



## Associated Press

*5 ways to declare your financial independence*

By DAVE CARPENTER AP Personal Finance Writer | Jul 2, 2010 | 757 words, images

While Independence Day comes just once a year, millions of consumers are mired in financial dependence day after day. Too many count on credit cards and their next paycheck just to get by.

The Fourth of July holiday is a good time to resolve to clean up your finances and start freeing yourself from debt, especially because it often kicks off two months of overspending on summer fun.

High unemployment, the prospect of spending cutbacks by strapped local and federal governments, and an uncertain economic outlook make for the possibility of even tougher times ahead. Make this the year you tighten up your own personal economy and sharpen your long-term money plans.

Here are some essential steps to achieve financial independence:

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### 1. Pay yourself first.

This personal finance axiom is one of the wisest, but Americans tend to make it a priority only in challenging times. The savings rate was less than 1 percent of income before the stock-market crash in 2008. It was still just a modest 4 percent in May.

Set aside a portion of every paycheck, preferably automatically, for long-term savings before you pay bills or spend any of it. Start small and add 1 percent every six months as you adjust to having less spending money. Build up to saving 15 percent of all income for retirement.

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### 2. Keep an emergency fund.

Save a minimum of three to six months' expenses in a separate interest-earning account. The fund will help cover expenses in the event of a job loss, car accident or big medical bills, or if you want to switch careers and have a financial cushion while you're doing it.

Some financial advisers even advocate building up to a year's worth of expenses since the specter of layoffs looms so

large. Fifteen million people are jobless and the average length of unemployment is 34 weeks. That's more than two months' longer than the 26 weeks of unemployment benefits that many states offer.

"When you work to provide yourself with a safety net like this, you are truly financially independent," says John Chladek, a certified financial planner in Overland Park, Kan. "Your decisions are not based on money and you aren't backed into a corner where a credit card is your best option."

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### 3. Be smart about credit cards.

Before you can pay off your debt, you have to stop adding to it. Get in the habit of using credit cards only when you must, and don't buy non-necessities like TVs or iPods until you can pay cash. Don't get sucked in by sales.

Pay off your card balance monthly. Don't fall victim to the minimum payment trap, which could keep you on the hook for years and pile thousands of dollars of interest onto what you owe. Thanks to one aspect of the recent legal reforms, credit card issuers now must spell out on every bill how many years it will take to pay off the balance and how much extra it will cost if only minimum payments are made.

"Carrying a credit card balance is never a great idea, and you will find yourself going backwards," says Justin Sinnott, a financial consultant for Charles Schwab Corp. in Seattle.

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### 4. Live within your means.

Or better yet, well beneath them. You'll increase your future options.

Setting up a budget and sticking to it is one way to help ensure you stay frugal. To really achieve your long-term goals, you may also need to take major cost-cutting actions such as skipping vacation travel for a year, getting rid of a car, moving to a less expensive home or taking the kids out of private school.

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### 5. Insure yourself adequately.

Make sure your medical, home and disability insurance policies are in order, along with life insurance if you have a family. A setback could destroy your best intentions.

But don't buy more insurance than you need. It will slow down your quest for financial independence.

For a basic rundown on the types of insurance you should have based on your life situation, check out the online primer Insure U at <http://www.insurance.insureuonline.org>. It is offered by the National Association of Insurance Commissioners, which represents state insurance officials.

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