Money Sanity – Sleep Better in Five Steps

Financial sanity is simple: spend less than you take home, invest the difference wisely.

Here's something hard to make sense of in our capitalistic culture: it's often taboo to talk money. Do you know anyone who's stressed out about their finances? Maybe there are too many bills, or debt keeps them up at night, they're puzzled on how to save or invest, or 'lifestyle creep' consumes their cash. If that sounds like someone you love, or maybe you, what if one could dump that stress? It can happen. I'm not a financial counselor, although my enthusiasm might make it appear as such. What follows is for educational purposes – nothing that follows is beyond your grasp or ability; however, your situation may benefit from finding professional legal or financial counseling.

Let's start out by saying: there's no perfect method to build one's financial house. It takes doing homework, developing some habits and abandoning others, and it takes time. Mix in the inescapable fact that everyone's situation is unique. Simply put, you need a plan, a thought-out roadmap – maybe even in writing. This brief note offers some ideas to help get you on your journey. Not every suggestion below is a good fit for everyone – nonetheless maybe there's an idea or three worth exploring deeper. Consider these opinions for educational purposes. Learn and understand an idea or technique below before plunging in, or hire a trusted *fiduciary* flat-fee advisor to help navigate your issues. Believe in yourself because you absolutely can do this!

Success is usually about focusing on ONE thing at a time and keeping it all simple. Breaking down the dozens of possible tasks into a handful of groups, learning about each task, and just focusing on the ones that fit your needs gives you a starting point. Those five groups are:

1. **Get legal docs in order**
2. **Six letters, begins with 'B' – Budget**
3. **Grow a Parachute / emergency savings fund and basic investing**
4. **Just Say No to debt**
5. **Invest in Yourself – education, finances, experiences, life**

What follows is about gaining your Financial Freedom – now, in the near future, and if you ever choose to retire, then, too. Are there shortcuts? Not really – this is work - except where you can **automate** your money life as much as possible for saving, investing, and paying bills. This bears repeating: each person's financial journey is unique. However, the short version might go something like this:

1. Every adult should consider a **Will**, **Living Will**, **POA** for **Legal** & **Medical**, maybe a Revocable Living Trust.
2. Know your Cash Flow and Balance statements (Budget and Net Worth).
3. Check credit reports at www.annualcreditreport.com, consider freezing them at the reporting agencies.
4. Begin and build a 3-12mo budget emergency/parachute fund (I-bonds, HYSA, CD Ladder or all three).
5. Contribute to any employer retirement plan that offers matching $, up to the match, 401(k)/403/457/TSP.
6. Healthcare: fund and invest an HSA account if a HSA-qualified HDHP insurance package is a good fit.
7. Tackle any debt (while simultaneously contributing to the above HSA, emergency fund and retirement match).
8. Max out any personal Roth IRA if qualified.
9. With anything left over, live happy (*vacation, travel, spoil family & friends, chase a dream, give to a cause, save for school, pay down mortgage, increase that 401/403/457/TSP, invest elsewhere, buy real estate, start a business, buy a toy, relax*). Find your peace.

The rest of this note goes into more detail of the above steps, a suggested starter list for most folks.

What's Ahead...

Step 1). Get legal docs in order

This is for your family -- if you are medically incapacitated or dead, it won't matter to you, right? However, your family will have enough of a nightmare on their hands without dealing with someone else controlling your life support or estate. Do these four items ASAP: write a **WILL**, a **LIVING WILL** (advance healthcare directive – share a copy with your doctor), financial and legal **POWER OF ATTORNEY**, and **HEALTH CARE PROXY** (medical power of attorney). How? Use free library books. Visit nolo.com or suzeorman.com - style websites. Credit unions, professional memberships, and employee benefits often offer free/low-cost consultations. Or visit an estate planning lawyer. All in order of increasing cost.

Please don't assume that the DIY options are appropriate for anything other than the simplest of situations. Every state (and country) is different on how they handle legal interpretations of documents. If in doubt, hire competent legal counsel to review your paperwork and circumstance. Cost can vary from several hundred to thousands.

All estates (that's you) should explore the value of a **Revocable Living Trust** and if it is appropriate for your planning. Assets transfer to heirs much faster, privately, without court probate interference. Learn about Probate here: **8 Ways to Avoid Probate** (Randolph, NOLO). For very little money and a few minutes with a notary (*sign with a Notary!*), these documents are invaluable, but not mandatory. Have more complex needs? Interview a few estate planning attorneys. Extra elements such as **Special Needs Trusts** and **ABLE Accounts** may be worth exploring. Have you considered being an organ donor? In many states, you can sign up for free the next time you renew your driver's license.

One option for collecting paperwork: **Get it together - organize your records so your family won't have to** (Cullin, NOLO)

OK – so this is placed as the '*first step*', but before you rush out and complete this task, please read over the rest of this short note. What follows will help tally the assets and items you should include in your paperwork. Any worthwhile flat-fee certified financial planner or estate attorney is going to ask for the details, so you'll already have your homework completed. *Note – if any of the vocabulary is unfamiliar, please don't be nervous. Take the time to look up and understand what these terms mean – no one is born knowing this stuff. Be patient, it's unfamiliar turf at first. Everyone's financial journey means learning in unexpected ways.*

Step 2). Six letters, begins with 'B'

Do you have a handle on the comings and goings of your money? Yes,, I'm talking about a **Budget**. Wait… before you throw this note in the trash, hear me out. So… budget. Here's the thing. Below, I'm going to suggest some tools and methods of how to build a REAL budget. Are you going to stick to it? No. Most of us will flesh out 'plans' and in a few weeks or months understandably set them aside or ignore them like the latest fad diet. And that's OK. It's not human nature to stick to a budget – for most folks. But you CANNOT figure out how to navigate a better future if you don't know where you are. Yet, we might be able to make some decisions and build some automation or habits that DO get us closer to our goals. THAT is why we need to know where we are now. So – just once – find a way to look at your numbers. We just won't call it a budget.

Use a notebook or software tool like **Empower.com's Personal Dashboard** (formerly **Personal Capital)**, **Quicken**, **Banktivity**, **Gnucash**, or a spreadsheet (**LibreOffice**, **OpenOffice** and **Numbers** are free) to enter in ALL of your assets and liabilities (build a *Balance Sheet*). Now you know your *Net Worth* – the place to start with your financial plan. Next, track ALL income and ALL expenses (build a *Cash Flow Statement*). Update the data weekly or monthly. If you aren't the only adult in the household (and value your relationships), do this with your spouse/partner or at least gather their input. Make it a **Money Date** – this affects the whole household. It shouldn't be stressful or judgmental – you are a team and for a successful growing relationship, be a team.

Are you thinking, 'That's insane – every receipt, every transaction – for just how long?' You may only need a month, or 3 or more for establishing what you take home and spend. Ouch, that's painful to write. Luckily above tools like Empower or many credit card online portals now dig into purchase records to categorize your spend. Think about it: whether you put everything in a shoebox and run your accounting once a month, or utilize online tools to harvest the data from your accounts instantly, somehow a real picture of cash flow has to be built. Include your taxes. If the Cash Flow Statement shows a loss at the end of the month, one MUST find a way to change the lifestyle for more income and/or less spending until a balanced budget is achieved. Uncover these two numbers: how much you took home in a year, and how much you spent in a year. Worth repeating: financial freedom is simple: **spend less than you take home, invest the rest wisely**. You don't know what you don't know until you run honest numbers.

Reality check here – once you've bothered to break down all of your spending, and held that mirror up to yourself honestly; you'll find it's not hard estimating numbers into the future. You'll discover the changes needed in your habits to move ahead. A shortcut to this method is to look at last year's income and spending from taxes and bills. That old tax return displays real income. Many credit card companies offer category breakdowns on spending in their statements. Also mentioned above is PersonalCapital at Empower.com – one of many online tools for tallying your financial life. Temporarily allowing these tools access to your credit card online portals will quickly build a map of your spending, as well as allow you to manually enter in your assets for a concise picture of your financial health. If you don't trust online tools (data breaches do happen), change your passwords at your financial portals to something temporary, then allow the online tool to harvest the current data as a point in time, then go back and change the portal passwords back to something secure. This would be a quick safe starting point, or build your own spreadsheet or use personal accounting software and keep your info private.

What you gain from this exercise isn't magically the discipline to govern all of your dollars, but to see where they are coming and going. How you choose to use (or ignore) this data is up to you. Maybe you will find reshuffling your emergency fund/savings payments, retirement contributions, and CC payoffs to the top of the heap (automating all of those) and playing with the rest after the rent/food is paid.

Step 3). Grow a Parachute / emergency savings fund

Hmmm, what does that look like? It is savings built up to cover maybe three-to-12 months of expenses in a safe FDIC-insured account. Are you're thinking, "that's crazy, how am I going to squirrel away that much?" You can – step by step, month by month, it'll grow. Shop for decent banking: Credit unions or online banks like Ally.com, USAA and alike usually offer better account options -- seek higher interest rates for interest-bearing savings, money market and checking accounts with no fees. Always select a FDIC-insured account to remove risk to the emergency fund. Set up an automatic transfer or payment into this fund every payday, even if only $50 or $100/mo. Treat this as the first mandatory expense, where YOU pay YOURSELF first.

In short order, a savings cushion is building up. Do you want to seek higher interest options while still keeping the money available for emergencies? A common way is to using a '**CD Ladder**'. Certificate of Deposit Ladders work as follows: open a CD account (FDIC-insured) with a credit union or bank for a set amount of money and commit that cash into the account for a set number of months. Generally, the longer the bank holds the money, the higher the interest rate they pay, e.g. a 60-month CD. Let any interest earned compound with the CD. At the end of the CD time period (maturity), the principal and interest earned is returned to your emergency account or automatically renewed at the then-current rate.

But, you say, inflation is very real. Indeed. This fund isn't trying to beat inflation. However; another option for individual purchase or laddering is the **I-bond Ladder** via the US Treasury I-bond. These savings bonds pay interest that is adjusted to be at or above the inflation rate every six months. I-bonds have more stringent restrictions on the first year of ownership and maximum purchases per year than CDs, but otherwise work in a similar fashion. Individuals, businesses, and trusts may all buy up to $10k/year via the online portal, TreasuryDirect.gov. Benefits and limitations of I-bonds: Up to $10k may be purchased during the calendar year for individuals, businesses, and trust entities. (If one has a small business and a revocable living trust, that translates into up to $30k/yr (3x$10k) may be invested.) Bonds are 30-yr notes that must be held at least one full year, and if prematurely redeemed within the first five years, a 3-month interest surrender penalty is applied. Interest is compounded, with rates adjusted every 6 months. Interest is tax-free at the local/state level. If earned interest is applied for educational expenses, federal taxes are waived.

What to do when a CD (or I-bond) matures? If the emergency fund is still building toward your goal, sweep the cash from the matured CD/bond together with some additional money out of the emergency savings account to open a fresh larger $ amount 60mo CD or I-bond. Or, just renew the CD.

Hold up – my money is locked up in this CD until it matures? What if I have, like, an emergency? Don't worry – CDs are not really locked up completely. If an emergency pops up requiring more than the cash presently in the emergency account, one can cash a CD out early with only a minor interest penalty. This is a lot like the i-Bonds above. Psychologically, it's a bit harder to get at, so you are less likely to break a CD for trivial wants. I'm repeating myself here: The emergency account + these CDs act as a buffer when life's surprises hit. If you have a car repair or lose your job, this fund protects you from taking a loan out or avoiding credit card debt just to buy food or keep a roof overhead. When to do this? Now. Build this up even while you pay off your debts (see next step, #4). Why not pay of debt first? Read on.

Step 4). Just Say No to debt

Debt is slavery. *Time is the MOST valuable currency - and it is spent whether used wisely or not.* Money represents hours of your life traded to earn dollars. The purchase made today on credit will cost more than the sticker price because of debt interest and you have to pay it with after-tax money. Add up the original cost plus ALL of the interest charged until the debt is paid off. This is the Total Cost of Debt (TOD) of any credit purchase. That indebtedness today means you commit tomorrow (or many tomorrows) hours of your labor. The TOD = x future hours of your life promised to yesterday's purchase, which now owns you until it is paid off.

With that said, it may seem more important to kill off all debt *before* building the emergency fund (step #3). On both an emotional and behavioral level, probably not – there's an advantage in building the emergency fund *while* paying down debt. Having a savings safety net protects from life's surprise bills. With a buffer of safe money, one's less likely to go deeper in debt for an untimely car repair; or if you're made redundant at your job, you aren't buying food and paying rent on credit. Building an emergency parachute fund while chipping away at debt yields peace of mind & stress reduction. Here again, you are building a beneficial habit.

With the Balance Sheet worked up in **Step #2**, you've documented each debt, balance, account fees, minimum payment required and interest rate. When it comes to savings and investing, the object is to increase your wealth as the value of your holdings grow – POSITIVE gains. But before you get there, the balance sheet should now have listed all of your money obligations. If you owe on anything, it's time to look at that debt with self-honesty and clear eyes. View debt interest as a NEGATIVE gain – and wise investors avoid losing money and negative gains whenever possible. You are now more knowledgeable than you were five pages ago – so you are a wise investor. Work to kill off the worst offender, that highest interest rate debt, first. One winning method: for every billing statement on every debt, pay off all new expenses that month + minimum due + interest. Doing this keeps the debt from growing any larger and starts to shrink it immediately.

What can help deflate the debt faster? Attacking the account with the highest interest and fees: Pay more against its principal every chance. Late payments on any bill must be avoided (*no late fees, ever again!)* and protect or improve your credit rating (FICO). Don't float the check – mail the payment as soon as the bill arrives or preferably **set up an automatic online payment** to avoid forgetting. Automating savings/investing contributions and bill payments greatly simplifies wealth building. Once an account is fully paid off, never fall behind on it again. This is the 'debt avalanche' method – one of several approaches to kill debt. If you are in real credit card debt trouble, call the card issuers and explain: you are in trouble; you want to pay the debts but you need help; do they offer a hardship program to assist? Be proactive and CALL THEM. This article has additional insight: https://www.nerdwallet.com/article/credit-cards/what-is-a-credit-card-hardship-program .

Does an account have annual or membership fees? Is there a reason to keep it, for instance, do you use the rewards points for necessary purchases in your life that are of much greater value than the annual fee? Pay it off completely, wait until your balance shows $0 owed, then decide if you should call the bank or company to request account closure. Be firm if they pressure to retain the account; ask the lender mark the account **'*Closed at consumer's request*'**, and request a written confirmation for your records. Double-check status when reviewing your free annual credit report every year: *http://www.AnnualCreditReport.com*.

Do you need credit cards in your life? If they are too tempting and you cannot pay the statement amount in full every time on time, get rid of them completely. On the other hand, if temptation isn't a problem, then just how many do you need? Perhaps one to 3, as having more than one card offers a safety net in case your main card is stolen or compromised. While the replacement card is on its way, there is a back up.

Consider keeping the card(s) with no fees, best rewards (cash-back) and the longest history, as longer credit histories positively affect FICO scores. Closing out unused accounts may temporarily affect a credit rating or FICO depending longevity of closed account, on one's balances and total credit available (utilization), but the pros of closing unused cards usually outweigh the cons. Fewer cards to track equals fewer accounts that can be as source of fraud. Fewer accounts means less paperwork, fewer spending temptations or missed payments, fewer risks from some company having a security breach and YOU suffer credit or identity theft. That FICO credit score will recover with a track record of on-time payments and lessening debt.

For each card you elect to keep, be sure to use them periodically. Simple recurrent charges such as a utility bill or subscription will keep one card active. Using another for needs (gas, groceries, etc.) precludes having to carry cash. Automating payments as mentioned above keeps all cards paid off on time, too.

[Research the effect of closing accounts on your FICO if you may need to apply for an upcoming mortgage or loan. Strategies to optimize a FICO: No missed/late payments over past 7 years = 35% of a FICO score. Minimize total utilization (ratio of total balance owed to total credit limit) = 30%. Keep the oldest fee-free credit card account open (even if it lives in a firesafe and is only used once a year) – the average age of one's credit history is 15%. Other factors affecting FICO: having a mix of credit types such as installment loans and revolving credit accounts = 10%; minimize hard inquiries any given 12 months = 10%. Freeze credit and annually review credit reports.]

When toxic debts are paid off, shift some of their budget allocation (what you earmarked to pay off debt) to a mix of your long-term investments, emergency fund, and perhaps a fun-money account. Avoiding the temptation to open new ways to get into debt is one of the habits you are trying to develop, but what if you really need a new credit account? Seek a fee-free replacement option that pays bonus points in cash, such as Discover.

Is there any time debt is 'good'? Emotionally, probably not. However, if the debt is your mortgage for a roof over your head and the loan interest rate is near or below inflation, that *could* be good debt. It depends on if you can afford the house, the mortgage is 1/3 or less than your take-home cash flow, and it's not a depreciating asset. Cars and most other items we buy in life depreciate in worth from the day we buy them. Carrying debt on these items is paying interest on a dying value. It's better to avoid such debt and interest where possible. This is partly why buying a car or whatever with cash is usually the best option.

However, even that isn't always true. We can apply the HYSA Sniff-test to see if financing a purchase for an item makes financing it more palatable. The Sniff-test goes like this: a HYSA (High Yield Savings Account, e.g. Ally.com's savings account) pays a certain interest rate that floats with the Fed rate. If the Debt interest % is greater than the combination of the HYSA interest rate minus your marginal income tax rates for that earned HYSA interest, then the Debt Interest is painful and needs to be paid off ASAP. Otherwise, this is profitable leverage: your savings account is making more money than the debt is costing you. **Sniff-test = Debt Interest % > HYSA after-tax interest earnings %? True = pay off debt fast. False = pay minimum due on debt on time.**

Playing this 'spread' isn't an excuse to carry debt, mind you. Many aspects of this simplistic logic can go sideways:

- the Fed can lower their rate, with a cascading lowering of HYSA (hence why long-term CD ladders are a better place to park cash with a fixed interest rate);
- you can lose a job, but you are still obligated to pay that debt on time;
- you can lose the purchase item (car wreck, theft, day-to-day damage, depreciation and decay) but you still have the loan;
- carrying debt can lower your FICO if you need to shop another loan (e.g, for a house purchase);
- emotionally you know you are still beholding to the loan obligation – background stress.

No debt is still the best debt.

If you have your credit reports frozen, opening any new account will require a temporary unfreezing BEFORE you apply. And yes, everyone should freeze their credit reports as a layer of insurance against identity theft. Note that some credit reporting agency websites make it challenging to start or temporarily thaw a freeze. One may need to navigate through a maze of ads for unnecessary paid services or upgrades beyond the free accounts. Confusingly similar language for credit 'insurance', 'protection', 'upgrading membership', 'locking credit files' and such are NOT a freeze. Freezing is required by law to be free – but hunting for the right page to manage a freeze may be an adventure.

Other tools to protect from identity theft is to use free notifications for bank activity from the various institutions via text and/or email. Two-factor authentication (2FA) is a terrific, if sometimes annoying, additional layer of protection when accessing online resources. Delivery services such as USPS Informed Delivery, FedEx Delivery Notifications, and UPS My Choice will give a heads-up that something physical is on its way to you.

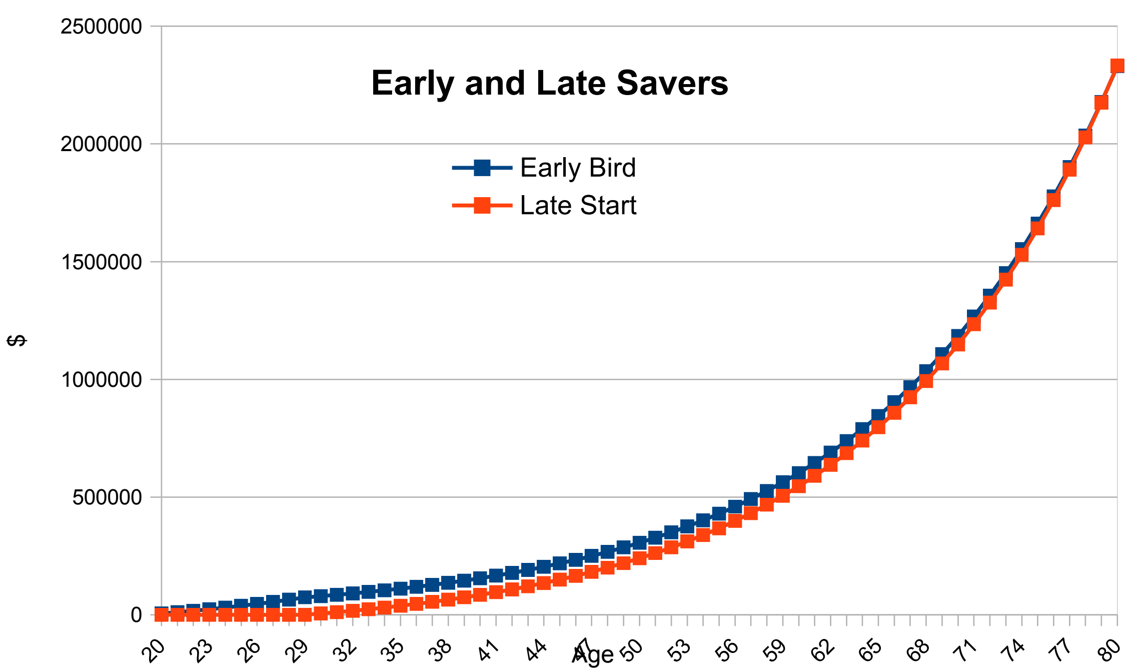
Oh – don't forget to live a little bit today (fun-money saved for vacation, family treats, something personally gratifying). Debt reduction isn't a punishment, it's liberation and succeeding at it deserves sensible celebration.

Step 5). Invest in Yourself

Now comes the fun part – wealth building. Work up a written plan of your goals and aspirations. Be it simple or complex, build a roadmap of what might be called a financial action plan (FAP) or an investment policy statement (IPS). Outline your goals, using your balance and cash flow statements to define desired investments, asset allocations, and spending. Just like the balance and cashflow statements, refer to this any time you need to focus or reassure yourself -- this is important to your peace of mind. This is NOT about retirement. Maybe you'll never 'retire' – many get great satisfaction from working. Financial sanity is about developing financial independence sooner rather than later. There is so much more to your life, goals, dreams, happiness and aspirations than retirement planning – executing a plan will get you where you want to be much sooner.

So when do you start saving and investing? Maybe a few years out of school, once some of those wild oats have been sown? How about after you land that dream job or after you marry? When you can 'afford' it after the kids go off on their own, or the house is paid off? Tomorrow, because today is too busy? Hmmm, do you see the problem? All of those rationals hurt you – all delay until later what should have started today. We are human – and prone to procrastinate or forget (at least, this author). Waiting denies the power of time compounding, be it compound interest or compounding investment gains – the math of compounding is THE exceptionally powerful tool to build wealth via saving and investing. It requires one thing: *time*. Just how powerful is compounding?

Here's a story: Two young adults, age 20, work at the same job, earning the same wages. Each will budget $5000 extra to spend or invest every year. The first year, Ms. Early Bird decides to invest her $5000 in a Roth, choosing a whole-market Exchange-Traded Fund (ETF) averaging 7% gains annually. Mr. Late Start elects to party with his $5000. The next year, this repeats: Ms. Bird reinvesting dividends & gains to compound and Mr. Start has a really good time. After a decade they are both 30, Ms. Bird stops additional contributions. Mr. Start decides it is time to start by opening a Roth, and using the same ETF and contributions of $5000 per year, compounding exactly like Ms. Bird, each year. Ask yourself: how long will it be before Mr. Start's account catches up to Ms. Bird's holdings?



Some more details: Neither Bird nor Start make any withdrawals and both are in exactly the same investment. Mr. Start continues to add in $5000 EVERY YEAR, not stopping after ten years like she did, until his total value has caught Ms. Bird's. With a calculator or a spreadsheet, the answer is: when they are both 80 years old. A lifetime.

The power of compounding: The early bird and the late starter invest in the same products (a Total Stock Market ETF like VTI, gaining 7% annually after inflation with a very small passive *Expense Ratio* or fee), and each year that they choose to invest, it is the same amount. Ms. Early Bird starts a decade earlier and only invests for ten years ($50k total). Mr. Late Start only begins to invest at that point, and he'll continue to add investment principal each year until he catches her. However, he takes ***50 years and $255k to do it!*** Even with the additional $205,000 invested, due to the power of time compounding, the late starter doesn't catch the early bird until 60 years after the start of this experiment. At 80, with only simple annual compounding, their accounts are worth ~$2.3million. Yes, catching up takes Mr. Start an entire lifetime.

Is this enough money to live on in your golden years? $2.3 million is certainly a lot of money now. But will it mean the same in six decades? Looking back, adjusted for inflation, $2.3mil today is the same as $245,422.34 sixty years ago. *Many financial self-help resources suggest saving at least 15% of one's salary to 'have enough' for the so-called retirement years.* Because compounding effects are so closely-tied to starting time and power curves respond most to early values, it's wiser to push harder during the first decade or two, trying for up to a 20% or more savings/investing rate if possible. As with many things in life, having a bit too much is often an easier problem to solve than too little. **Supersizing that future nest egg will only happen IF you start now**.

Fun facts: (1) If Early Bird kept adding her $5k principal annually the entire time, at 80 years of age she'd have $4.6mil for her dedication! (2) Late Start still managed $2.3mil **because he STARTED**. Whatever doesn't get started today won't compound tomorrow. (3) We briefly mentioned each person used a Roth IRA for their investing, so all gains are tax free with this retirement account! More on this Roth tool in a bit. (4) This example used the total stock market data for the estimated 7% annual gains. ETFs such as VTI approximate this collection of equities for the US, and VT for the world as a whole.

Investing isn't quite the set-it-forget-it process it can be made to seem. With every investment tool (retirement, HSA, emergency/cash AND active investing), we weigh what kind of accounts with which we are comfortable and why. We should also work out what our 'exit strategy' should be to sell. Knowing the *why* to buy and sell matters BEFORE committing money. This isn't to suggest one frequently trade stocks (the author knows no successful day-traders; they may exist, but most self-proclaimed 'successful' day-traders are reluctant to show the accounting records to prove it). Rather, determine when it would be appropriate to sell a long-term holding and why.

But you KNOW you can do better in the market, right? You have a strategy. You see trends or patterns. You KNOW what will be hot items or companies. Um, maybe. Maybe not. Do you think with your research, you know something the Wall Street people magically don't? Personally, I am no longer cocky enough to think I can predict the next great thing. I have learned – the hard way – that I don't know more than the professionals. I've also learned, in a much easier way, that a set-it-and-forget-it method tends to do BETTER than day trading or market timing – and it beats most professionals, too. There's a phrase sometimes attributed to Warren Buffet, '*Time in the Market is better than Timing the Market*'. In simple terms – don't try to beat the Market, just BE the market and let the power of ROI compounding over time do the work for you.

HSA – Health Savings Account

Is there a high-deductible healthcare/**HDHP** insurance option available to you? If so, determine if HDHP coverage is sufficient to meet the needs of you and your family. There are several major pluses to using HDHPs with qualifying HSAs: (1) HDHP premiums usually cost a lot less per paycheck. (2) HSA contributions *and* earnings may be used tax-free for all qualified medical expenses – for life. (3) HSA annual contributions are fully tax-deductible, irrespective of whether you itemize or not. The IRS sets a maximum annual contribution based on your age and family status – refer to their current rules listing. HSAs can be savings accounts with a fixed interest rate; or an investment account, invested in index funds, stocks, bonds, etc. with potentially far better long-term gains. Until you are 65, there are limitations as to what HSA money may be spent on without having fees or taxes – termed 'qualified medical expenses', including Medicare premiums – so do your homework. (4) Most medical expenses qualify – medical, dental, optical, even mental health can be paid from your HSA funds. (5) At 65, one may use HSA funds for anything you want, but non-medical withdrawals are considered ordinary taxable income (because of the aforementioned tax deduction on contributions). (6) Do not confuse HSA with FSA programs – unspent FSA contributions are forfeited at the end of every year. HSA contributions and earnings are yours for life, and inheritable through your WILL, although there may be different tax rules depending on the circumstances. If you don't like the HDHP concept, what other healthcare insurance would you choose? Going without may seem attractive; but until we have a better system, needing medical care without insurance in the US can be VERY expensive. Contribution limits as of this writing in 2025: $4300 individual, $8550 family, $1000 catch up at 55 yrs+.

Some important notes prior to signing up: Not all HDHPs are HSA-qualified. Just having HSA-qualified HDHP insurance doesn't mean some HSA automagically fills with money – you have to open an HSA account, and once opened, fund it each calendar year. Some employers have automatic payroll deductions and even matching contribution plans. There are many banks with dedicated HSA offerings, as well as brokerages such as Fidelity. The rules for HSAs change the year you choose to use Medicare. Study up before pulling the trigger on your Medicare. Oh – one more thing. HSAs are not subject to RMDs (unlike some IRA plans).

IRA/401(k)/403(b)/457/TSP

Are you offered a matching fund IRA at work? Max out the match -- that's free money (and do this at the same time as you build up your emergency parachute) -- a free raise! Do even better and set the contribution amount to grow by one or 2% every year to 15% or MORE. Consider broad fund options that pay well with low fees, like 'target-date' funds or ETFs with wide diversity of stocks/bonds. Pre-tax contributions *lower your income taxes now* because it lowers current taxable income. Your money grows tax-free until you access it. You won't miss the income, and will love that accrued savings later. If dividends are paid, have them reinvested (compounding builds wealth). Note contributions to a 401k, 403b, etc. and any matching contributions from your employer, typically remain YOURS when you leave your employer (this is being 'vested' or having ownership), unless there is a vestment period written into the benefit.

Avoid dipping into these accounts early – taxes and early withdrawal fines can be steep. This is the function of your emergency fund instead. Many plans come with beneficiary settings, too. Whomever you set as your beneficiary often supersedes your Will, so understand and make use of this feature to ease your estate planning. With the exception of a Roth-type accounts, most of these retirement benefit and IRAs fall under RMD (Required Minimum Distribution) rules at a certain age. Over the last few years, the age rule has changed, so do your homework of when and how much must be withdrawn for your financial planning.

New job, resigning, quitting, giving notice, bowing out, made redundant, calling it a day, departing, lighting out, bagging, leaving for greener pastures, retiring, being let go or getting fired? Most plans can be rolled into a new employer's plan, or into other plans such as a personal IRA – ask the new plan trustee (bank) to request the transfer for you. Why would you want to roll over a retirement plan? It depends on what the current trustee will allow. E.g., BigBank is the trustee of your current job at BigBox. When you exit your job, BigBox will no longer contribute to your account – that's obvious as you no longer have a paycheck. However, all this time, BigBox has been paying the annual fees that BigBank charges to 'administer' the account. Now, those annual fees fall to you just to keep the account with BigBank. The fees may only be $20/yr, but it's a fee nonetheless. Unless your new employer has a less-desirable plan, why not move these assets into the new plan? Ask the old trustee what their process is for rolling a 401(k) over to your new employer.

Leave your job and take your money with you

If you are resigning/quitting/retiring/fired/made redundant, consider rolling into a personal IRA with a trustee such as Vanguard or Fidelity. Note: you MUST follow the transfer instructions properly to avoid paying taxes/fees on this transfer process. Expect the old trustee to have at least a 30-day waiting period and modest transfer or withdrawal fees for any account closure. One recent hot topic is the alternative rollover called the Backdoor Roth, a form of rollover from a 401(k)-type employer-sponsored plan. This is one way to transform into a RothIRA. The IRS has specific rules on what kinds of initial accounts can be rolled into another form of account, with a chart here; https://www.irs.gov/pub/irs-tege/rollover_chart.pdf. There's a NerdWallet link later in this document that references ideas on rolling a 401k, or search the web.

Let's dive a little deeper. What to do with an old employer retirement benefit (401k, 403, 457, TSP). You'll need to try to map out when you worked for the employer(s) and where.

Contact the HR department of the old company. They will have the best contact information for the trustee (bank that runs the retirement plan for the company). Write down the phone number, website, mailing address and such – along with any account number and with whom you spoke so you can continue any conversation.

Hopefully the HR people will turn you to useful contacts to call or email. Call or write the trustee (if you can't get the HR folks to do this for you – always delegate where you can). Find the account information, and if there is a web portal, ask or explore if you can retrieve the login credentials to access the account.

When you are employed, the company you work for usually pays the fees involved in opening and contributing to a retirement account. Once you leave the employer, most retirement plans will start to charge the owner of the account (you) an annual fee directly. This is normal, but can be a bummer and expensive, eating away at the wealth within the account.

So there are choices to be made. If you have a trusted financial counselor – consult them BEFORE doing anything.

You could simply cash out the account – take the money and run. This is the worst idea. Why? Because you are robbing your future self by eliminating this nest egg. Even more pain: cashing out a retirement account early means you will pay taxes on all of those contributions PLUS another 10% fine from the IRS. Expensive choice. However, if one is in deep debt charging large (>20%) interest rates, maybe using this cash to remove that huge weight off your plate isn't completely crazy. Especially if you have learned your lessons about debt + money and consumerism slavery – and you are working off that lifestyle hangover. That's up to you.

If you don't have a financial crisis battle going on, then don't cash out. Don't take a check directly. So much better to:

(1) Keep the money in the old account *if* it doesn't charge fees annually just for having them and the investment options offered agree with your financial planning (asset allocations and such).
(2) Request to transfer the old account to the same kind of account with your current employer (401k -> 401k, etc.). Expect some kind of transfer fee charged from the old trustee.
(3) Request to transfer to a new or existing IRA or RothIRA. Don't have an IRA now? Free IRA accounts can be created with Fidelity or Vanguard – so choose one of these good companies, call them, ask to speak to someone to learn how to open a IRA and the instructions on how to request a transfer. Most of these steps are easy – if unfamiliar.

Sometimes, to move an account it is easier to 'go to cash' in the original retirement account. Going to cash is when you sell everything inside the investment account and simply hold cash in that account. It can take a couple of days to a week for the 'sale' of individual investments in the old account before the cash can be transferred. Why is this a good idea? Perhaps the investments the old account used may not be transferable to other companies. Cash is always easily transferrable. If unsure, get a current statement of the old account and share it with the new trustee or investment company – they will tell you if the assets can be easily moved.

Once the assets have moved to the new trustee or investment house, be sure to compare what you had in the old account and the new – did everything transfer properly? Laggards can take a few days or weeks to move over completely. Dividend payments might take a month or more to process. If you went to cash in the old account, invest that portion according to your financial planning.

Is it better to move the old account into the retirement program with your current employer or into an IRA? That depends on what options and costs are involved with the employer plan. Usually leaving in a same-format account is easier – fewer accounts to chase. 401k(old) -> 401k(new) can simplify management. If the current employer has funds that charge a lot (expense ratios or other fees) or lackluster options available for investing (no-name funds that don't historically perform well or match your planning objectives), then maybe going with the IRA is the better choice. Or if you are in a really low tax bracket, conversion into a RothIRA from a 401k might fit your planning.

Note, rolling over from a 401k-type plan into an IRA does not have any tax issues UNLESS you handle the money directly. A trustee-to-trustee transfer is the cleanest method, but sometimes you have to receive a check to forward to the new trustee. That check would be made out something like this: *NewBrokerage FBO your name Rollover IRA*, and have your new brokerage IRA account number on it. You would then forward the check to the address the new brokerage provides (certified delivery is a good idea). Request a confirmation from the new brokerage that the rollover is complete.

If you make a lot of taxable income during the year, you may consider a regular IRA as the best new account for the rollover. If you don't make a lot of money, this might be an opportunity to roll a 401k into a RothIRA instead. Yes, there will be taxes involved, but this is one of the few opportunities where you can build a RothIRA with substantial money. Rollovers from a 401k into a RothIRA (or traditional IRA) do NOT count as a 'contribution' for the tax year of the rollover. You can still contribute up to the allowable limit into a RothIRA.

Another form of roll-over is from a traditional IRA into a RothIRA as a Roth conversion. Consider Roth conversions if the growth of a traditional IRA may create large Required Minimum Distributions (RMDs) once you reach that retirement age. Converting trad-IRAs into Roths may avoid painful taxes on those RMDs if you can also not bump into significantly higher tax brackets in the years the Roth conversions take place. Not only are income taxes affected, but Medicare premiums calculated on income via the IRMMA tax rules (income>$106000 in 2025).
https://www.nerdwallet.com/article/insurance/medicare/what-is-the-medicare-irmaa

As mentioned above – once assets are moved into the new account (current employer retirement account, IRA or RothIRA), invest that money according to your financial plan.

Self-employment thoughts

Are you self-employed or have a side gig? You have a number of self-directed options available. SEP-IRAs, SIMPLE IRA, Solo 401k, traditional IRA, Roth IRA, Defined Benefit Plan. Each have their strengths and weaknesses, depending on your situation. Some have much higher contribution limits, some require any employees of yours to also be covered, some have higher administrative costs and fees. All allow a variety of ways to put money away in tax-advantaged accounts for future needs.

Roth and traditional IRAs

This is the example account from Early Bird / Late Start. Can you add (or max out) contributions to a personal **Roth or traditional IRA** every year if you qualify?

Roths are amazing accounts – investments grow tax-free for life AND withdrawals when the time comes are also tax-free. Additionally, contributions may be withdrawn anytime – no questions by the IRS (although doing so hampers wealth growth). Once the account has been opened for 5 years AND you are at least 59-1/2, earnings can also be withdrawn. Hence, opening a Roth as soon as possible, even if only for a few dollars, starts that countdown clock. Only the gains/earnings cannot be accessed without penalty until one reaches 59-1/2 and the account has seasoned those 5 years. Roths do not have Required Minimum Distributions, or RMDs. If you don't know what a RMD is, learn what this term means and how it may apply to you.

Traditional IRAs grow tax-free as well; however, distributions are taxed at the ordinary rate when the time comes. Traditional IRAs have the same income and contribution constraints as RothIRAs; but they behave a bit more like 401k-type accounts in that they afford a tax-deduction for the year(s) you contribute, lowering taxes in the near-term. Traditional IRAs also come with RMDs and those are taxable when they occur.

What is meant by 'max out'? As you may have guessed, the IRS has some rules. Here are the basics as of this writing in 2024:

- The maximum annual contribution to an IRA is $7000 for those under 50, with an additional $1000 catch-up allowed for those over 50. [Always confirm; rules change.]
- Anyone who has qualified earned income may contribute to their IRA: e.g., babies professionally modeling, kids mowing lawns or octogenarians working at the hardware store.
- Contributions are from NET earned income only (a job, certain military pay, NET earned income from a business or farm). Contributions cannot exceed the MAGI calculated off Fed form 1040 for that year.
- Some forms of 'income' do not qualify, such as non-taxed alimony, disability, social security or unemployment benefits, child support, investment income from securities or rental property.
- One may make too much money to contribute to a Roth or traditional IRA (e.g., Singles making over $146,000; Married filing jointly making over $230,000.)

Most credit unions, online banks and brokers like Ally.com, USAA, eTrade and Vanguard.com offer IRA options for free or with very small expenses. Note *Roth IRAs come in two forms: savings* or *investing accounts* with very different long-term returns. Don't know in what to invest? Find a trusted fiduciary CFP or CFA (a phrase repeated a lot because this author is NOT one). Some of the many options: consider a target-date fund (TDF, e.g., VTTSX), or diversified ETFs (e.g., VTI or VT) with a low expense ratio & fees, or discover Dollar Cost Averaging with DRiP equities - whatever investment vehicles float your boat. Often it is best to keep things simple. How well investments do depend on Net Gains (Total/Gross Gains minus Expense ratios+fees) and total time in market. This is worth repeating: Traditional and Roth IRA earnings and Roth distributions are tax-free for life. Traditional distributions (RMDs) are taxable. Non-working spouses usually also qualify for their own IRA from joint income if filing taxes jointly. Individuals who earn too much to contribute to an IRA (nice problem to have), might explore if a Back Door Roth is appropriate. Please explore IRA rules before contributing to an account – many guidance resources are at the library (free!), online (free!), or with a financial advisor.

Stocks, Bonds, Equities, REITS, & ETFs, oh my

Is there a discount stock program at work? Buying stock at a discount may be instant profit – or let it ride if you believe in the company, roll dividends back in automatically (reinvest with a DRiP option if available) and accrue value. It's a great idea to avoid selling stocks unless you've owned them at least a year to save on taxes. Why? Learn the difference in tax rates for short term *vs* long term capital gains, as any profits or gains made from the sale are taxed very differently depending on whether you 'gambled' for less than a year or 'invested' for longer than a year. Also, for employee stock purchase plans (ESPP), is there tax liability on the discounted percentage when cashed out? Are there holding requirements or other forms the IRS will need once you sell your shares, whether immediately or years later? Research before you need to know.

More generally, investing in equities and fixed-income tools like corporate and municipal bonds is a VERY broad topic. There's more vocabulary to come to understand – what's a 'value' stock vs a 'growth' stock vs a 'penny' stock. Backing up for a moment, always keep in mind a stock share is a shared slice of ownership in a company while a bond is a type of loan that pays interest. It's more helpful to view buying stock shares as buying into the present and future health of a business. Investing in companies isn't about getting RICH but rather about preserving and growing one's WEALTH. Frame your intentions for what you hope to gain from using stock investing tools. Individual companies may grow or shrink (or go under) depending on the cycles of the economy, competence of the management, quality of the products and services, competition and many other factors – nearly all of these completely outside the control of the normal individual investor. With that in mind, most investors seek to limit or minimize their investing risk by diversifying a collection or portfolio of different stocks as widely as possible.

Diversified investing means discovering mutual funds and exchange traded funds (ETFs). While similar in that they are collective pots of different company stocks and/or bonds, they aren't exactly the same investment tools. Mutual funds and ETFS usually have different fees and costs, and different tax advantages. If you don't want to do all of your own homework before investing, hiring a flat-fee financial professional may answer many of these questions, help you develop ideas you may not have considered, or confirm you are doing what is in your best interest. Learn about fiduciary advisors. If you hire counselors or advisors, do they 'sell' mutual funds or other products rather than just advice? How are they paid or make their money for their efforts? Do they get commissions on the front or back end of products they recommend to you? Interview more than one before committing to their services. [Companies such as PersonalCapital.com have free tools for evaluating fees of different investments as well as paid advisory services. Use their free tools in your own research.]

So what happens when the stock market goes down, like in a recession? Yep – there's no 'if' about this – recessions happen. Recessions are the normal pruning and weeding part of economic life. Economies have cycles, and when investment prices are coming down, equity value or net worth goes south with it – but DON'T PANIC, and avoid that emotional 'sell' temptation. Refer back to your personal Financial Action Plan and remind yourself what your goals are – to reason with your emotions. A gambler makes short-term bets whereas an investor is in the market for the long haul. When stocks and bonds are cheaper, continuing contributions buy more shares per dollar. This is the crux of a concept called Dollar Cost Averaging -- most useful when we make uniform periodic contributions to investments.

The stock market is hardly the only paper investment format out there -- learn about Treasury, Municipal or Corporate bonds, long-term Treasury ETFs, REITs and much more.

Alternatives to ‘The Stock Market’

Is saving and investing (like the handful of pages above describe) the only way to grow your wealth? These topics are the easiest to write about, and for folks with a W2 job, they are the low-hanging fruit of what you can do while employed by someone else. Yet there are two other broad categories of work and effort that isn’t a part of this note: *Real Estate Investing* & *Building Your Own Business*. Either of these pursuits can greatly grow your wealth, and sometimes can be chased while working a W2 gig.

Learn about Real Estate investing. Buying, landlording, private lending, fixing-and-flipping and all of its permutations can grow wealth. For the curious, the free online resource called BiggerPockets.com is probably the first place to explore. You can also learn a lot from your local ‘REIA’ group – a Real Estate Investment Association.

Do you want to build your own business? There is NOTHING as hard or satisfying as working for yourself – or a simple side-hustle. Most companies started as someone’s basement or garage project, hobby, or passion.

Traditional Cash Methods

If you don’t ‘trust’ the stock or bond market, you don’t have to. Traditional instruments like **CDs**, **Money Market** accounts, **Savings** and **Checking** accounts all have published interest rates, fees/costs and the protection of FDIC insurance up to $250k cumulative. If these tools net after taxes at least as much as inflation, you aren’t losing. And if they do pay less than inflation, are they paying better than stuffing the cash under your mattress?

Ah, inflation – so you’re nervous investing in the stock market, or REITs, or some of the other ideas above, but you know that inflation is going to eat away at savings *and* FDIC-insured tools like savings or CDs don’t always keep up. Go explore good ol’ US government **Treasury I-Bonds**. These are 30-year bonds [they are state/local tax-exempt, and an early cash out penalty fee decays over time]. Here’s the part you were waiting for -- I-Bond interest rates adjust for inflation twice a year. Every individual in your family, legal trusts, and many businesses, can buy I-Bonds up to an annual limit. Any federal income tax return refund money may also be used to buy I-Bonds. http://www.treasurydirect.gov.

There are several formulas for calculating the future value of an investment. A quick trick is the **Rule of 72**. Here, the formula of Interest Rate x Years = **72** approximates the doubling rate/time of an investment. Use either Interest Rate or Years to solve for this doubling. E.g., an interest rate of 7.2% / **72** = 10 years to double. Another example: to double your investment in 6 years would require a 12% interest rate: **72** / 6 = 12 .

Use the **Future Value equation** to discover how much an investment will be worth. Here, we only needs your starting amount, the interest rate, and the number of years you save/invest. It goes something like this:

Starting Principle x ((1+ Interest rate) ^ Time in years) = **F**uture **V**alue -or- P * ((1+I) ^ T) = **FV**

An initial investment of $**2600** into an account yielding 7% interest over **25** years is **2600*1.07**^{25} **= $14,111**. Note how the initial money is multiplied by 1 + the interest rate as a decimal raised to the exponent of time in years.

Can you be ‘Financially Independent’?

Being ‘FI’ has many definitions: Perhaps enough in savings and investments to live on for a year if you decide to hike the Appalachian Trail or sail the world. Or it may mean having enough passive income from paper investments, rental properties or own business/side-gig to live comfortably until your years are done. That’s up to you. It is all about how much you have or will need to meet your budget successfully. And it requires going back to **Step 2** and being honest with yourself. What will it take for you to achieve your dreams? Another point to ponder about saving and investing: the percentage you contribute for the future roughly tells you how many years you can be financially independent or remain retired comfortably on your current budget. Putting away 5% of your budget means it takes 20 years of work to build 1 year of budgeted living expenses. Contributing 25% means it takes only 4 years to accrue that 1 year of budget independence. Living frugally and saving aggressively improves these numbers much more -- saving 50% means every two years of work buys you one year of freedom! But wait, ‘that doesn’t take into account how much my savings and investing are compounding.’ You’re right! There’s a very good chance you’ll come out even farther ahead of this math. There are people who do this as part of the ‘**FIRE**’ movement – **F**inancial **I**ndependence, **R**etire **E**arly. It may or may not be for you.

When is enough to be comfortable or job-free or ‘retire’? A popular financial rule-of-thumb is called the 4 percent rule. It goes something like this: with a diversified collection of investments in stocks, bonds and other tools, how much can be withdrawn each year without eating into your investment principal? A common number used for this math is 4%. Here’s an example: if you have $250,000 invested and it is earning at least 4%, you can takeout 250,000 x 0.04 = $10,000/yr to live upon -- forever. That doesn’t take into account any other income (Social Security, or you develop a side gig or unretire).

There is a reverse to this rule for planning: the 25x (25 times) rule, to determine how much you will need to meet a certain annual budget. The 25x comes from dividing 1 by 4% (1/0.04=25). If you want $15,000/yr, and your combined investments are earning at least 4%, you’ll want to build your investments up to $15,000 x 25 = $375,000. Can you live on more or less? Adjust the math. Maybe the investments won’t earn 4% -- so use 3% and 33x in your math, or 5% and 20x.

These are not hard/fast rules. Some years may see more expenses and others less. Consider exploring the guardrails concept from Guyton and Klinger. This floats a calculated annual withdrawal by adding inflation and adjusting for up or down markets by 10%. The advantage of using guardrails is to soften the false rigidity of overly simple formulas while still protecting the portfolio. There, easy math gives you goals to achieve.

Explore strategies regarding which investment pots to draw from first in ‘retirement’ and leave others for later, such as drawing from less tax-advantaged accounts before dipping into the more tax-advantaged ones. Read up and use online calculators to help explore the components and variables that affect future predictions. One popular online resource is https://cfiresim.com. The Additional Resources section below has a link or two to help.

Insurance

Do you need disability or life insurance? Maybe. If you have others that depend upon your income, consider what happens to them if you die or become incapacitated and cannot work. A family with small children will need more support in the future than a family without dependents. A spouse or dependent that cannot work has different needs than one that can fend for themselves. Term Life Insurance and Long-term Disability Insurance may be valuable policies to own.   Insurance is 'gambling against yourself' – like a seatbelt; you hope you never need it, but invaluable if you do. Life insurances comes in two main flavors - Term or Whole? Weigh options carefully. Need Home Owners or Renters insurance? What about liability insurance in case your car/boat/motorcycle/airplane hurts someone else? Business insurance, long-term care insurance – there's probably a 'policy' for just about anything. Do the homework.

We've left out one very powerful wealth-building tool, rarely on the radar of discussions like these: **Education**. Examine the average earnings or lifetime earnings of someone who didn't finish grade school compared to a high school/GED graduate, then to a college/trade school graduate, then to grad school/professional graduate. What happens? The earning potentials and wealth rise and rise again with each step. While the piece of paper is an obvious 'achievement', the personal growth, skills learned and sometimes people you meet along the way to earning the achievement is what opens doors to better earnings. Have you looked up what a competent journeyman earns as an electrician, plumber, HVAC, or carpentry vs a Business or STEM degree?   And compare the relative costs to get a degree or certification? It may surprise you.

An earned diploma isn't the only 'education' that can pay off – parlay on-the-job learning into opportunities for advancement and achievement. Along the lines of compound 'money' growth over time, the compounding of abilities and skills grow with formal and informal personal education. A unique value to education is that, unlike all other 'earned assets', it can never be lost or taken away from you. Become more valuable to your current or prospective employer and as a better-informed and more talented citizen. And don't be afraid to ask for more compensation as a valuable employee.

Here's the preachy part (OK, so the whole thing is preachy – sorry about that): By this point, you've worked hard to get your financial house in order – now keep it so by avoiding unnecessary debt in the future. One method: to set up all revolving credit tools to be paid in full on time every time with automatic payments from your personal checking or savings account. You'll still want to review monthly statements to resolve any questions or surprises. With automating your financial life, you'll find less time consumed micromanaging and usually fewer problems.

A gently used or less-fancy car bought with cash savings will cost much less outright and to insure. Depending on the vehicle's age/condition/mileage, consider foregoing comprehensive coverage by saving premiums with just liability. How much to insure is always a very personal decision. Used car depreciation is usually far less than new vehicles. The average new car loses 5-15% of its value just by driving it off the dealer lot. A $15,000 used car loan for 48 months at 9% APR will cost nearly $3000 of interest. That is 16% of the total cost of the purchase lost to interest. These are all after-tax dollars – how many future days of labor goes into just paying that interest the buyer must commit in their work TIME? On the other-hand, a car loan at an APR % below what a CD earns may be well worth considering.   A vanity ride bought with debt means IT owns YOU.

Likewise, replace other toys less often - a cell phone or laptop can have its battery replaced every three years, instead of trading up. Carve unused features from cell plans, cable/satellite/TV packages, clubs and gyms, subscriptions – whatever isn't used or useful, stop buying or paying for it. If you have to pay to store something, do you use those stored items enough to keep them? Or, do they no longer bring you happiness and selling them would simplify your life AND recover some wealth? Resist the cultural spending consumerism if it steals your future away and does not bring lasting joy.

Learn how to pay a little extra against your home mortgage principle every month, saving huge on interest later – if your mortgage interest rate is anywhere close to or exceeds your investment returns. Is it worthwhile to refinance your loan to a lower interest rate? Some professional organizations may offer significant mortgage benefits such as a physician loan program for doctors and pharmacists. Do the math to see where your money will work hardest for you. Prepay on car and other loans, too, if you weren't able to avoid that debt by saving up for the purchase. Study up on the power of compound interest and start saving early. Begin all of these saving habits in your teens or 20s, because compounding over time is your best friend. Missed that window? Start this week - you'll be making your future better now, not tomorrow. Even the most meager salary can build a nice nest egg.

Higher education is expensive

If trade schools or college is a desire for your kids (or you), learn about **529s** or **Coverdells** for helping setting aside funds for future education, and how they vary state to state. Alternatives to these accounts to consider including using a Roth account for college savings, with less restrictions on access to or use of the principle. Can one use a whole-life insurance plan for saving toward tuition self-loans? Stock market adverse? I-bonds are an alternate choice for higher education expenses, as federal tax on the earned interest is waived when used for education. Explore the rules.

Does your employer offer tuition reimbursement for relevant classes? Can the first year or two be spent at an affordable community college for the same basic classes before transferring to a more expensive school (this is a powerful way to save tuition costs for general classes, or enter the Trades)? Many colleges and universities offer free tuition and classes for employees – getting a job at a college and taking classes might mean being on the 'five-year plan' or longer, but graduating debt-free is a terrific reward. Is there a work/study program at the college cafeteria or library or be a dorm RA. Apply for every grant and scholarship you can find. There are many ways to reduce or avoid the sting of college debt and predatory college loans.

Some folks have found creative ways to fund their college by earning scholarships and grants through their own efforts. One story is here: https://www.stackingbenjamins.com/scholarships-college-jocelyn-paonita/ (16 minutes into the podcast).

Alternatively, maybe all that tuition money would be better spent on building one's own business or apprenticing with an expert in your profitable passion for a few years. 529s can also be converted to a RothIRA if the beneficiary doesn't consume all of it (https://www.fidelity.com/learning-center/personal-finance/529-rollover-to-roth).

Make Savings and Investing a game or group sport. Challenge your family to save – compete with them for savings. Make it a game with the kids to save. Kids with qualified income can build a Roth account, too! Lawn-mowing, baby-sitting, whatever their earned income gig, have them put some of their cash into a Roth investment and together watch it grow.

Social Security

The time to learn and start saving and investing is now, because Social Security wasn't intended nor likely to be enough for the golden years: https://www.fool.com/retirement/2018/01/20/heres-the-average-social-security-at-age-62-66-and.aspx (note this link is a bit long-in-the-tooth).

A few thoughts on Social Security - Social Security rules are complex, so learn them before opting in. It is YOUR responsibility to look up the rules and penalties – and these change based on your birth date! Early adoption prior to 67-yrs-old may come with a 25-30% reduction in benefits and even further restrictions with continuing earned income. Deferred adoption offers up to a 24% benefits increase up to 70 years of age. Spouses and minor children may qualify for benefits due a departed earner, including divorced spouses. Social security agents are not allowed by law to offer planning advice, but will address direct questions. It's vital to learn these rules well before executing them. Compare ages: https://www.calculator.net/social-security-calculator.html Determine breakeven point of starting early vs delay: https://www.socialsecurityintelligence.com/calculators/social-security-break-even-calculator/ Also, learn the rules for Medicare and when to sign up for its various parts – plan this out before you are 65.

Every year, you should review your Social Security statement for accuracy. https://www.ssa.gov/myaccount/

Identity Theft – Before it Happens

– and other privacy thoughts -- protect your financial privacy by checking your free credit report from http://AnnualCreditReport.com once a year for accuracy. Freezing your credit stops financial fraud in its tracks for free with the main bureaus: Experian, Equifax, TransUnion. You do **NOT** have to buy any services they will promote - seek out the free options. Here's a good starter article on the process (websites change over time, as such visit the home page to search for the relevant link):

https://www.fool.com/credit-cards/2017/09/14/worried-about-the-equifax-data-breach-heres-how-to.aspx

Equifax direct: https://www.equifax.com/personal/credit-report-services/

Experian direct: https://www.experian.com/freeze/center.html

TransUnion direct: https://www.transunion.com/credit-freeze

Innovis direct: https://www.innovis.com/personal/creditReport

Did you know there are others? Some make instituting a freeze more difficult with additional procedures: ChexSystems (snail mail confirmation), Clarity Services (mail-in forms), Teletrack (imminent acquisition by Equifax as CoreLogic), Credco (another CoreLogic branch).

Additionally, some agencies offer reporting without freezes: Certegy (no current freeze protection).

https://www.thebalance.com/6-small-credit-reporting-agencies-consumers-should-know-about-4210980

Many banks, brokerages and credit card companies offer *free texting and/or emailing notifications when there is activity on an open account*, be it a charge over a certain dollar amount, when a statement is ready, or deposits/payments made. This is a no-brainer for account protection. Most online accounts also support **two-factor authentication (2FA)**, where a code or confirmation email link is sent to a pre-assigned phone or email account. Both of these tools are great ways to monitor and protect financial accounts and assets in real time.

Identity theft can come from strangers or the Internet, but it also comes from family and friends.

BTW, when making check deposits to an account via a teller or ATM, always endorse the check, then add 'FOR DEPOSIT ONLY' beneath the endorsement. When using a mobile app, endorse with 'FOR MOBILE DEPOSIT ONLY' or follow the guidance of your individual app. Doing so protects you if an institution disputes a deposit, claiming such was cashed instead (avoid 'cashing' a check). Mistakes do happen – protect yourself from human error.

Avoid becoming the victim of Identity Theft or Financial Fraud by knowing how scams work. Here are a couple of links that describe common issues that may help:

https://www.fidelity.com/viewpoints/personal-finance/preventing-identity-theft https://www.irs.gov/newsroom/taxpayer-guide-to-identity-theft

https://www.justice.gov/tax/stolen-identity-refund-fraud

Identity Theft – After it Happens.

OK – so you are reading this AFTER you experienced identity theft. What do you do?

1: **CALL THE POLICE** - You're the victim of identity theft, plain and simple, it doesn't matter who did it or what your relationship is to them. They broke the law, now they have to face the consequences of their actions.

2: **Freeze your credit** - You want to make sure it doesn't happen again, take the proactive route of freezing your credit. https://consumer.ftc.gov/articles/what-know-about-credit-freezes-and-fraud-alerts

3: **Review your credit reports** at http://AnnualCreditReport.com If your SSN was used for false IRS submissions, review your filing history https://www.irs.gov/individuals/get-transcript.

4: **Warn anyone else who might be a victim** - This includes family members or anyone else whose social security number might be compromised by the thief.

5: **Take the police report to the credit bureaus -** Give them the report number when you dispute all of the accounts. Most of the time, that will be enough for them to take the accounts off of your credit. It's on the creditors themselves to prove the accounts are legitimately yours and the bureaus aren't going to get in the middle of it. A police report goes a long way in clearing up your credit.

6: **Notifications and MFA -** Many banks, brokerages and credit card companies offer *free texting and/or emailing notifications when there is activity on an open account*, be it a charge over a certain dollar amount, when a statement is ready, or deposits/payments made. This is a no-brainer for account protection. Most online accounts also support **multi-factor authentication (MFA)**, where a code or confirmation email link is sent to a pre-assigned phone or email account. Both of these tools are great ways to monitor and protect financial accounts and assets in real time.

Don't take identity theft lying down, even if it's someone close to you. If you let them get away with it, get ready for 5-10 years of bad credit, collection agencies coming after you, lawsuits, etc.

Lifestyle

Becoming financially stable, secure or independent is determined just as much by what you don't do as how you earn and invest. On the 'savings' side of your budget ledger is how you choose to buy what you buy. Getting a new car? Does it have to be 'new', or will one a couple of years old with a few tens of thousands of miles work just as well for 2/3 of the cost? Driving a new car off the dealer lot depreciates (loses resale value) by 10-20% in that first mile. Is it wiser to let someone else experience that depreciation? Likewise, a new car comes with the highest insurance costs – every year a car ages typically costs less to insure. Avoiding the 'cool' trendy models by buying a reliable vehicle (the fabled *Toyondaru*) pays for themselves in fewer problems over their lifetime.

In a very real sense, your possessions come to own you. The more you have, the more likely you need to maintain or store your 'stuff'. If you don't use your stuff very often (or at all if they live in storage), those possessions are an 'opportunity cost', the money tied up in their purchase and continued ownership (unused or non-useful) is money that isn't working for you through investments or enhancing your life. If you get clothing or nail jobs or boats or toys – anything you buy – that doesn't bring you pleasure in owning or experiencing, ask yourself why purchase it?

Can you stop buying that service or sell your no longer needed possession? Minimalism is a popular idea about reducing what you own or purchase to only what brings you joy. Lifestyle creep, driven by incessant marketing and cultural consumerism, is a very real hinderance to financial stability and wealth building. Establish a balance that suits your personal needs, but be mindful of how you choose to live and its effects on your financial goals.

Lost money

There are government and commercial websites that help find abandoned accounts. You may have money you've forgotten about – so do some research. Using DuckDuckGo.com, Ecosia.org or similar search engines, you may discover these accounts and how to communicate with State or financial firms to make a claim. Spousal or heir benefits may be discovered for family members. Have you forgotten a retirement plan from a previous job? Maybe you've neglected to update your mailing address for statements, or didn't roll it over into your current job's plan or into a personal IRA, or failed to cash it out (this last option falls into the 'bad idea' column). Spouses: don't forget company, military or government benefits. Search each state you've lived in, as most of these searches are State-specific. Here's a North Carolina example: https://www.nc.gov/unclaimed-property-search

One more list idea: a Pre-mortem Checklist

These items are more directly important for your peace-of-mind than financial stewardship. 'Be Prepared' is not just for Boy & Girl Scouts, rather a good motto for anyone. Work up a pre-mortem checklist for things such as:

- What to do if you get into a car accident (are you safe, anyone injured, get out of the way, call police for a report, call insurance – both yours and theirs – for a claim number, take pictures, witness contacts).
- What to do if a baby, toddler or someone else is choking (learn or refresh CPR training)
- What to do if an intruder is breaking into your home
- What to do if you're having a heart attack or stroke (don't delay, get help)
- What to do if your spouse or close family member passes away suddenly

When surprises or disaster strikes, we tend to make suboptimal choices in the heat of the moment. With a pre-mortem checklist, we have help working through processes with instructions created when we were thinking more clearly. Learn and add more items to your list as needed.

Additional resources

The problem with online links is how quickly websites change or die off. Hopefully, some of these are still active for your perusal. Search engines are your friend – use them. And there are many podcasts, blogs, radio talk shows and alike on personal finance. Clark Howard, Suzi Orman, Dave Ramsey and others made empires from financial advice. They aren't always right, but offer ideas to explore. Use a library or search engine or trusted financial advisor – knowledge is power.

Online classes for financial literacy: https://www.khanacademy.org/college-careers-more/personal-finance

Online classes for economics: https://www.khanacademy.org/economics-finance-domain/core-finance

Credit reports are free: https://www.annualcreditreport.com/ And freeze those reports for free:

Equifax direct: https://www.equifax.com/personal/credit-report-services/

Experian direct: https://www.experian.com/freeze/center.html

TransUnion direct: https://www.transunion.com/credit-freeze

Innovis direct: Innovis

But won't this adversely affect my credit rating? No, it won't affect your FICO.

https://www.creditkarma.com/advice/i/hard-credit-inquiries-and-soft-credit-inquiries/

Another online profile resource - Review your info at https://consumer.risk.lexisnexis.com/request .

Rebuild really bad credit with a secured card: https://www.thebalance.com/how-to-rebuild-bad-credit-960374

Personal Investment Policy Statements: https://www.thebalance.com/how-to-write-an-investment-policy-statement-357210

Newly fledged from your parents' home or plunging into the 'Real World' from higher education or some military service? For young people, this PDF may be worth reading: https://www.etf.com/docs/IfYouCan.pdf

Calculators for debt-reduction, saving and investing, such as https://www.bankrate.com/calculators.aspx or https://www.bankrate.com/personal-finance/debt/debt-payoff-calculator/ or https://www.calculator.net/debt-payoff-calculator.html

A whole host of calculators - https://www.dinkytown.net/

Simple loan calculator: https://www.creditkarma.com/calculators/loan

Behavior modification is hard – and worth it. Reasoning and rational for lifestyle changes:

http://www.instructables.com/id/21-Ways-to-Spend-Less-and-Save-More-Money/

https://www.moneytalksnews.com/30-tips-to-spend-less-and-save-more/

http://www.bassetsoftware.com/b.cgi/debtinator/docs/index

Legal Doc thoughts: https://www.care.com/c/stories/15471/4-legal-documents-every-adult-needs/

How do I get started investing? https://www.bogleheads.org/wiki/Getting_started/

Roth IRAs rolling over 401k: http://www.investopedia.com/university/retirementplans/rothira/rothira1.asp

https://www.ally.com/do-it-right/banking/what-is-a-roth-ira-why-should-you-have-one/

Trusts: https://www.thebalance.com/pros-and-cons-of-revocable-living-trusts-3505384

401K strategies: http://time.com/money/collection-post/4080269/retirement-investing-advice-any-market/

https://www.nerdwallet.com/blog/investing/401k-rollover-ira-guide/

Should you ever take out a 401k loan? Probably not. https://podcasts.apple.com/us/podcast/optimal-finance-daily-financial-independence-and/id1090822398?i=1000651805912

Employee Stock Purchase Programs (ESPP) – learn the legal, tax and IRS rules: https://www.forbes.com/sites/brucebrumberg/2021/03/23/6-big-tax-return-errors-to-avoid-with-employee-stock-purchase-plans/?sh=33c6bc032a9b

Research banking rates for savings and CDs: https://www.doctorofcredit.com/high-interest-savings-to-get/ or https://www.depositaccounts.com/cd/

Lower income folks may get a Savers Income Credit on their taxes:

https://money.usnews.com/money/retirement/iras/articles/how-to-claim-the-savers-credit

How about filing taxes? Most folks can make use of the free and low-cost programs such as https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free or https://www.freetaxusa.com/index351.jsp or others. Even state filings are often free (depending on your state).

Many localities have property tax programs: https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs

How Target Funds work: https://investor.vanguard.com/mutual-funds/target-retirement/#/mini/overview/1791

CD Ladders: https://www.ally.com/do-it-right/banking/cd-laddering-how-to-build-a-cd-ladder/

https://www.nerdwallet.com/blog/banking/building-perfect-cd-ladder/

Treasury I-bonds: https://www.treasurydirect.gov/indiv/research/indepth/ibonds/res_ibonds.htm

Consider a credit union: https://www.nerdwallet.com/blog/banking/state-employees-credit-union-review/

Portfolio analysis: https://portfoliocharts.com/

Financial Independence calculator: https://ficalc.app/ , https://cfiresim.com and tracking: http://personalcapital.com/

Need a flowchart to navigate your wealth building: https://i.imgur.com/lSoUQr2.png or https://www.reddit.com/r/financialindependence/comments/ecn2hk/fire_flow_chart_version_42/

Talk with others about finance: https://www.reddit.com/r/personalfinance/wiki/index/
and FIRE: https://www.reddit.com/r/financialindependence/ are both filled with fun voices.

ETF analysis: https://www.etf.com/etfanalytics/etf-comparison/

Compounding: http://www.getrichslowly.org/blog/2008/04/02/power-of-compound-interest/

Account takeover fraud is rising fast: How to protect yourself: https://usat.ly/2jDuJ9B

Prefer to automate your investing with a robo-investment tool: M1 Finance, Wealthfront, & Betterment

Robo-advisors and Tax-loss harvesting: https://earlyretirementnow.com/2016/03/25/be-your-own-diy-zero-cost-robo-adviser/

Active investing in taxable accounts: Vanguard, or Fidelity (or many, many others). Be aware of what kinds of investments lead to fees or higher taxes:

https://www.morningstar.com/articles/1077921/which-investments-to-keep-out-of-your-taxable-account/

Understand Compounding: https://www.daveramsey.com/blog/how-teens-can-become-millionaires/

https://www.wikihow.com/Teach-Kids-About-Compound-Interest

https://www.consumerfinance.gov/ask-cfpb/i-want-to-teach-my-11-year-old-about-compound-interest-is-there-an-easy-way-to-illustrate-it-en-1683/

Individual DRiP stock purchases without a broker: https://www.firstshare.com/

Need a healthcare plan? A High-deductible health plan (HDHP) that qualifies for opening and using a Health Savings Account (HSA) investing (or savings) may fit your needs:

https://www.healthcare.gov/glossary/health-savings-account-HSA/

https://personal.vanguard.com/us/whatweoffer/overview/healthsavingsindividuals

https://www.fidelity.com/go/hsa/why-hsa

Qualified medical expenses: https://www.irs.gov/publications/p502

Teach your kids/siblings/students/neighbors/parents how to avoid student loans and other debt:

https://www.savingforcollege.com/article/6-ways-you-can-save-for-college

https://studentloanhero.com/featured/what-happens-to-student-loans-when-you-die/

https://www.alliantcreditunion.org/bank/kids-savings-accounts

https://www.getearlybird.io

https://www.ncsecu.org/LifeStages/FatCat.html

RMD rules: https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs

RMD calculators: https://www.thebalance.com/reputable-rmd-calculators-2388711

Retirement calculators: https://www.retirementsimulation.com/

Inflation: https://westegg.com/inflation/ or https://www.usinflationcalculator.com to offer a few.

Social Security – many solid authors have published on SS strategies, including Emily Guy Birken and Devin Carroll, to name a few. Spousal benefits: https://www.socialsecurityintelligence.com/social-security-spousal-benefits/

Modern Tech to the Rescue?

Is there an app for that? Yes, plenty – both free and low-cost. What if you could get a handle on your financial picture by linking your accounts to a desktop or phone app? What if you could evaluate what you make and spend without hand-entering your data into [Quicken](), [Banktivity]() or a [spreadsheet]()? Hand-entering your data gives you a complete picture – but it takes time.

Want to remove that painful time-eating task, but you are uncomfortable sharing your online log-in credentials to your bank, investment or credit accounts? Here's an idea to solve two tasks at once. A variety of online apps will scrape or harvest your statement and activity data from your online accounts – if you link your accounts. As soon as the account data is collected by your budget/accounting tool, log into that account and update/change your password to something new, never used and unique. (Consider changing passwords to something unique and never previously used every year as a healthy online habit.) In doing this, you've harvested what you wanted to gather, and protected your accounts from future intrusion without your permission.

Some general apps to explore for automating getting the big picture of all of your spending, earnings, investments, fees, budgeting and so-forth:

> **Empower** [http://www.Empower.com] (**Personal Dashboard**, excellent free tools + annual consult).
>
> **Albert** https://albert.com
>
> **You Need A Budget** - YNAB https://www.youneedabudget.com
>
> **Monarch Money** https://www.monarchmoney.com

Do you have all of your financial and legal documents easily accessible in a safe location? Consider storing copies of important legal information (birth certificates, social security cards, passports, vehicle/property titles, other legal docs such as that will), financial company names/contact info/account #s list, and logins or credentials for all accounts, passwords, inventories of valuables for insurance, serial numbers, maybe a video copy of the contents of your home and property, and full recent backups of your electronic resources such as computer data in a secure and fire-proof place (noted in your will or trust documents). Where? A safety deposit box at your credit union, or with your attorney, or a fire safe at home (available from Lowes Home Improvement and other sources) are all solid options. Consider including lists of all recurring bills such as utilities, property taxes and obligations and leave clear instructions as to how and when these things are paid.

Discuss and make your wishes known to those you designate and those closest to you not designated to explain your whys and address questions to avoid hurt feelings.

Are you more of a reader?

There are MANY books that offer insight into gaining your financial sanity. Some of them from the local libraries (read for free) are:

> **The Simple Path to Wealth** by *JL Collins* -- easy to read and put into practice
>
> **Your Money or Your Life** by *Robins* – as much about how one views money as uses it
>
> **The Millionaire Next Door** by *Stanley and Danko* – normal people's traits and habits of FI success
>
> **Building Wealth and Being Happy** by *Graeme Falco* – connecting finance with mental health
>
> **Personal Finance 101** by *Michele Cagan* – easy to read textbook info in bite-sized pieces
>
> **CleverGirl Finance** by *Bola Sokunbi* – a gal's perspective in a male-dominated space.
>
> **I Will Teach You to Be Rich: The Journal** by *Remit Sethi* – a solid workbook of ideas.

What about podcasts and blogsites?

Easy to digest audio, there are dozens of podcasts (and more formal school classes) for free online. It's often worthwhile to start at the earliest available episode of a podcast, as information builds on prior episodes. Don't be afraid to skip an episode or 3 if ten minutes in, it's not grabbing you or the material is dated. A few options in no particular order:

- Optimal Finance Daily – bite-sized nuggets: https://oldpodcast.com/optimal-finance-daily-podcast/
- Stacking Benjamins – a humorous romp through wealth-building: https://www.stackingbenjamins.com/
- Bigger Pockets – the top real estate investor website and podcast: https://www.biggerpockets.com
- Big Picture Retirement - planning for, or living in, retirement… https://www.bigpictureretirement.com/
- ChooseFI – approachable wealth and finance dialog: https://www.choosefi.com/
- Money for the Rest of Us – great for the basics on money: https://moneyfortherestofus.com/
- Mr. Money Mustache – 'financial freedom through badassity': https://www.mrmoneymustache.com/
- Journey to Launch – a gal's journey to FI: https://www.journeytolaunch.com/
- Money with Katie – a lady's perspective: https://podcasts.apple.com/us/podcast/the-money-with-katie-show/id1589146097

Search Apple's iTunes/Podcast App or the Android Stores for more to explore. Each has strengths and weaknesses, and some authors will be more personally appealing than others.

And if you can only learn by video, start with Jim Collins https://www.youtube.com/watch?v=T71ibcZAX3I

The above list is not an endorsement of any author's premise and ideas. The same holds true for the apps, websites and this writer's ideas on priorities.

Let's take a breath and recap

Wow – you've made it this far. A lot of words, links, and such. Surely there's a one-stop formula to solve all of this. Well, no. We started out by saying there is no one perfect recipe to achieve financial sanity. It requires first and foremost behavior and habit changes that can only come from a desire to take control of one's future. All of this material is intended to educate and inform. But we get it -- most of us have parts of our lives on autopilot, and maybe there are some 'autopilot' schemes that could help. Ultimately, every one of us has to decide what we want. Let's craft one of many possible scenarios, and then present a case study following these ideas.

Here's a generic outline as one scenario, set up like a simple decision tree:

If you have legal work complete, skip this step.

> Start fleshing out your **Will**, **Living Will**, **Legal** and **Medical/Healthcare Powers of Attorney**. Also, is a Living Revocable Trust and/or a Special Needs Trust worthwhile? You'll come back to this step once you have catalogued and updated your accounts, assets and resources below.

If you know **how your money comes and goes** every month, skip this step.

> **Build a Balance Sheet** and a **Cash Flow Statement**. Don't overlook budgeting in taxes and annual bills (insurance, property taxes, etc.) in your math. If you do not already have a general use free/ultralow fee **Checking account** <u>FDIC-insured</u>, open one dedicated to all general inflow/outflow needs. If the total income is not greater than total expenses, you MUST change your behavior or your income and your expenses until cash flow at least balanced. The ONLY way to reach Financial Sanity is to have income exceed expenses.

If you have an adequate **Emergency Fund**, skip this step.

> How much money do you need to live on for a year (refer to **Cashflow Statement** above)? Make this your desired target for the Emergency Fund. [E.g., median US income in 2018 was $63k. One half of working Americans make above and one half make below that amount. Do you need $15K?, $50K?, $100K+?]
>
> **Open a high-interest & no-fee Savings/Checking/MoneyMarket <u>FDIC-insured</u> emergency account**, dedicated to the emergency fund. **Set up an automatic deposit** from your paycheck or general use account of $100 or more per month, depending the budget. [E.g., Ally.com Savings is FDIC-insured, interest-bearing and fee-free, supporting automated transfers from other bank accounts.]
>
> Every six or 12 months, use most of the collected balance in the Emergency Fund to open a 60-mo CD. Each purchase in time is a rung on your CD ladder. It takes time to reach the Emergency Fund goal – <u>*getting started is the most important step*</u>. **Automate wherever you can** – make it easier.

If you have **no debt**, skip this step.

> From the **Balance Sheet**, list all debt accounts, noting the current balances, annual or specialty fees, minimum payment required and the interest rates of each. Sort from highest to lowest interest rates. (Hint: visit http://www.annualcreditreport.com and get a current full report from one of the agencies to compare to your open account list.). Now, right now, stop using any credit cards that have a balance you cannot pay off in full by the statement due date. You will NOT use these cards again until they are paid in full on time,

and henceforth, every time. It's also a great time to put a freeze on your reports with Equifax, Experian, TransUnion and ChexSystems (use their free services).

Do you have an account with $0 balance but charges a fee? Is it worth keeping? If so, why? If not, contact the provider company and ask the account be closed at your request.

Add up all minimum monthly payments required. This is the monthly minimum debt burden.

Typically, secured credit accounts such as home mortgages and car loans have lower interest than credit cards. If not, most situations still suggest moving the primary mortgage loan to the bottom of the list. If student loans are listed, usually these should be ranked above mortgages.

Make payments as soon as the bills arrive -- avoid being late on a payment. The account highest in the list should receive extra above the minimum as the monthly budget permits, reducing all other non-debt expenses where possible. Every other debt receives at least its minimum required, on time.

When the top debt item of the list is paid off ($0), decide: should it be kept or closed at your request? Keep only one or a few accounts with no fees, pay cash-back, are accepted where you prefer to buy, and you've had the longest. Continue with this accelerated payment and evaluation scheme for the next debt account in line, until all debt is retired.

Are there exceptions to this rule? Yes. Some examples:

- Is debt interest+fees < interest earned on insured investments (e.g., CD ladder)? Have excess money work for you in the ladder and only pay the minimum due on the debt unless interest rates change and are no longer in your favor.
- Some student loans cannot be dismissed in bankruptcy; hence they should take priority over other debts of the same or lower interest+fees cost. Avoiding bankruptcy if at all possible is one of the many goals here.
- Unmanaged debt will take on a life of its own, with emotional stress that can push one to the breaking point. Contact each debt holder – ask for hardship options to negotiate terms to avoid debt going to collections. If debt is no longer manageable (it isn't going down despite spending less/earning more and working with your lenders), consider debt counseling. https://www.nfcc.org/resources/debt-management-plans/
- If bankruptcy is inevitable in the near future, such non-dismissible loans should be at the top of the payment plan with all dismissible loans receiving only the minimum until bankruptcy occurs.
- Having one or two credit cards that are used for daily living, but paid off in full each month, helps the credit score. Never miss or be late on a payment by automating the payments.

What to do with the rest of your life? With all other budget necessities covered, what's next? Annually, this:

- **Review** your Investment Policy Statement, stating your Goals, Asset Allocation & Spending.
- If an HSA-qualified HDHP health insurance is offered and suits you, max an **HSA** contribution..
- If work has **IRA/401(k)/403(b)/TSP** with a match? Contribute at least to the match, or more.
- Qualify for a **Roth** account? Contribute to the max permitted.
- Does your family need the breadwinners to carry Long-Term Disability insurance?
- Does your family need Term or Whole life insurance for you and your spouse?

Have children? Model the behavior you want them to adopt.

- **Teach** them to budget, spend wisely, and save some of their 'income' – gifts & allowances.

- Minor children with reported earned income can invest in their own custodial **RothIRA**.
- Determine if a **529** educational savings plan or **Coverdell** educational savings account is appropriate. Family members can gift to children's accounts – in lieu of or addition to other giving. **Avoid** all possible student loan debt situations.
- **UGMA** / **UTMA** trust accounts are from the Uniform Gift to Minors Act and Uniform Transfer to Minors Act. These are more flexible than 529s but without the tax advantages.
- A simple brokerage account through Vanguard or Fidelity.

Most schools DO attempt to teach financial literacy, despite what sensational pundits declare. However, we need only recall our own distractions as children to understand the lessons may not land. It's up to us as parents, children of our parents, and family to relay and reinforce useful life skills as we all grow. What might be appropriate ages to learn such skills? Saving (4+), Budgets, Loans, Debt (8), Interest, Credit (8-10), Taxes and Investments (10-12), Stocks (12+), 401k-type (14+), Credit Scores (15+) *(Thanks to endurancefinancialonline.com for age-appropriate suggestions.)*

As for you, what else to do? Perhaps invest even more into – or – outside of traditional 'retirement' accounts?

- Commit more into the **IRA/401(k)/403(b)/TSP** to reduce taxes/take-home pay.
- Invest in more stocks/bonds via low-fee index funds, treasuries, and/or CDs and I-Bonds.
- Invest in Real Estate – rentals, flips, land management (foraging and forestry).
- Start a Business.
- Continue your education.
- Live life – travel, rehab your home, take classes, build a hobby, buy a treat, gift to a charity.

Now what? We've built a scenario. And we've created a bunch of accounts, paid off a number of obligations, and changed our lives around a bit. Crazy as it seems, it is now **time to revisit some of the documents at the very start: your Will, Trust and other legal declarations**. Does anything need updates or revision? Are the accounts or the distribution of assets to your heirs as desired? Were the legal documents written in a way that allows for or contains all of the changes afoot, and yet gives succinct direction to your wishes and desires? Anyone over 18 of sound mind should revisit this exercise every few years. Teach your children, siblings, or your parents. Keep signed/notarized copies in safe place. [Copies in your fire safe, and with your atty or trusted family member outside of your own home.]

Did you know some assets will pass to the **beneficiaries** assigned within those assets, regardless of a Will? Make use of beneficiary assignments in your accounts. The accounts below are examples that supersede a Will:

- Life insurance proceeds will be paid to the named beneficiary.
- Pensions funds, retirement accounts, IRA's, will be payable to the designated beneficiary. If no beneficiary is designated, then the proceeds will be payable to your estate.
- Payable on Death designations will be payable to the designated beneficiary.
- Property owned jointly with Right of Survivorship will pass to the surviving owner.
- Deeds of Title will transfer according to the deed.
- Living Trusts: items will pass according to the terms of the trust document.

And some life events warrant reviewing all legal documents, wills and beneficiary settings:

- Marriage, Separation, or Divorce
- Birth or adoption of a child
- Death of a spouse or beneficiary
- Move to a different state or country

You’ve come this far – it’s a good idea to review all that you have accomplished. If it hasn’t occurred to you yet, many if not most of these exercises should be shared with any Significant Other in your life. Having your spouse or special friend on the same money mindset or financial page as you reduces the potential for relationship drama markedly. That drama is one of the two most likely causes of separation or divorce. Sharing in the financial planning, even if it is initially difficult, will offer a unique window into each other that’s important for achieving shared (and singular) goals. Perhaps you’ll find one budget sufficient, or three (yours, theirs, ‘ours’).

There’s one glaringly missing vital ‘investment’ not covered above, perhaps THE most valuable ante that can pay for itself many times over, usually costs very little, but takes a personal commitment just as difficult as all of the above methods combined. What could be SO valuable, and yet is buried deep here nearly as an afterthought? It’s your **health** and **lifestyle choices**. Seems trite, and yet adopting healthy sleep, nutrition, and exercise habits plays heavily into building wealth. So does nearly every activity – or lack of activity – we do daily. This topic can be expanded into its own little book (and has been many times over). Meditate on what healthy lifestyles cost and save over time – compounding here matters more to your sanity and money than any other metric. What changes might you make in your life that would pay tremendous dividends?

Much to do, take a little time to do it step by step.

A Case Study: Sally gets it together

Sally is single and 26 years old, living in North Carolina. She has a mortgage on a home worth $100,000 that she shares with three roommate tenants who each pay $300/month. She still owes $75,000 on the home and pays $620.12 monthly at 3.5% interest. Her real estate taxes run $200/mo., plus homeowner insurance $83.33/mo. for an approximate total housing bill of $621 mort +$200 escrow tax +$84 escrow insurance -$900 from roommates = $5/month. She puts $100/mo. into a home maintenance slush fund (a savings account) for repairs and surprises. She has $10,000 remaining of a $17,800/10yr student loan from college @ 5% interest, three credit cards (CC1 with $2,400 @ 4% interest [no fees], CC2 with $650 @ 19% interest [no fees], and CC3 with $750 @ 6% interest [$30/yr annual fee]). She has a car loan for $3,000 @ 6% interest with 36 months left on a Toyota worth $6,000.

Sally has no investments, but she has just landed employment that pays $20/hr. before taxes. She spends $600/mo. on food, $150/mo. on gas & maintenance for her car, $50/mo. on her cell phone. She and her roommates split gas/electric/water/internet, paying $50/mo. each. Her new full-time job offers a HDHP (high-deductible health plan) that is HSA-qualified and a 401(k) with equal dollar matching for the first 5%. Sally has credit union savings and checking accounts with small balances, but each account does pay interest with no fees if a meager minimum balance is maintained. Her paycheck is direct-deposited into checking.

In the past, she's been able to mail most bills on time, but forgot one card a year ago that has greatly increased her interest rate (CC2). She also fell into the trap of only making minimum payments while keeping her cards mostly maxed out. In turn, this has hurt her FICO score, not to mention payments are being eaten alive by interest rates.

It's a new day. She'd like unlearn some bad habits, unshackle her slavery to debt and to start the rest of her life.

Sally's first step is to go to the library and borrow the nolo.com books for creating her **basic legal docs**. She recreates the forms on her computer, fills in the details and prints them out. She visits her local Credit Union where she has savings and checking and has the documents notarized. Cost=$0, Time=1 day.

Her second step is to build a **balance sheet**. On the plus side, her mortgage is buying a home worth $100,000, she owns a car worth $6,000, and has $600 in the bank for $106,600 in **assets**. On the down side, she owes $75,000 on the home, $3,000 on the car, $10k in student loans, $3,800 in combined credit card (CC) debt for a total of $91,800 in **liabilities**. Her net worth is $14,800. From here on, she'll keep a record of this in a spreadsheet, finance app or back of a napkin. To make sure she has all of her accounts listed, she visits www.annualcreditreport.com and uses the big three credit agencies to list all of her accounts tied to her social security number for free. She'd tackle any surprises or forgotten accounts listed. She then visits each of these agencies (Experian, TransUnion, and Equifax) to freeze her credit reports for free. If she needs a credit check in the future, she can temporarily unfreeze her accounts through these agencies, at no cost. This helps protect her from financial fraudsters going forward.

Sally's next step is to figure out how her money comes and goes in a **cash flow statement**. She looks over all of her bills, fills two columns with NEEDS and WANTS. Debt and poverty isn't in the WANTS column, so she trims off other things in the WANTS side that does her no good – expensive cell and cable-TV bills, subscriptions and memberships she doesn't NEED, extraneous shopping for 'stuff'. She figures her income from her paycheck. Her day job pays $20/hr x 40 hrs/wk x 4 wks/mo, plus 2 wks paid vacation for an average of $3,333/mo. At work, she signs up for a HDHP (HSA-qualified high-deductible health insurance plan), auto-deducting $44/paycheck or $96/mo. (26 paychecks per year / 12 months). Dental insurance runs $26/paycheck, or $57/mo. Vision coverage is $8/paycheck or $18/mo. Total healthcare insurance runs $171/mo. These are pre-tax deductions from her pay.

Fed&NC income taxes at 2019 rates would take $343/mo, leaving $2819/mo. Note that she adjusts her withholding so that she barely overpays her taxes to keep her tax refund as small as possible, keeping her earnings in her pocket to spend … or save and invest. Her main monthly expenses by line item:

Budget item	Cost/mo.	Balance @ interest rate	Term and interest, fees
• Housing	$5/mo.*	$75000 @ 3.5%	paid in 25yrs (*roommates help), $37640 int, no fee
• Home maint.	$100/mo.		
• Student loan	$189/mo.	$10000 @ 5%, no fee	paid in 5yrs, $1322.74 int, no fee
• CC1	$32/mo .	$2400 @ 4%, int+1%	paid in 7yrs3mo., $366.35 int, no fee
• CC2	$17/mo.	$650 @19%, int+1%	paid in 5yrs1mo., $364.54 int, no fee
• CC3	$15/mo.	$750 @ 6%, int+1%	paid in 4yrs10mo., $115.20 int + $150 annual fees
• Car loan	$91/mo.	$3000 @ 6%, 36mo left	paid in 3yrs, $286 int, no fee
• Food	$600/mo.		
• Car gas/maint.	$150/mo.		
• Utilities	$100/mo.		
• Incidentals	$300/mo.	Clothing, going out, health checkups	

If she kept going as she was living even without using the credit cards again, she'd pay out **$40,244.83** extra in loan interest and fees before all commitments are zeroed out. Her total minimum obligations run $1770/mo., leaving $1049/mo. for her future. Having the basics laid out, Sally now plots out how to balance paying down her debt with building her wealth.

She notes her employer offers a matching 401(k). That's a free raise, so contributing 5% ($166/mo) achieves a like match from her employer AND reduces her taxable income by the same amount (-$29/mo.). $332/mo. is invested in a 2060 Target Date index fund. This leaves $912/mo. ($1049-$166+$29) available.

She has very little savings, virtually nothing to cover unexpected financial needs such as a car breakdown. From her cash flow statement, she knows she needs roughly $21,500/yr to live on. This will ultimately be her emergency parachute fund goal through a combination of dedicated savings and CDs, all FDIC-insured accounts. She opens a savings account with Ally.com that will automatically receive a transfer of $300/mo. from her checking. Once a year, she'll sweep all of the money in the Ally savings into a 60-month CD to maximize its interest. Thus is born her emergency fund. She has $612 left.

Ranking debt to pay off. She ranks her non-mortgage debt by interest rate and what would make her feel good conquering most easily. So while the student loan costs more than CC1, its smaller balance is low-hanging fruit to feel good about making progress. Sally will tackle her harshest obligation first by paying an additional $300 toward the CC2 principal. She would in turn pay down CC3, CC1, the Student loan, then the car loan.

From here on, as soon as a bill comes in, she makes the payment. Late or missed payments do great harm to one's credit rating – even worse, missed payments generate completely avoidable fees and higher interest rates, so Sally now mails payment of the bill as soon as received if it cannot be auto-paid from her checking account. Her bank accounts are all set up to send her an email and text upon any activity, so she knows exactly when a bill is paid or a charge made. When the most severe debt is fully paid off, that debt's extra principal amount is then applied to the next one in line (CC3 in this example). Every on-time payment improves her FICO score.

Do you wonder why she didn't go after the home mortgage after CC2? Some folks look at homes as 'assets'. Perhaps they are more an expensive liability that requires continued upkeep and maintenance (that *may* increase in value or appreciate in the future). The care and feeding of a purchased home is a huge drain on finances, marketed to prospective owners as 'pride of ownership' and 'building equity'. Nonetheless, everyone needs a place to hang their hat, much of the consumables we would buy for a home would be bought for a rental, and some of what we put into a home maintains or even raises its resale value later. This rise in value is called Appreciation. Perhaps we can view it as a combination of investment and liability. Back to ranking debts to pay off: the mortgage is a special case for several reasons. First, mortgage loan interest paid becomes a partial tax deduction. Second, the home (and the car) can be sold off for perhaps all or more than amount of the principal remaining on the loan. These are 'secured loans' – backed by something of value. The credit card loans are not, hence unsecured. Well-kept homes (unlike cars) typically keep or rise in value over time in most markets. And finally, because the home is a long-term investment with an interest rate that is likely to be far below what can be earned in other prudent investment forms, it is not as vital to pay off this mortgage debt ASAP. CC3, then CC1, then Student Loan and then Car is the smart play in this example. Others may find the gratification of shedding that mortgage debt monkey worth pursuing. Sally will include the equity in her home as part of her net worth.

The student loan is also a special case. If bankruptcy was looming in our story, all resources could go toward making timely minimum-only payments to every other loan, and all excess then applied to the principal of the student loan. Why? Student loans often survive bankruptcy, whereas many other debts are likely dismissed by the courts. Sally doesn't plan on bankruptcy, but if it's on the horizon, plowing most of the money into the student loan is her alternative path. This is why she chose to prioritize the Student Loan over the Car – and for me to show some decisions can be arbitrary for anyone.

Sally has a little money left over from all of her expenses and debt reduction budgeting. She could opt to let the excess grow in her checking account for additional buffer, or maybe build toward a vacation or treat, or she could split it into a few other accounts. It's a little early in her plan, so she chooses delayed gratification. She's going to split the remaining $212 three ways:

First, thanks to that HDHP insurance that's HSA-eligible, she's going to open an HSA account with Fidelity. Sally starts with $75/mo. into the savings account. She can invest any future contributions in a whole stock market index fund with very low expense ratios. She's allowed to contribute up to $3750 this year, but until her debt is retired for CC2, CC3, CC1, the student loan and the car, she'll have to make do with the smaller contribution. Developing the habits of building healthy accounts is key.

Second, Sally will open a Roth account at Ally.com. As she already has a savings account and intends on building that CD ladder, having $75/mo. more to begin growing her tax-free Roth investing account is familiar and easy. She can contribute up to $6000 this year to the Roth; however, like the HSA, she'll grow these a bit slower initially – only to accelerate her contributions to both as the debt is retired and work provides raises or she develops side hustles for additional income.

Third, the remaining $62/mo. grows in that credit union savings account as a buffer for life's smaller bumps in the road or adventures. Does that meager amount seem spartan? Remember her goal is not all about money but to live less-stressfully by having financial breathing room. It is the behavior changes and habit-building that matters most. Changing how she lives now and taking charge of the numbers is a natural part of this quest.

How does she do over time? Below is the first year, tabulated by month. She adopts some assumptions: the house and car value remain the same through the year. Investment gains, losses and account interest accrual is not calculated. Debt balance is noted in (negative) values. She's numbered (#) the order she'll pay off debt.

M	Home	Car (#5)	School debt (#4)	CC1 (#3)	CC2 (#1)	CC3 (#2)	Emer fund	401(k)	HSA	Roth	Net worth
	100000	6000									
0	($75000)	($3000)	($10000)	($2400)	($650)	($750)	$0	$0	$0	$0	$14200
1	($74,860)	($2,924)	($9,853)	($2,368)	($333)	($735)	$300	$332	$75	$75	$15709
2	($74,719)	($2,847)	($9,705)	($2,336)	($16)	($720)	$600	$664	$150	$150	$17220
3	($74,578)	($2,770)	($9,557)	($2,304)	$1	($405)	$900	$996	$225	$225	$18732
4	($74,437)	($2,693)	($9,408)	($2,272)		($90)	$1,200	$1,328	$300	$300	$20227
5	($74,296)	($2,615)	($9,258)	($2,015)		$0	$1,500	$1,660	$375	$375	$21725
6	($74,154)	($2,537)	($9,108)	($1,683)			$1,800	$1,992	$450	$450	$23209
7	($74,011)	($2,458)	($8,957)	($1,351)			$2,100	$2,324	$525	$525	$24696
8	($73,868)	($2,379)	($8,806)	($1,019)			$2,400	$2,656	$600	$600	$26183
9	($73,725)	($2,300)	($8,654)	($687)			$2,700	$2,988	$675	$675	$27671
10	($73,581)	($2,220)	($8,501)	($355)			$3,000	$3,320	$750	$750	$29162
11	($73,437)	($2,140)	($8,348)	($23)			$3,300	$3,652	$825	$825	$30653
12	($73,293)	($2,059)	($7,894)				$3,600	$3,984	$900	$900	$32138

We can see the details on what happens: The ugliest debt, CC2, is retired fully in 3 months. An ancillary benefit to this accelerated pay down is the saving of $346 in debt interest not accrued if she had only made the minimum payment. Sally's overall wealth (net worth) grew by $4500 in these 3 months. The additional $300 freed up with the payoff of CC2 is then applied to CC3, with its resulting complete payoff two months later. Noting this CC3 card charges annual fees, Sally contacts the finance company, confirms she has a $0 balance, and asks that the account immediately be '*closed by customer request*.' This dings her FICO score for a couple of months by only a few points. The FICO will resume its rise again quickly with continued on-time payments and improving debt/credit limit ratio status. Month Five has her rolling the $300 toward CC1 results in a complete payoff of this third account before the end of the first year. She's killed off three debts in one year!

If one of the remaining cards offers cash back without fees, or other perks useful to Sally, she might elect to keep the account open. Or, she may find a card with cash rewards and perks, closing cards that offer less or subject her to fees. Let's pretend one of these cards offers cash back on all purchases. She'll keep both CC1 and CC2, using the card with cash-back for all of her daily expenses (and perhaps paying utility bills), but always paying off each statement completely. She'll use the other card once or twice a year to keep the account 'active', so the bank doesn't close it for going dormant too long. With a much better debt-to-credit-limit ratio and perfect full payment going forward, her FICO gains several points or more each month.

In one year, Sally's net worth has risen nearly $18k, her financial life and paperwork has greatly simplified, and she has built up a $5700 healthcare and retirement nest egg with $3600 in the emergency fund, over one month's full expenses. The emergency fund savings account only pays 1.7% compounded interest, so to maximize her return, at the end of the year she sweeps all but $100 into a 60-mo Certificate of Deposit paying 2.2% (a 29% improved yield). She notes her 401(k) is averaging 6% annual gains while her HSA and Roth are averaging 7% each.

Sally now takes some time to assess all she has accomplished. She might review her accounts, perhaps see if her legal documents need to be revised, and check her plan for any adjustments. What happens as she keeps on track from one year to the next?

Year 1 is over. Let's explore the rest of her future:

Month	Home	Car (5)	School debt (4)	Emer fund	401(k)	HSA	Roth	Net worth
(value)	$100,000.00	$6,000.00						
0	($75,000)	($3,000)	($10,000)	$0	$0	$0	$0	$14,200
12	($73,293)	($2,059)	($7,894)	$3,656	$4,203	$958	$958	$32,529
24	($71,526)	($1,060)	($2,395)	$7,409	$8,658	$1,983	$1,983	$51,052
36	($69,695)			$11,245	$13,381	$3,294	$3,439	$67,664
48	($67,800)			$15,165	$18,387	$7,228	$9,113	$88,093
60	($65,837)			$19,171	$23,693	$11,222	$14,702	$108,952
67	($64,425)			$21,693	$27,439	$14,038	$18,598	$123,342
72	($62,394)			$22,170	$30,825	$16,552	$22,162	$129,314
84	($57,469)			$22,658	$36,878	$21,414	$29,544	$153,023
96	($52,470)			$23,156	$43,293	$26,616	$37,266	$177,862
108	($47,392)			$23,666	$50,094	$32,182	$45,352	$203,902
120	($42,234)			$24,186	$57,303	$38,138	$53,828	$231,221
132	($36,994)			$24,718	$64,944	$44,511	$62,721	$259,901
144	($31,667)			$25,262	$73,044	$51,330	$72,060	$290,030
156	($26,251)			$25,818	$81,630	$58,627	$81,877	$321,700
168	($20,742)			$26,386	$90,731	$66,434	$92,204	$355,012
180	($15,138)			$26,966	$100,378	$74,788	$103,078	$390,071
192	($9,435)			$27,560	$110,603	$83,726	$114,536	$426,990
204	($3,630)			$28,166	$121,443	$93,290	$126,620	$465,889
212	$300			$28,166	$124,099	$95,610	$130,620	$478,795

After the first 12 months, Sally's credit cards are paid off in full, so they do not appear in this second table. Although the car loan has a slightly higher interest rate, Sally opts to put the $300/mo. freed up from vanquished CC payments against the student loan first. Why the student loan first? Because the car loan could get washed away in a bankruptcy yet the student loan will always follow her. She has no intention of declaring bankruptcy, but plans for the worst-case scenario prudently. This path pays off a 5-yr student loan in 30 months. The car loan is paid off in full one month later (and we'll depreciate the vehicle to $0 value). Sally has continued her contributions to her emergency fund (buying a 60-mo CD at the end of each year with the swept amount of the fund savings account). She's continued with her 401(k), maximizing the match every paycheck. Sally also continues her contributions to her HSA and Roth accounts; both of which are earning ~7% in their respective investments. With compounding effects, she is now seeing wealth growth accelerate over time from $19k/yr to $21k/yr.

At month 67 when she's barely in her thirties, she has reached her goal of having 12 months of expenses in her Emergency Fund! She has five 60-mo CDs in staggered rotation, allowing that interest to compound, with plans to allow these to organically grow as the years go by. The $300/mo. she was putting into that fund will be split into increased contributions to the HSA, the Roth and the mortgage. The HSA now has $290/mo. going in, approaching her upper permissible annual limit for contributions. The Roth will be bumped from $435/mo. to $500/mo. for maximizing its permitted annual limit. All funds in these investment accounts funnel into quarterly purchases of low-cost broad index funds, effectively dollar-cost-averaging the purchase price. The remaining $235 now will be applied to the house mortgage principal. Sally did the math and realized paying additional to the mortgage would remove 9.5 years off of this last debt. The debt-free bug bites, even if that $235/mo. could go into an active investment account likely earning beyond the mortgage interest rate. For Sally, the peace of mind of being debt free was worth the minor hit to her wealth building. Her net worth crossed into six figures a year before. She's well on her way to being completely debt-free and having a half million dollars before she's 45 years old.

Don't think that can happen for you? We just did the math. With modest amounts, and a bit of a plan and the courage to give it a try, Sally rocked her world. Your decisions will be different. It's the *personal* in personal finance.

[The story is based on 2022 values and rules. Our model ignores many things, including daily compounding, hence using only annual compounding along with conservative rounding of values. Sally's gains would likely be even more impressive, although any investment in the stock market has downside risks. Minimum payment values of closed accounts have been ignored – let's imagine these savings swept into her general checking account. This results in her being wealthier or not having to live as spartanly as presented here. No job promotions, pay raises or bonuses are factored in, no side hustles, not raising the rent on her roommates, and not home value appreciation. Conversely, no marital or parental status changes, vehicle depreciation or replacement, no significant health events, no inflation, nor inheritance or other life events. And yes, the cost of the house is crazy low in the example.]

The takeaway here is – it can be done. The question begs: can you change your status, your situation, your habits, or your perspective? Maybe the numbers will be a bit different. Your circumstance will be unique; however, none of this is beyond anyone's reach. You can do it – map your way.

Quick Financial Ideas

- Know your cash flow and if it isn't positive (+) every year, budget your behavior so it is (spend less than you take home, invest the rest). Know your balance sheet (assets & liabilities). Do this with your spouse or SO - make a Money Date weekly or monthly. Free websites like https://www.empower.com/ [Personal Dashboard] and others can help.

- Work retirement benefits - contribute up to the full match on any employer tax-differed benefit (401/403/427/TSP/etc). It's a free raise in compensation -- with rare exceptions never decline it.

- Health insurance - for many (most?) people, choosing a HDHP plan that allows HSA accounts is sufficient. If it's right for your needs, open and contribute to a HSA *investment* acct up to the max allowed by IRS (2023=$3850/$7750+$1k>55). HSA *savings* accts aren't the worst choice -- but they pay interest<inflation. (The worst choice is no insurance, the second worst choice is too much insurance sold by fear.) If interest rates on debt are > than average gains from HSA investments, allocate more to debt than HSA and/or #7 or #8. Explore options such as Fidelity offers with low fees.

- Start or build an emergency fund through a CD ladder, I-bonds, and high-yield savings/money market account for equal to at least 3-12 months of current budget. Even as little as $100/mo or $1k/yr will snowball substantially over time.

- No debt -- if one is in debt, change habits now to start paying it down every month, no exceptions. If interest rates on debt are > average gains from investments, pay debt before further investing (except for #4 & #5 - do those simultaneously). Set up auto payment in full for each account where possible. Use www.annualcreditreport.com to review all credit accounts, freeze all credit reports with Equifax, Experian, TransUnion and ChexSystems (use their free services). Review your info at https://consumer.risk.lexisnexis.com/request . Set all banking and other financial accounts to txt/email any activity where available (seek out no-fee accounts). Close unneeded accounts; use keepers once every 6 months to show activity. (Do this for your children and your parents, too.)

- Explore RothIRA *investment* accounts, and contribute up to the IRS max allowed (2023=$6500+$1k>50). Same is true for spouse and kids. Yes, kids. Earned income qualifies -- so if they model as a baby for money, file a 1040 every year they 'work' and plow that money into a minor/custodial Roth. Paper route, baby sitting, life guard, flipping burgers? File their taxes (record keeping) every year with them, declare all legit income, as taxes are unlikely but documented earned income all feeds into the Roth. *Read up on what qualifies as earned income and other rules for a Roth*. Diverse low-fee ETFs (e.g., VTI, etc.).

- Self-employed need to discover SEP-IRAs and alike. Investing for additional retirement: Your retirement nest egg is far more important that kids college fund. Why? Going broke getting them through school leaves you, well, broke. That means they are saddled with paying your retirement or letting you rot on social security. They'll have ample opportunity and decades to earn their way through school while you will NOT have decades to make up the lost money.

- College - If you can plan a secure retirement (or old age work schedule that meets your budget), consider a variety of programs for kid's college: I-bonds, 529s, Coverdells all are components for higher ed costs. Teach kids to apply for every scholarship/grant they can find. Go to local community college for first couple of years to earn transferable credits before hitting the $$$ name schools. Work for the college to get free tuition; or work-study programs. Carefully consider WHAT they want to do (the Trades can pay as well as business/science/engineering -- or better especially if the fancier degree comes with $200k in student loan debt that follows them to their grave).

Assuming $100k/child before inflation minimum for the math and an average return of 7% after inflation, 18 years of investing requires ~$3k/yr contributions. Per kid. Remember that Roth you set up for them when they were baby modeling? Guess what they can use the contributions (not earnings) for... And if they don't go to college, all that money can be used for them to start their own business, or start a real estate empire. Or reassign the beneficiary to yourself, your own continuing education, or use it in real estate and other business ventures.

- Complete and notarize legal paperwork if >=18yo - Power of Atty for medical and legal needs, Will, & Living Will, Revocable Living Trust. You can use books from the library, online websites like http://nolo.com or hire estate planning lawyers (in order of costs).

- Invest for fun and profit. And Travel. Read. Hobbies. Love. Live. Oh - and do all this planning with your SO. It's repeated here because being on similar pages regarding money makes for a stronger relationship.

A few final words

No single wealth management or lifestyle program is a fit for all people. Personal finance is just that… personal. Each component requires looking maturely at choices – be it choosing to spend less, work differently, save+invest more and/or live without the level of stress our modern consumerist culture creates. There's also some knowledge (and easy math skills) to gain. Laid out in a short note like this, it might seem really daunting to *know it all*. The thing is, you don't have to know it all at once, or maybe ever. As for what you do need to know, bite off tasks and learning in small manageable chunks – a strategy to use for everything: cash flow/budgeting, debt-be-gone, legal paperwork, long-term planning for 'retirement' accounts, - the list seems long, but just take it one step or one piece of a step at a time. For math concepts, here's a great website for self-paced learning: https://www.ngpf.org/.

If you are not comfortable making these decisions yourself, find a flat-fee financial professional that works as a fiduciary to help fill in the gaps, or discloses all costs up front if a continuing relationship. The minimum expectation should be a professional who reviews your unique situation without 'selling' anything other than their time and advice.

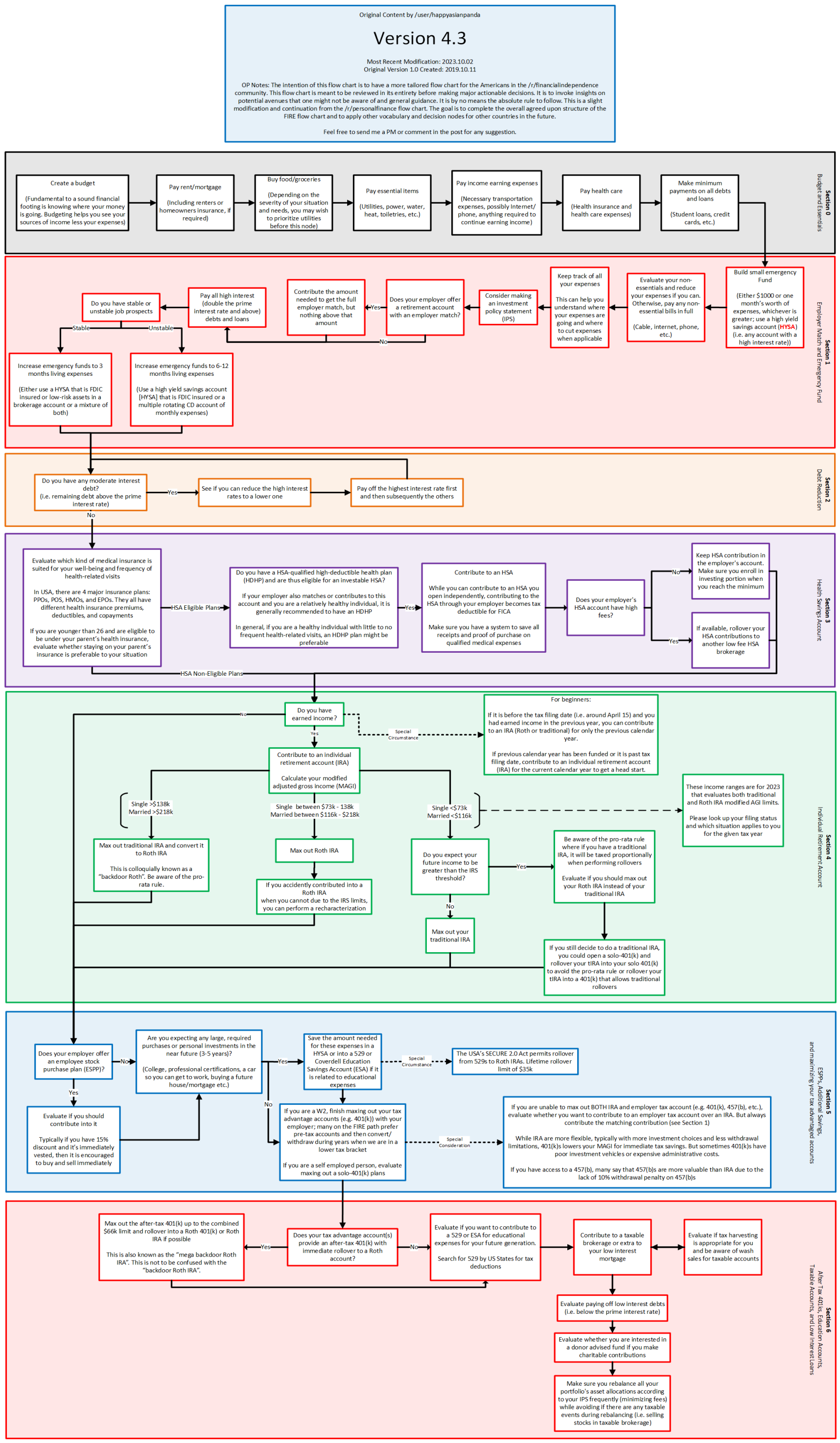
Counter to this is the financial services industry where you hand over the management of your assets to a trained professional. Derided by the DIY investment communities as parasites on your profits, a quality advisor can be a solution to protect you from yourself. Why? Many folks fall victim to the endless news cycles peddling fear and/or greed – they will trade on lack of understanding or pushed into poor decisions by friends, family or late-night TV 'gurus'. A professional advisory firm can act as an emotional safety valve when your feelings get the better of your logic. By offering a perspective based on your goals and not the crisis+fad-of-the-moment, they may be the necessarily calm during the storm to keep you from doing buy/sell/trade self-harm. Yes, third-party wealth management comes with a price, but if your money constitution is too easily swayed, outside help may be the right path.

Where to start? Heck, there's no 'right' answer. Shop around for ideas – but take your time to carefully consider any choices before you sign anything. You can ask family and friends you respect, maybe an advisor at your local credit union, HR department, school counseling office, online resources (never buy into hype - confirm what services are free and what have fees!): **Empower's Personal Dashboard** [http://www.Empower.com] (formerly **Personal Capital**), **Ellevest** [https://www.ellevest.com/], and **Financial Gym** [https://financialgym.com/] are just a few examples; explore more links in the pages below. Details don't excite you? Seeking a financial advisor or manager may be an excellent fit for your circumstances. Trust your instincts – if an advisor doesn't mesh with you, find one who does. This is important: don't 'wait and see' to plan. *Your most important time to save is at the start of your career, not towards the end, so time allows the money to compound.* Go revisit that graph above with Ms. Early Bird and Mr. Late Start. Haven't started yet? Tackling at least one item on your own personal list TODAY will be *much* more profitable than waiting for 'tomorrow'.

Everything above has been written is this author's opinion. *I am not a financial advisor, CFP, CPA, estate attorney or FI professional*. Don't rely on my take – this is NOT intended as actionable financial advice – my opinions here are simply examples for your education and amusement. Some terms and concepts briefly touched upon above may be unfamiliar. Spend time learning about each topic and tool on your own. Some will fit your life, some may not. Most of this note is digested from others whose thoughts resonated with me so I don't claim any originality. Above all else, do your homework and make the best decisions that work for you.

Order-of-operations flowchart

Source: https://www.reddit.com/r/financialindependence/s/p8Q5lErAY7



Example short list for review every year

1) Legal docs done? *Yes?* – Need revision? No -- Great, skip this step.
   No? - complete and notarize this month. [create a Will, Living Will, POA for Legal & Medical]

2) Know your Cash Flow and Balance statements (Budget and Net Worth)? Never skip this step.
   No? Review last year's income/spending. Understand how the money comes and goes.
   Yes? Review last year's income/spending, update as needed.

3) www.annualcreditreport.com -- anything wonky this year? *No?* – ok, skip this step.
   Yes? Close any $0 balance accounts not worth keeping (keep only a card that pays bonus back/no fees, keep oldest no-fee card, ask bank to note 'Closed at consumer request.'

4) Any unsecured debt (credit cards, student loan, car)? *No?* – Fantastic, skip this step.
   Yes? Tally all debt from #2 ($ balance, interest, fees). Pay each account at least minimum req. Pay all bills on time. **Automate when possible**. For the highest interest+fees acct., pay more toward the principal to kill ASAP. Debt Avalanche.

5) Are credit reports frozen? *Yes?* – Nice, skip this step.
   No? Freeze all credit reports with Equifax, Experian, Transunion, ChexSystem (use their free services). Set financial accounts to txt/email activity where available (seek out no-fee accounts).

6) Healthcare: have a HDHP+HSA-qualified account? *No?* – is a HDHP is available and right for you?
   Yes? Excellent. Max out contributions yearly into HSA* Savings or Investing plan.
   $320/mo† ($3850*/yr) individual – or $645/mo. ($7750*/yr) family.
   Over 55 yrs but not on Medicare? +$83.33/mo. ($1000*/yr) catchup. Fully tax deductible!

7) Emergency or 'Parachute' fund: Is there six-twelve months' worth of expenses (see item 2 above) saved up in savings+60mo CD/30yr I-Bond Ladder? *Yes?* Fabulous! Skip this step.
   No? Budget for emergency fund (>=$100/mo† into savings). Annually sweep all savings into CD/I-Bond. Compound interest + mature principal swept into savings account for next one.

8) If your employer offers a 401(k)/403/TSP with matching contributions, contribute at least to the match.

9) If your earned income qualifies, do you have a personal Roth IRA*?
   No? Consider: Tax-advantaged investing accounts help build wealth. Learn more.
   Yes? If it fits your planning, budget for Roth up to $541/mo† ($6.5k/yr*). Invest wisely.

10) Anything left over? *No?* Adjust the budget. Find a way to Spend less + Earn more. *Yes?* Nice! Live happy (vacation, travel, spoil family & friends, chase a dream, give to a cause, save for school, pay down mortgage, up a 401/403/TSP, invest elsewhere, buy real estate, start a business, relax). Find your peace.

(*) IRS Contribution limits change yearly - visit website for timely information. Example based on 2023 rules.
(†) Do what is a best-fit for your situation. E.g.: $962.50 monthly or $11,550/annual will max out contributions for individual HSA + Roth + $1200/yr 60mo CD. Is it better to contribute evenly to each account, or fill the most tax-advantaged first? Or, ease into steps 6, 7, 8, 9 & 10 with smaller monthly amounts? The goal: build healthy habits, **automate contributions**, deposits, reinvestments and payments where possible.

Example Worksheets

Cash Flow (from **Step 2**). Instructions – review the last year (or averaged full month) of all income and spending.

Gross Income	-	Taxes	=	Take Home	-	Expenses (all)	=	Your Future
$	-	$	=	$	-	$	=	$

Debt (from steps 2&4). Instructions - list all debt, include mortgage, car loans, student debt, home equity. Rank

Name	Balance	Interest	Fees	Minimum due	Extra	Rank
	$	%	$	$	$	
	$	%	$	$	$	
	$	%	$	$	$	
	$	%	$	$	$	
	$	%	$	$	$	

HSA funds (from step 6). Instructions – review your annual contributions and expenses. The difference is your annual investment payment. (investment r=0.07, n=1, t=years to active or enrolled Medicare)

Contributions	-	Expenses	=	Savings	Years to Medicare	=	Your Future Value (FV)
						=	=PMT×(((1+r/n)^(nt)-1)÷(r/n))
$	-	$	=	$		=	$

Emergency fund (from step 7). Instructions - list savings / CD ladder assets. Build to reach 1 yr of expenses above.

Name	Balance	Interest	+ Monthly	Annual (x12)
High-Interest Savings	$	%	$	$
Certificate	Face Value	Interest	Term	Mature Date
	$	%		
	$	%		
	$	%		
	$	%		
	$	%		

Retirement / Pension (from step 8). Instructions – review your contributions (r=0.07, n=1, t=years to retire)

Contribution	+	Company Match	Years to retire	=	Your Future Value (FV)
%	+	%		=	=PMT×(((1+r/n)^(nt)-1)÷(r/n))
$	+	$		=	$

Roth (from step 9). Instructions – review your annual contributions. (investment r=0.07, n=1, t=years to retire)

Annual Contributions	Years to retire	=	Your Future Value (FV)
		=	=PMT×(((1+r/n)^(nt)-1)÷(r/n))
$		=	$

All FV calculations assume conservative historic market returns and only annual ROI compounding.