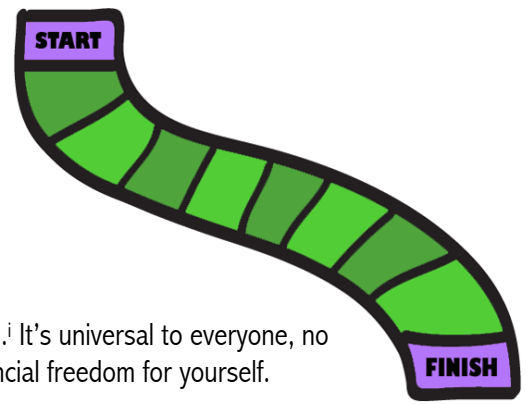


Intro to Personal Finance (Carioti 1e)

7 Steps to Financial Freedom



This guide maps out the seven steps to financial freedom in order from start to finish.ⁱ It's universal to everyone, no matter your age, income, debt level, credit history, net worth, or how you define financial freedom for yourself.

Step 1. Set up a basic emergency fund

The importance of an emergency fund cannot be overstated, and it all starts with having liquid cash in a savings account. Economists recommend saving \$2,467 in a savings account for a starter-emergency fund.ⁱⁱ Sound impossible? College students might set a more realistic goal of saving \$1,000 - 1,500 in a basic emergency fund. And if that goal is unattainable now, set aside \$500 as a positive first step.

Step 2. Snag the company match on your workplace retirement account

Many employers offer a retirement account like a 401(k) or 403(b). Some employers offer to match your monthly contribution, for example, a match that equals 50 to 100% of what you contribute until you hit a specific cap. Don't leave that free money on the table! Contributions are made with pre-tax dollars and lower your taxable income. Win! These contributions are invested in the stock market and benefit from compounding interest. Double win! No employer match currently? Look out for one in the future and skip to Step 3.

Step 3. Pay off high-interest debt as quickly as possible

Having a lot of bad debt can only limit your financial freedom. You're taking the money you earned today to pay for the things you bought in the past. Determine any current debts with an interest rate at or above 7%, create a debt payoff plan, and stick to your plan by increasing your income, cutting expenses, and/or changing your spending habits.

Step 4. Fully fund your emergency fund

A basic emergency fund can get you through some financial emergencies, but it won't cover you in a financial crisis like a job loss or serious health issue. A fully funded emergency fund provides coverage for three to six months of living expenses and is the gold standard for financial freedom.

Step 5. Invest in tax-sheltered retirement accounts

The basic personal finance building blocks of having an emergency fund and paying off high-interest rate debt are first priority in your path to financial freedom. Once you've got those covered, it's time to start *growing* the money you've earned. Aim to invest 15% of your income in retirement accounts that offer helpful tax advantages like a Roth IRA, Traditional IRA, or Health Savings Account (HSA) to meet your retirement benchmarks and goals.

Step 6. Pay off lower-interest rate debt

You've already gotten the worst debts out of your life at this point. You've got cash in the bank, and you are successfully investing quite a bit of your take-home pay. Now it's time to focus on paying down other debts with interest rates under 7%, like your student loans or a car loan.

Step 7. Pursue your other big saving and investing goals

You've got options now. Max out your retirement funds, ramp up your charitable giving, go on a dream vacation, start your own business, plan an early retirement, buy a rental property, or save for college for your kids.

ⁱ Adapted from [How to Money Podcast](#)

ⁱⁱ [Sabat and Gallagher \(2019\)](#)