

# 3 Steps to Financial Freedom

Financial freedom - so easy to say, yet requires so much restraint and careful planning to attain. However, if you do gain it, the rewards are stability, peace of mind, improved relationships and a genuinely more happy life.

So how does  
a family gain  
**financial  
freedom?**

Follow the three  
enclosed steps, and you  
will be well on your way.



# 1 Spend Less Than You Earn

According to Huffington Post, half of Americans spend more than they earn. A portion of this can be attributed to the economy and a less than livable minimum wage – but not nearly as much as you'd think.

Instead, much of it is due to inadvertent overspending and lifestyles that forgo saving and budgeting in favor of more immediate gratification.

*To work toward avoiding overspending, you can:*

## Breakdown Your Paycheck

Many Americans don't truly understand how much they make – or at least how much they have to spend out of what they make. Not knowing this often leads to overspending.

**Let's look at an example:** Artie earns \$35,000 a year.

**Out of that, he needs to subtract:**

- 20% of his gross income for taxes
- 10% of his gross income for tithings/giving
- 10% of his gross income for saving
- 10% of his gross income for basic living expenses
- 20% of his gross income for mortgage

That means 70% or \$24,500 of Artie's annual income is "unspendable," leaving him with just \$10,500 of disposable income a year.

Now, try breaking down your paycheck. Add up all of your mandatory yearly expenses. How much of what you actually make is considered 'spendable'? To secure financial freedom, you have to try and make sure you don't exceed that number.

## Not Buy What You Can't Afford

To be sure you don't spend your paycheck on items you don't need, ask yourself:

- Will you need that money for anything else in the future?
- Do you have cash to purchase it?

A good strategy is to create a sheet of items you need/would like to purchase in order of importance. As you get 'spendable' income, work down the list, being sure to never spend beyond the cash you have and create debt.

## 2 Save Now, Spend Later

'Spend now pay later schemes' will most of the time leave you paying well above and beyond the value of your purchase. Instead of falling victim to this and other debt-increasing lifestyle patterns, try a new concept on for size: Save now, spend later.

*To follow this step, you can:*

### Create an Active Savings Plan

Put around 10% of your annual income toward creating an emergency, a long term and short-term (less than five years) savings plans. Start by funding your emergency fund, which should equal 5% of your annual income. Savings beyond that should be divided between your long-term (retirement, children's educations, etc.) savings and your short-term (big ticket item) savings.

### Create a Budget

Create a budget to begin tracking your spending and making sure that you are using your money the way that it should be used to best benefit your family. There are many resources available to help you do this. See the back of this brochure for some suggestions.

## 3 Understand Debt

Ever since 'debt' was introduced as a concept, there has been good debt and bad debt. However, a lot of accumulated debt today is comprised of 'unnecessary' or 'bad debt' instead of good.

*To take control of your debt, you need to:*

### Understand Your Debt

Break down your debt and figure out exactly how much you owe to date. Then, take a look at your monthly and annual expenses and figure out where and what you can cut to start paying your existing debt down.

### Not Introduce More Debt

Remember that though commercials may appear to have your personal interests in mind, they don't. Thus, don't play into crafty advertising tactics and incur more debt than you absolutely need to.

### Set a Goal to Become Debt Free

The easiest to say, but by far the hardest to accomplish is becoming debt free. However, by making it your goal, outlining your expenses, cutting where you can cut and fully committing to eliminating your debt, you can become debt free quicker than you might think.



# Why Payday Loans Never Pay Off

There comes a day in almost everyone's life where finances get a little behind. For some, that makes the payday loan the perfect solution.

However, new data suggests that this is about the worst solution families can employ, as it often puts families into debt they can't get out of, also known as the "revolving door of debt."

According to CNNMoney, more than 80% of all payday loans are rolled over or renewed within two weeks, and most of their consumers end up paying significantly more in interest and fees than the loan is worth. In fact, the interest rates of many payday loans are often close to an astounding 400% APR.



## Resources:

### Free Budgeting Help

- [UMFCU.org/wp-content/uploads/UMFCU-BudgetingWorksheet.pdf](http://UMFCU.org/wp-content/uploads/UMFCU-BudgetingWorksheet.pdf)
- [FederalReserve.org/CreditCardCalculator](http://FederalReserve.org/CreditCardCalculator)
- [Kiplinger.com/tool/spending/T007-S001-budgeting-worksheet-a-household-budget-for-today-a/](http://Kiplinger.com/tool/spending/T007-S001-budgeting-worksheet-a-household-budget-for-today-a/)
- [ProjectMoney.org/teaching/worksheets.html](http://ProjectMoney.org/teaching/worksheets.html)

### Free Credit Check

- [Annualcreditreport.com](http://Annualcreditreport.com)

### Free Financial Assessment Calculators

- [UMFCU.org/financial-education/calculators](http://UMFCU.org/financial-education/calculators)

### Free Financial Games For Kids

- [MyCreditUnion.gov/pages/pocket-cents-game.aspx](http://MyCreditUnion.gov/pages/pocket-cents-game.aspx)
- [DFI.wa.gov/financial-education/resources-games.htm](http://DFI.wa.gov/financial-education/resources-games.htm)

### Consumer Protection

- [FTC.gov/bcp/index.shtml](http://FTC.gov/bcp/index.shtml)

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