

From Financial Survival to Financial Independence: The journey

Stages of Financial Independence



You might have heard people say “I want to be financially independent.” This position might sound very enticing to you. Wise up and take the time to understand what Financial Independence (FI) means. There are steps you will have to climb as you start your journey to FI. As you read each stage, I invite you to look at your current situation. Use these stages as a map; find your current location and the directions to reach your goal of FI. Create your own route from Financial Survival to Financial Independence

Stage 1: Financial Dependency

At one point in our lives, we are all financially dependent. This usually occurs during childhood and teenage years. Some adult circumstances could also result in financial dependency. During this stage, you are not able to pay for your living expenses on your own. You might have some income, but insufficient to cover your expenses. You are fully dependent on other(s) to pay for your essentials.

Stage 2: Financial Solvency

Solvency in the business world means a company can cover all expenses with its earnings. In the leisure world, your earnings cover all of your expenses without the assistance from others. This is achieved by maintaining a job with steady income or perhaps a second job to supplement your income. Either way, you are no longer dependent on others to cover your cost of living. You should be feeling very proud of this achievement.

Stage 3: Financial Stability

Once you reach Financial Solvency, the next step is to become Financially Stable. During this stage you should be saving a percentage of your earnings. This savings should be able to cover your expenses in the event that you are not able to earn due to an emergency, job interruption, etc. You need to add all of your expenses and multiply by as many months you expect to have no income. This is your savings amount goal. Depending on your personal circumstances you might choose to have a month, six months, a year living expenses worth of savings. Once you have the proper amount saved, you are Financially Stable!



Stage 4: Debt Free

This stage is marked by liquidating all of your debt. Remember, you must also be financially stable and solvent. If you never acquire any debt, you could skip this stage. Most individuals borrow in some type of fashion. Now you have paid off your car, mortgage, and any other loans or credit cards. There is a type of debt that, if for the purpose of investment and if it is generating income to pay itself off that is not bad debt (we will leave this for another discussion). This is an event to celebrate! Debt free leads to Financial Independency! Now you are one step closer.

Stage 5: Financial Thriving

Once you reach debt freedom, your next step should be investing your extra cash. You might still need to work to augment your income. The earnings from those investments are now enough to support your lifestyle and living expenses, if needed. Remember, the longer you can supplement your income with your salary, the faster your investments will grow since you are not fully dependent on that money to pay your living expenses.

Stage 6: Financial Independence

Finally you are here! At this point, the earnings from your investments cover your basic living expenses, some fun, and provide some comfort. Remember, you should maintain

solvency, stability, and debt free once you reach Financial Independence. You might still keep your job or stop working altogether. Pat yourself on the back, you made it!! Now onto the next challenge... Financial Abundance!

