



FINANCIAL FREEDOM

5 Steps to Get Out of Debt, Create a
Simple Budget, and Regain Control
of Your Finances

Financial Freedom

5 Difficult Steps to Get Out of Debt, Create a Simple Budget, Plan for the Future, and Regain Control of Your Finances

Money. It rips families apart, ruins marriages, and keeps people from pursuing their dreams. Money troubles inject unnecessary stress, anxiety, and arguments into our daily lives, which keeps us in perpetual discontent. We never seem to have enough, and, living paycheck to paycheck, we can't ever get ahead.

But it doesn't have to be this way.

We—Joshua & Ryan—know first hand. The road to financial freedom was a long trek for both of us. Even though we had prestigious six-figure careers, we struggled with money back then; and we weren't financially free for a long time. In fact, it wasn't until we walked away from those careers (after devising a plan, of course) that we discovered how to get out of debt, how to eliminate unnecessary expenses, how to plan for our future, how to master our finances.

While we all need to make money to live—and there's certainly nothing wrong with earning a great salary—taking control of your financial life involves much more than adjusting your income upward.

It involves making repeated good decisions with the resources you have, changing your financial [habits](#), and living deliberately. None of which is inherently easy—especially under the tyranny of today’s instant-gratification culture—but fortunately, regaining control of your finances is *simple*.

A few years ago, overwhelmed by money’s rapacious tug on our lives, the two of us decided to change; we decided to take back control of our finances and our lives. These are the five steps we took, and they are the same principles we use today to ensure that we’ll never again struggle with money.



The Five Steps



01 | Budget

Most of us have no idea where our money is going. We think we know, but we don't really know. This is doubly true for those of us who are married or live with a significant other. Ergo, the first step toward financial freedom is establishing a written monthly budget. Note the three key words here: written, monthly, and budget.

A few guidelines:

- **Categories.** Identify what's truly necessary by identifying all of your monthly expenses based on the past six months, and then divide your expenses into three categories: [Essentials](#), [Nonessentials](#), and [Junk](#). Write down every expense (food, housing, utilities, insurance, cars, gas, transportation, clothes, credit cards, phones, Internet, pets, entertainment, etc.); triple-check the list with your significant other or a friend; and then use your Essentials, Nonessentials, and Junk categories to prioritize and cut wherever you can. The stricter you are, the sooner you'll be free.
- **Boundaries.** Using an app like [Every Dollar](#), you can give every dollar a destination at the beginning of the month. By establishing these boundaries, you won't worry about what you can and can't

purchase because money that wasn't assigned at the beginning of the month can't be spent mid-month.

- **Teamwork.** Everyone in your household—even your children—must have a say in the written budget. This is the only way to get every person's buy-in. Working together means taking from one category to fund another (e.g., extracting money from, say, your clothing budget to fund your entertainment budget) until each person is on the same page. Once everybody is on board—once everyone is committed to financial freedom—it is much easier to gain the traction you need.
- **Adjust.** You'll have some slip-ups along the way. That's all right, it's part of the process. At first, you and your family should scrutinize your written budget daily, and then eventually weekly, adjusting accordingly until your whole family is comfortable with your set monthly allocations. The first month is the most difficult, but by the third month you'll curse yourself for wasting so much money during your budget-less days.
- **Safety.** Shit happens, so it's best to create a Safety Net savings account with \$500–\$1000 for emergencies. Now listen: do *not* touch this money unless there is a true emergency (car repairs, medical bills, job loss, etc.). Your Safety Net will allow you to stay on budget even when life punches you in the face. Over time, once you're out of debt (step 3 below), your Safety Net will grow to include several months of income. But for now, worry only about the first \$500–\$1000 to start, which you'll want to keep in a separate Safety Net account to avoid temptation (more on that below).



02 | Pay Yourself (Invest)

Most of us hear the word *invest* and we panic. Investing seems so complicated, so abstruse, so not-something-I-can-wrap-my-head-around. Well, instead of thinking of it as *investing money*, think of it as *paying your future self*. And with today's online tools, you needn't be overwhelmed—investing is easier than ever. Anyone can (and must) do it.

As for Joshua & Ryan, we both use an online-investment tool called Betterment as our personal savings, planning, and investing software. Using [Betterment](#), which costs nothing to set-up and has no minimum-balance requirements, we've learned how to invest in our future selves by setting aside a percentage of our income without even noticing it's gone.

We also keep our Safety Nets in our Betterment accounts. We do this for two reasons: 1) the money is liquid, which means we have instant access to our Safety Net if we *need* it, and 2) when the money is sitting in a separate account, it is less tempting to access than if it's in our bank accounts (plus it earns a better interest rate in a safe, conservative way).

We invest our money into four separate buckets using Betterment's online software: Safety Net, Retirement Fund, House Fund, and Wealth-Building Fund. (For complete details, see our [Retirement Planning](#) article, in which we break down how we, as minimalists, plan for retirement and other financial objectives, using screenshots and real-world examples, including statistics and personal figures.)

Right now is the best time to start planning for your future. Whether you're planning for retirement, wanting to start a business, saving for a home, building a larger Safety Net, or focusing on long-term wealth-building, *now* is the best time to begin. Not next week, not even tomorrow, *today*. Even if you have no money to invest, you *must* devise a plan to begin investing in your future self. The best way to do this is to automate your investments using an online service like [Betterment](#), which takes the guesswork out of investing. The future won't wait. Do it today. Even if that means 1% of your income, or even \$20 a month, to start. Your future self will thank you.



03 | Debt-Free

Contrary to what some academics might tell you, there is no such thing as “good debt.” Let’s say that again (read it out loud): THERE IS NO SUCH THING AS GOOD DEBT. True, some debt is worse than other debt, but it’s never “good.”

The truth is: you will not feel free until you are debt-free. The debtor is always slave to the lender. Besides, it feels pretty amazing to have no car payments, no credit-card payments, and no student-loan payments looming in the shadows of your lifestyle.

Throughout our twenties, we both had excessive piles of debt—more than six-figures each. It was a debilitating feeling—a complete loss of freedom.

Although there are no magic bullets, the strategy we've seen work best is Dave Ramsey's [Total Money Makeover](#), a detailed, step-by-step formula that both of us used to create a detailed plan, cut-up our credit cards, and face our debts head-on. Ryan details his own budgeting process in his eight-day video course, [How to Budget Better](#). Also read: [Debt-Free: JFM's Story of Overcoming Debt](#).



04 | Minimize

Of course [minimalism](#) was a key component in our own journeys toward financial freedom. By clearing the clutter from our lives, we were able to focus on eliminating debt, changing our habits, and making better decisions with fewer resources.

We also learned that by simplifying—by identifying which material possessions weren't adding value to our lives—we were able to more quickly become debt-free by selling more than *half* our stuff locally (yard sales, consignment shops, flea markets) and online (eBay, Craigslist, Autotrader).

No, minimalism is *not* about deprivation—we don't want anyone to “live without” in the name of minimalism—but sometimes it makes sense to temporarily deprive ourselves of ephemeral satisfactions when we are attempting to move our lives in a better direction. For example, as we were tackling our debts, Joshua sold his oversized house and moved into a tiny apartment. Ryan sold his fancy new car and purchased a decade-old vehicle without a monthly payment.

We both jettisoned our cable subscriptions, satellite radio, and other superfluous bills that saved us hundreds of dollars each month. We also did “strange” things like deliver pizzas, work overtime, and find other ways to supplement our income in the short-term so we could pay off our debts faster. Plus, we sold hundreds of items—electronics, furniture, clothes, DVDs, books, collectibles, tools, yard equipment—that weren’t essential, and we used that money to further pay down our debts. Basically, anything that wasn’t nailed to the floor found its way to eBay. Now everything we own serves a purpose or brings us joy, and we don’t miss any of the trinkets of yesteryear.

Don’t know how to start minimizing? Consider our [30-Day Minimalism Game](#). Or if you’re feeling aggressive, have a [Packing Party](#) and a Scanning Party. You can also visit our [Start Here](#) page for more ideas.



05 | Contribute

The shortest path toward freedom is: appreciating what you already have. One of the best ways to find gratitude for the gifts you’ve already been given is to change your perspective.

To do so, donate your most precious asset: your time. Bring your family to a local soup kitchen, foodbank, or homeless shelter. Tutor less-privileged children in your city. Help the elderly with groceries or in-home care. Work on low-income houses with Habitat for Humanity. There are more resources than ever to help you contribute beyond yourself in a meaningful way; just do an Internet search for volunteer opportunities in your area.

Whatever you do to build your contribution muscle, it needn't be grandiose; it need only contribute to someone else's life. If you do this for a few weeks, you'll realize that your financial problems are tiny compared to many of the problems in the world around you. By discovering the smallness of your financial woes, you'll feel empowered to take massive action and beat the crap out of your relatively miniature problems.

In a short period of time—two or three years—your entire life can radically transform from what it is today. All it takes is a plan (which you now have), determination (i.e., turning your [shoulds into musts](#)), and consistent action in the right direction.



Conclusion: Simple Ain't Easy

Financial freedom isn't easy, but you knew that before reading this ebook.

The exciting part about these five principles is that they apply to anyone, anywhere on the socioeconomic ladder. Whether you earn [minimum wage or six-figures](#), whether you are single or have half-a-dozen children, we have seen these principles work for thousands of individuals—because it's not about our income level; it's about the decisions we make with the resources we have.

You are now equipped with a recipe to make outstanding financial changes. You are obviously welcome to add your own ingredients to taste, but when it comes to true financial freedom, these five ingredients—budget, invest, eliminate debt, minimize, contribute—are nonnegotiable. All five are necessary.

Yes, you still have a considerable amount of research and planning and hard work ahead of you; but most important, you have to take action today. Diligence is paramount.