knowing that each time money comes in, you have enough left over to put some aside for your golden years (or even a vacation 6 months from now) is a sample of achieving great wealth.

Being able to say, "yes" when you want to (and need to) and "no" because you've learned how to or because you know you should, means you're now living the wealthy mindset.

Take a Hard Look at Where Your Finances Stand Today

It doesn't matter if you're at a poverty level of income or earning a seven-figure salary – that has nothing to do with wealth. Rich people can have trouble sleeping at night because they live outside of their means.

And what's "rich" anyway? Is it \$80,000 a year? Six figures? Seven? To everyone, it's a different number. You should always be striving to earn more and spend less.

To get to a point where you even *have* options at all, you need to analyze your current financial state. Nobody else is looking at this, so you need to be brutally honest with yourself.

If you're broke and juggling bills and see that you've been spending \$3 a day on Starbucks, you'd better have it written down. If you're not ready to get real and raw and see your finances for what they really are, then you're not ready for wealth building.

Dave Ramsey always encourages his listeners to live on rice and beans during the debt payoff portion of their lives. He says, "You need to live like no one else so that you can *live* like no one else."

What that means is that as you go through this process, you're not going to be comfortable. It's going to be hard. It's going to stink saying no to yourself and your family – because for years, maybe you were always saying yes (when you shouldn't have been).

But when you emerge debt-free, you know what's going to happen? You're going to be in the minority of people who have achieved true wealth. They spend less than they earn, owe no one anything, and have cash to use on the lifestyle they really want to live.

Imagine paying cash in full for a brand-new car. Or buying a home in cash! Want to get a pool installed in your backyard? While everyone else in the neighborhood is financing it for 15 years, you whip out your debit card and pay...cash.

It's going to be an indescribable feeling for you to live that kind of life. But first, you have to see what your starting point is. When you analyze your debt and bills, make sure you know where every penny is going.

You might have to check your bank statements if you haven't kept a check register carefully. Make a spreadsheet or even use pen and paper and organize your spending each month.

Separate your lists like this:

- An area for your monthly house bills
- An area for consumer credit cards
- An area for other debt (medical, school, government, etc.)

So your monthly bills could be things like your mortgage, electric, phone, car, groceries, gas, Internet service/cable, etc.

Your consumer credit card debt are all of the credit cards you have – such as Visa, American Express, Mastercard, Discover and any other specialty cards like store cards (Sears, JC Penney, Dillards, etc.).

Under your “other” debt category, list all of your debt - like any IRS payments you make, payments to any medical companies for procedures you've had done, school loans or tuition owed, etc.

How do you organize each list?

For monthly household bills, list the name of the debt, how much it is approximately each month, and what date you have to pay it on. For example:

- Mortgage \$1,200 4th of the month
- Electric \$300 7th of the month
- Phone \$175 10th of the month

That way you know what's due, for how much, and when. If you notice that everything hits you the first week of the month, and you get paid twice – on the 1st and the 15th, then you might contact a few of your companies and ask for a change in the due date.

Most companies will comply with this request. Try to space it out so that you're not pooling all debt payments in one or two weeks, but have time throughout the month to get them paid.

With the second group – consumer debt – you can copy this into three lists. The first list will be organized according to highest interest rate first, all the way down to the last. That might look like this:

- American Express \$798 owed 4th of the month **29.99%**
- Mastercard \$568 owed 1st of the month **26.00%**
- Visa \$1,519 owed 10th of the month **16.00%**

Another list of the same debt can be organized according to the amount due – from least to greatest.

- Mastercard **\$568 owed** 1st of the month 26.00%
- American Express **\$798 owed** 4th of the month 29.99%
- Visa **\$1,519 owed** 10th of the month 16.00%

The last group of exact debt can be organized according to how much is available on your card. You'll need to call and get the amount available and the debt owed on all of these so that you have exact amounts for your analysis.

- Visa \$1,519 owed **\$100 available** 16.00%
- American Express \$798 owed **\$550 available** 29.99%
- Mastercard \$568 owed **\$2,500 available** 26.00%

We'll go over what you're going to do with all of this information soon. The thing we're doing now is just information gathering. But you're not done yet. There's one last hard step you have to track.

Wasteful spending.

Yes, you may have put things on your credit cards that are considered waste, too – but let's look at your cash flow and other places you spend money. This might include places where you use cash or your debit card for:

- Fast food (breakfast, lunch, dinner, coffee, ice cream, etc.)
- Going out (dinner, movies, and events)
- Entertainment and shopping (new books at Barnes and Noble, new clothes, etc.)

Anything that's not a household bill or consumer credit card debt or other debt are often wasteful spending items. That doesn't mean all of them are. For example, you might pay cash for a co-pay at your doctor's office. That's a necessity and it's wise to pay for it in cash rather than put it on a credit card where it will rack up interest.

So go back about 1-3 months and see where you're leaking money so that you can be aware of it and put an end to the poor spending habits you've created over the years.

Spending Less Is Your First Step Toward Freedom

Right now you might be feeling the pinch with your bills – maybe living paycheck to paycheck and you've already cut down a great deal. Maybe you've let go of the weekly date nights out to dinner and a movie, or you quit splurging on new clothes every month.

That's a great start – but whatever you've done so far, it's not enough. You can go farther – make it uncomfortable for you. Some people worry about changing the lives of their family.

They feel guilt for getting into this predicament, so they don't want to suddenly yank away comfort that their spouse or kids have come to enjoy over time. If this describes you, then it's time to get the whole family onboard (and excited) about your financial freedom plan.

Tell them about how you really want to change your lifestyle for the better. Talk about how much better it will be when your family:

- Can pay bills weeks ahead of time
- Doesn't have to forego things because the paycheck's already stretched too thin
- Can put money back for planning vacations and other fun family purchases
- Has money saved for college for every child
- Can spend more family time relaxed and happy because less time is spent stressed out from working so much

Not all of your family will be pleased when they find out what it takes to achieve those goals. No one likes to give up things they're accustomed to having – but let them know that once debt's all gone, you'll sit down as a family and re-evaluate what you want to spend money on, and some things can come back into the mix since you'll be able to better afford them.

What are some things that need to go or be cut down on?

Cable television plans are something we typically tend to max out without even paying attention to what we really use. You might have been talked into a plan that gives you every possible movie channel you could imagine – plus special packages like sports.

For a while, cut back to the basic cable plan. If you really want to watch shows and it's an important part of your family entertainment, then you have a few options that can cost much less, such as:

- Hulu
- Netflix
- Amazon Prime

You can cut down from \$255 a month to \$40 for basic cable – and add on a Netflix plan for \$8 and save a tremendous amount! You might have to watch a bit to see the latest episodes, but that's a sacrifice that needs to be made.

What about your phone bills? Do you have both a landline and cell phones? Do you need both? If not, get rid of one. What's on your cell phone plan? Some companies charge \$10 a month for insurance – and a family of five is paying \$50 a month just to be insured.

With many of those plans, the deductible is another \$50-100 per phone, so you might save money just putting aside enough to replace one phone (just in case) and using the rest to pay off debt.

You can also choose a lower plan and give everyone in the family limits. If you're spending \$30 per phone for data charges (Internet), then get rid of it. If you have a plan that gives you unlimited texts and calls, then switch to one that costs less and gives you less (just make sure everyone understands how many minutes they get).

Have you refinanced your mortgage lately? You might want to look into it with interest rates being so low. You can get a lower house payment, and either finance it for exactly what's owed or take out a home equity loan and put that extra money toward a higher interest rate credit card.

Look at your car insurance premiums. Call them and ask what discounts they offer. You can save money with good grades (for students), by taking a defensive driving course, etc.

You also might want to ask about lowering your coverage temporarily. Don't put yourself at risk, but sometimes we take out far more insurance than we need. Your insurance company might give you a lower rate if you drive fewer miles each year, too – so make sure you track that!

Do you order the local newspaper to be delivered to your home each day? Do you really need it, or can you watch the news or read it online? You can shave about \$40 a month off your bills if you let go.

Once you get rid of the "fat" in your budget, you're going to feel much better and you'll realize how much you didn't need those extra elements in your life. Much of what you spend money on is your routine.

You wake up and read the paper over coffee – that's a routine, not a necessity. So what if you'll be surfing the web for news rather than holding a print version? You can make the sacrifice for financial freedom if you really want it.

Create a Plan to Pay Off Your Debt

Everyone will offer a unique view of how they achieve financial freedom. Some will say to get rid of everything, close every account, and pay off highest interest first.

With this plan, you're going to have options. Get rid of as much as you can where you're feeling uncomfortable – but not to the point where you're depressed. If you suddenly take away all TV, all Internet and all phone, for example – well, it's going to cause you and your family to sit around feeling down in the dumps.

You want to enjoy life as you pay off debt, but learn to enjoy it on less. Now it's time to start attacking the debt you've gained. This is separate from normal monthly household bills.

First of all, don't close cards that are already open. Part of where your good credit comes from is in the length of time that you've had credit as well as your debt to availability ratio.

If you have a card that you opened 15 years ago, that looks good for you. If it gets paid off and gives you 100% credit availability, that looks good, too. If you close that card, you lose the longevity and the 100%

available balance that shows you're not all maxed out on your credit cards.

At the same time, don't go ordering new cards with lower interest or in an effort to combine debt. Your credit score will lower whenever you're trying to apply for new cards so let's just work with what's already there and learn how to manage it.

Remember those lists we made where we organized debt earlier? We made one where we ranked our interest rates, one where we listed it according to the lowest to highest amount owed, and one where we ranked it according to the amount available on our card, from lowest to highest.

This is where you have choices. Some people will recommend paying off the cards with the highest interest rate first. Others will use the Dave Ramsey "debt snowball" approach where you pay off the card with the lowest remaining debt on it and use the minimum payment that you were paying to that card on the next lowest debt.

This method is great for momentum and enthusiasm. Cards with high interest rates might take longer to pay off (depending on your balance), and the confidence boost that you get from paying off a smaller debt and having another card paid off in full helps you feel great about this process.

The third method you can use is the one where you pay off the cards with the lowest amount available on them. You want credit reporting companies to look at each card and see a healthy ratio – far less owed than what's available.

Run your free credit report from each credit bureau annually. Contrary to popular belief, you don't get your free credit report at [freecreditreport.com](https://www.freecreditreport.com) – you get it at <https://www.annualcreditreport.com/cra/index.jsp> and you're allowed to run it once a year.

You might also want to order your credit scores from time to time to see how your credit is going. As your credit improves, you can call each company and ask for a lower interest rate and higher credit limit.

The lower interest rate will help save you money because you won't be paying as much – and the higher credit limit makes your debt to availability ratio improve. When you run your credit report, it will tell you the negative things that might be impacting your score.

Actually, it will tell you which factors have helped raise and lower your score. Things that you might have done that will help your credit score include:

- Making all of your payments on time
- Having a variety of credit cards so that your lenders can see how you manage spending
- Maintaining good standing on a mortgage that proves your ability to handle financial obligations
- Not having any public records like bankruptcies, liens or court judgments against you

There might be a few things working against you, such as:

- Having more debt on your credit cards than you do available credit – signaling that you're forced to live off your credit cards
- Having too many inquiries for new lines of credit on your report
- Having low credit lines extended to you

You want to aim for debt on a card totaling no more than 15-25% of what's available. But try to pay it all off in full every month once you're debt free so that you hold a zero balance.

Having low credit lines shows them that you're not yet being trusted with large limits, and the key factor they're searching for is responsibility.

When you run your credit report, look to see what's being held against you and work on repairing that first. If you're not making payments on time, then focus on that before anything else. Then work on other factors, like making more available on your cards.

When you're making all payments on time, it will be time to start figuring out which route you want to go with your debt. Everyone is different – would you love the inspiration of seeing one credit card paid in full sooner – or would you prefer to know it might take longer, but you're paying off the highest interest rate first?

Sometimes you can look at your three lists (if you have a lot of debt listed) and you might find something ranked near the top that fits all three criteria – low amount owed, low available credit, and high interest rate.

Paying that off first will help boost your credit and it will give you a boost in knowing that you're making progress as well. You can switch it up along the way, too!

There's nothing set in stone that says you have to stick to just one method. This is a good thing to keep in mind if you and your spouse disagree on strategies. Take turns.

Pay off highest interest rate first, then lowest balance next, then lowest available credit last. Rotate the strategies if you're not sure which one you'll feel better about.

Everything left over after basic necessities and other items will go toward debt. Don't leave a big cushion of cash sitting in the bank when you could be paying off debt that you owe.

So let's say you get a paycheck of \$1,000 (for a nice, even number). You have bills that total \$500 for the home expenses and other debt minimum payments – you always want to take care of those first, above everything else.

Now you have \$500 left over. If you have a credit card that totals \$477, pay it off in full. Put it on a new list that you keep called "RIP" or "Paid in Full." When you start to see this list rival in size to the "debt owed" list, you'll begin to feel really powerful.

With the \$23 you have left from that payoff and bill paying session, put it toward your "other debt" list. If you owe \$140 left on a medical procedure bill, that \$23 will help whittle it away in no time.

Don't keep the \$23 as a "free pass" for you to go do something fun or go back to your wasteful spending habits. Use every penny leftover toward debt. Even if you have an extra \$5 left – send it in to something.

See if your bank has a free "Bill Pay" system where they will send your payments off for you (no stamps or checks required). This makes it easy for you to squeeze every last drop out of your earnings toward debt.

One thing you'll notice is that your "minimum amounts due" start to decrease. This leaves you with more money every month to pay off more debt. If you pay off two credit cards with \$25 a month minimum payments, that's \$50 extra you can put toward another bill.

You'll notice that you stay well ahead of your household bills that are due, too. But until the debt's paid in full, keep wasteful spending at bay. Once everything's paid off in debt, monthly bills are made with ease, and you're saving for what you need to save for, then you can have fun with whatever's left over and indulge in trivial things if you want.

Some people keep going and move on to pay off their car and house, while others just leave this as a part of their regular monthly payments that have to be met.

It feels good to make that last mortgage and car payment – and it significantly boosts your credit score when lenders see that you've managed to pay off a large debt to your creditors.

Learn to Save Instead of Spend

After you've slain the debt dragon, you'll want to learn how to start putting some money away for things that previously caused you to go into debt. That might include:

- Christmas
- Birthdays
- Car repairs
- Emergency household repairs
- Retirement
- Medical emergencies...etc.

You can make separate bank accounts for these or save them in cash – whatever you personally prefer. Dave Ramsey suggests that you have the emergency savings first – before even going through your debt payoff process.

You can do it that way – or pay off one of your credit cards to hold as an emergency card, which helps you boost your credit score at the same time. The choice is up to you.

Create a certain chart of percentages that you want to put toward everything – and set amounts for it. Let's use our previous example of the \$1,000 paycheck. Now, you still have \$500 in monthly bills – but the leftover \$500 is no longer required to go toward debt!

You can split that up with percentages or set amounts. For example:

- \$25 to Christmas – up to \$300 per person
- \$25 to Birthdays – up to \$500 total, including party
- \$50 to Car repairs up to \$1,500
- \$100 to Emergency household repairs – up to \$5,000
- \$100 to medical emergencies – indefinitely

- \$100 to Retirement - indefinitely

That leaves you with \$100 a paycheck left over (even more once you reach your maximum goals) – all for frivolous things like eating out, entertainment, etc. Once you reach your goals on the smaller savings, you can put more toward your indefinite savings and more toward what we previously labeled “wasteful spending.”

It's only wasteful if you're going into debt or stretching yourself thin financially. After you're financially secure and living with a wealth-building mindset, you have the right to spend any leftover money on whatever you want if it makes you happy.

Make Progress Toward Earning More Money

When you arrive at this point in your financial freedom journey, you will have gone through the “buckle down” process and lived frugally. You will have worked hard to pay off everything you owe – and you'll enjoy looking at the small savings adding up to secure your future.

But there's more to it than stopping there. Financial freedom means having an abundance of cash flowing in – enough that if you want to make large donations to charity, you can. Enough that if you want to splurge on a big-ticket item, you don't even have to hesitate!

You need to earn more money so that you have more to save and spend.

How can you do that? There are a few options – pick one – or even better – pick them all!

Ask for a Raise

If you work at a job for someone else, make a plan to get a raise in your position – or to increase your skillset so that you can go for a better job. It's never too later to formulate a plan for a better salary.

Find Things to Sell

Many men and women make a full or part-time living selling things on eBay. Others provide services locally, like tutoring, handyman tasks, and more. Take a look at your talents and then see if there's a local or global market for them.

Make Money Online

Aside from eBay there are other ways you can make money online. You can write books (fiction or non-fiction) for Amazon Kindle, for example. This is a no cost solution to wealth building and even debt payoffs.

You can provide services online that people will pay for, such as ghostwriting, website building, graphics, and even virtual assistant services. Find sites like Elance.com where freelancers go and build a dedicated list of clients.

Rewarding Yourself with Wise Spending Decisions

After you've begun truly wealth building – debt paid off, savings built, and earnings on the upswing – you can really start enjoying the fruits of your labor. This is what life's all about.

But don't fall back on haphazard spending decisions. Remember to always get the best deal. If you buy a car – pay cash – and make the dealerships fight for your business with a competitive offer.

Getting free from your financial woes may feel like it's a lifetime away. But remember that you didn't get here overnight. Don't beat yourself up over how you got here.

Forgive yourself and be proud of the fact that you're doing what most people will never do – look to see where you went wrong, fix it, and alter your behavior so that you're doing what's *right* – not just what feels good at that very moment.

You might want to keep a diary of your journey so that you can look back some day and see how far you've grown – not just in the matter of money, but in maturity with how you handle your finances.



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