**12 Steps to Financial Freedom in 2012**

Published on - January 1st, 2012 (by J.D. Roth)

We discuss many aspects of personal finance at Get Rich Slowly. We explore ways to earn more money, get out of debt, and build an emergency fund. We talk about the psychology of money management, and we share tips and tricks for making the most of your savings and your career. Basically, we do our best to help readers take control of their financial lives.

Sometimes it’s easy to get lost in the little details of money management. Sometimes we forget the Big Picture. Because of that, I like to devote my annual Happy New Year post to a colossal summary of the collected wisdom at this site.

If you’ve resolved to take control of your finances in 2012, this article is the place to start. It’s packed with tips and resources for making the most of your money. And as I do every year, I’ve added one tip to the list.

Here then are twelve simple but effective steps to take control of your finances in 2012.

**Step #1: Set financial goals**

 The road to wealth is paved with goals. If you don’t know why you’re doing this — why you’re making sacrifices, why you’re working so hard — it’s too easy to fail. But if you set goals, they can help guide you even when things get tough. When you have to make decision, your goals can help you stay focused on what’s important.

For your goals to be effective, they have to be personal. They have to mean something to you. Right now, one of my goals is to save money for travel. A couple of years ago, my goal was to save for a Mini Cooper. Before that, my goal was to get rid of 20 years of debt.

To keep your focus front and center, you might use web-based tools like Joe’s Goals, StickK, or 43 Things. You might find an accountability partner. Or you might advertise to yourself. And be prepared for setbacks. You’re not going to meet your goals without mistakes. Stuff happens. The best way to deal with problems is to have a plan before they occur.

**Step #2: Track every penny you spend**

 The authors of Your Money or Your Life urge readers to “keep track of every cent that comes into or goes out of your life.”

[This is] the best way to become conscious of how money actually comes and goes in your life as opposed to how you think it comes and goes…This is the step that somehow makes the biggest impact.

Last year, I stopped tracking my spending. I was spending less than I earned, and I figured it was too much work. I regretted that. In fact, I’ve vowed to resume tracking my spending again in 2011. I’m glad I did. I was able to see some trouble spots (comic books!) and make corrections.

It doesn’t matter how you track your spending — the most important thing is to do it.

•You can use a cash notebook.

 •You can use an online tool like Yodlee or Mint. (I tried Mint, but it didn’t work for me. I’m trying Yodlee now.)

 •You can use a piece of software like Quicken. (Here’s a list of 16 powerful personal finance programs.)

Whichever method you choose, stick with it. Make it a habit. Don’t fudge the numbers. Record your transactions as soon as possible. Most of all, don’t judge yourself. Tracking your spending is an exercise in data collection; it’s not the appropriate time to change your habits.

**Step #3: Develop a budget**

 After you’ve tracked your spending for a few weeks (or months), use the data you’ve collected to develop a budget. According to The Millionaire Next Door, budgeting is one thing that sets the wealthy apart from the rest of us — 55% of millionaires keep a budget.

Many people — myself included — fail to budget for a variety of reasons: it’s boring, we don’t think we need it, or we don’t know how. But this simple act can provide a roadmap for your money.

There are a variety of budgeting methods you can choose, from Andrew Tobias’ three-step budget to the 60% budget. My recent favorite (and a favorite of GRS readers) is Elizabeth Warren’s balanced money formula: 50% to Needs, 20% to Savings, and everything else to Wants. Simple but effective.

Crave more budgeting tips? Check out this article highlighting 13 tools for building a better budget. Hate the idea of budgeting? Consider the spending plan, a budgeting method for non-budgeters.

Tip! Spend less than you earn. This is the fundamental money skill. It’s common sense, yet many people never learn to do it. Only by spending less than you earn can you hope to build wealth. This is easier to do if you track your spending and develop a budget, but those steps aren’t completely necessary. Even if you do nothing else in this list, spending less than you earn can put you ahead of your peers.

**Step #4: Review your bills (and ask for discounts)**

 At least once each year, you should review the contracts and agreements you have with various banks and service providers. This is also a great time to review your financial accounts to be sure everything still matches your needs.

 •Read your credit-card agreements and make sure you understand everything. (If you don’t, then ask questions.) When I read my own agreements, I just dial the customer service line and ask for clarification.

•Check your service levels. We have a tendency to keep paying for the same service we’ve always had, whether it’s with our phone, our electricity, or our gym membership. Now’s a good time to make a quick check to be sure you’re only paying for what you need.

•Ask for lower rates. In 2009, G.E. Miller shared how he cut his cable bill by 33% without losing any service. Many GRS readers reported similar success. Look through your monthly bills to see if there are any you could call to ask for a reduction on.

•If you rent, review your lease or rental agreement to be sure you’re clear on all of the policies. While you’re at it, consider asking for a rent reduction. Sound crazy? If you’re a good tenant and regularly pay on time, it’s not so far-fetched.

•Review your insurance. Are you carrying policies with three different companies? Consolidate them at one place. Check the deductibles on your auto and homeowners insurance. Are they too low? Could you afford to raise them and “self-insure” the first $1,000 of damage? And is your liability coverage high enough?

•Go over your investment accounts. Check your balances and asset allocation. Are you too heavy in stocks for your risk tolerance? Should you own more stocks? If so, shift things around to get to your target allocation.

This task may be boring, but it’s important. Terms change all the time. Your own financial situation changes. Spending one afternoon a year to review your agreements (and ask for discounts) can keep you from getting trapped in contracts you don’t want and save you money in the process.

Remember: You always have the right to ask for a discount, but it’s not your right to receive one. It never hurts to ask, but if the answer is “no”, don’t be a jerk. Thank the person who helped you and move on.

**Step #5: Optimize your accounts**

 For seventeen years, I was an account holder at a large national bank. I paid an $8 “service charge” every month, as well as many other fees. I received terrible service and earned no interest. Over the last couple of years, I’ve finally begun to optimize my accounts. If you haven’t already done so, consider the following:

 •Open an online high-yield savings account. Interest rates are about as low as they can go, and should increase in the months and years ahead.

•Choose a rewards checking account. Believe it or not, it’s possible to find checking accounts that pay interest. The best online checking accounts are paying about 1% right now, depending on your balance. But you can usually find an even better deal through your local bank or credit union. Check out this list of rewards checking accounts for rates of up to 5%.

•Use a rewards credit card. If you have trouble with credit, it’s best to avoid plastic altogether. If you can use credit responsibly, be sure to choose a credit card that pays you. Avoid cards that carry an annual fee. Find a rewards program that matches your lifestyle. But don’t choose a card just because it offers a signup bonus or because it gives you a discount at your favorite store. Remember: your goal is to find a useful tool. Look for a long-term relationship you can live with.

It’s important to choose accounts and systems that work for you. I signed up for a rewards checking account at a local credit union, but the nearest branch is fifteen minutes out of my way. I never used it, so the credit union closed the account. I compromised by opening on online checking account instead. I earn a lower rate, but it’s an account I’ll actually use.

Tip! When optimizing your banks and credit cards, consider using multiple accounts at each institution. For example, I have ING Direct subaccounts that allow me to target my savings. I save for vacation in one account, for a car in another, and I use a third account for emergency savings.

**Step #6: Start an emergency fund**

 For years I lived paycheck-to-paycheck. I spent everything I earned. This worked well until something went wrong. Suddenly I’d find myself without money to pay for a car repair, or facing an expensive doctor’s bill. I financed emergencies with credit cards. Eventually I saw the light and built up a rainy-day fund.

After you’ve optimized your accounts, make it a priority to save for emergencies. In The Total Money Makeover, Dave Ramsey explains why he believes an emergency fund should come before anything else:

Since I hate debt so much, people often ask why we don’t start with the debt. I used to do that when I first started teaching and counseling, but I discovered that people would stop their whole Total Money Makeover because of an emergency — they felt guilty that they had to stop debt-reducing to survive.

Open an online high-yield savings account and add $20 or $50 to your account ever time you get paid. Two years ago, I opened an account at ING Direct, where it’s simple to schedule automatic deposits. After you’ve saved $1000, then you can attack your debt.

See also: Learning to love the emergency fund.

**Step #7: Get out of debt**

 Are you struggling under a heavy debt load from credit cards or student loans? Make it a priority to unload some of this this burden in 2012. At the end of 2007, I said good-bye to 20 years of debt — it feels fantastic to have that weight off my shoulders.

If you have the mental discipline, you’ll save money by paying down your high-interest debt first. But if you’ve tried that method before and failed, consider using a debt snowball. Pay your debts starting with the smallest balance first. Here’s how:

 1.Order your debts from lowest balance to highest balance.

 2.Designate a certain amount of money to pay toward debts each month.

 3.Pay the minimum payment on all debts except the one with the lowest balance.

 4.Throw every other penny at the debt with the lowest balance.

 5.When that debt is gone, do not alter the monthly amount used to pay debts, but throw all you can at the debt with the next-lowest balance.

The debt snowball can give you awesome psychological payoffs, keeping you motivated to stay in the game. It’s not mathematically ideal, but it worked for me (and for many others besides). However you choose to get out of debt, stick with it. Don’t give up.

Tip! The perfect is the enemy of the good. When you spend so much time looking for the “best” choice that you never actually do anything, you’re sabotaging yourself. And an ideal solution that you don’t follow through with is worse than a good solution that you’ll actually use. Choose a good option and act.

**Step #8: Fund your retirement**

 If you’re young, you probably don’t think you need to start a retirement account. You’re wrong. No matter how old you are, now is the time to begin saving for retirement. The extraordinary power of compound interest favors the young — and in a big way! In The Automatic Millionaire, David Bach writes:

The single biggest investment mistake you can make [is] not using your [retirement] plan and not maxing it out.

If your employer offers any sort of retirement-contribution matching, such as a 401(k), be sure to take advantage of it. It may not be “free” money, but it’s darn close. Also consider starting a Roth IRA.

After reading The Automatic Millionaire a couple years ago, I opened a Roth IRA at Sharebuilder. It was easier than opening a checking account. I’ve managed to make the maximum contribution since 2006. In 2008 and 2009, I maxed out my 401(k).

Don’t understand retirement accounts? No problem. Download the free Get Rich Slowly Guide to Roth IRAs, which explains everything you need to know about these accounts.

**Step #9: Automate your finances**

 Over the past few years, I’ve been moving toward a system of paperless personal finance. Along the way, I’m learning the value of automating routine transactions. When you make things automatic, you remove the human element, making it more difficult for you to mess things up.

The classic example is overdraft protection. By tying your checking account to your savings account, you have a safety net if you bounce a check. But there are other ways this can work for you. For example, I’ve set up automatic payments with the gas company, the cable company, and my auto insurance company. I also make automatic deposits to my online savings account.

One terrific advantage to automation: when you pay your bills and do your saving and investing automatically, it’s easy to tell how much you have left over to spend at the end of each month!

Tip! Do what works for you. There are few hard-and-fast rules in the world of personal finance. I can suggest methods that have worked for me (and for others), but only you can determine if these methods are appropriate for your own circumstances.

**Step #10: Earn extra money**

 You can meet a lot of your financial goals by reducing your spending and using the right tools. But nothing supercharges your progress like a boost in income. How can you earn extra money?

•Ask for a raise. Several readers have written to tell me how they’ve given themselves a raise through ambition and ingenuity. Here’s one example. (Don’t know how to ask for a raise? Here’s how to negotiate your salary, either before or after you’re hired.)

•Switch employers. Not every employer is able or willing to offer raises, even when they’re merited. If you’re in a position where a raise isn’t possible, consider finding a new employer.

•Take a second job. Many people find that the best way to get out of a financial hole is to temporarily take a second job. Nobody wants to work more than 40 hours per week, but sometimes that’s what’s needed to get out of debt or to save for a house. Just remind yourself that you’re doing this for a short time.

•Use your hobbies. Yes, it’s possible to have money-making hobbies. You’re not going to get rich playing World of Warcraft, but many people use productive hobbies to earn a little extra income.

•Volunteer for medical research. In August 2008, I earned $120 for a couple of hours spent participating in medical research. GRS staff writer Donna Freedman has earned extra cash by giving blood and watching porn (though not at the same time).

•Sell things. When I decided to get out of debt, one of my first steps was to sell a bunch of the stuff I’d bought with that $35,000. I used eBay, Craigslist, garage sales, and the Amazon Marketplace to sell the things I no longer needed or wanted. The money I earned jump-started my debt reduction.

Another effective way to increase your income is to pursue entrepreneurship. While working to defeat my debt, I started a small computer consulting business. It didn’t generate a lot of income, but it did provide $2,000 a year that I wouldn’t have had otherwise!

**Step #11: Learn the Art of Conscious Spending**

 Being frugal doesn’t mean you have to deprive yourself. You’re not giving up the good stuff for the rest of your life. Instead, frugality is about choosing to spend it on the things that are important to you while cutting back ruthlessly on the things that aren’t. Ramit Sethi calls this conscious spending, which is a fantastic way to describe it. Conscious spending implies that you’re actively choosing to spend on some things and not on others.

Contrast this with how most people spend. We tend to spend on reflex. We buy things because we’re expected to, because everyone else does. We spend to have what other people have. We sign up for gym memberships that we never use, subscribe to magazines we never read, and pay for golf clubs that get buried in the garage. We make impulse purchases at the grocery store — or even on large items, like computers and cars. Most of the time, people spend without thinking.

But with conscious spending, you evaluate every purchase. You ask yourself: “Will buying this help me meet my goals? Will it make me happier? Is it congruent with who I am and what I want to do?” I know this sounds like New Age mumbo-jumbo, but it’s not. These questions can have a powerful positive effect on how you spend and save.

Conscious spending isn’t restrictive; it’s liberating. It lets you cut back on the things that aren’t important to you so that you can spend on the things that do matter. Learning to practice conscious spending is a sure way to improve your quality of life.

Learn more: Conscious spending in action.

**Step #12: Educate yourself**

 Knowledge is power. Personal finance doesn’t have to be a mystery. Subscribe to this site. Read other personal finance blogs. I recommend:

 •The Simple Dollar

 •I Will Teach You to Be Rich

 •The members of the Money Scribes network

 •The members of the LifeRemix network

Visit your public library. Borrow money books and self-development manuals. Here are four of my favorites:

 •If you’re in debt and can’t seem to find a way out: How to Get Out of Debt and Live Prosperously

 •If you’d like to know more about investing: The Random Walk Guide to Investing

 •If things are tight and you need to find creative ways to make ends meet: The Complete Tightwad Gazette

 •If you want a motivational manual to prompt you to pursue your goals: The Magic of Thinking Big

You don’t have to agree with everything in a book to get something out of it. I read a lot of personal finance books — some are good, but many are not. Even the worst books usually have one or two things I can pull from them. Learn how to read a personal finance book so that you can pick and choose those pieces appropriate for your life.

Blatant self-promotion! I wrote my own book precisely to help people who are struggling with money. Your Money: The Missing Manual contains all of the advice I wish I’d had when I was digging out of debt and learning to boost my income. If you like what you read here at Get Rich Slowly, you should like this book. It has tons of new stuff (as well as a few favorite nuggets from the past).

**Final thoughts**

 Taking control of your finances can be intimidating — there’s so much to do! — but it doesn’t have to be that way. One effective solution is to take a vacation day from work: designate one specific date as your personal “Money Day”. Use this day to finally set up Quicken on your computer, to open a retirement account, and to call around for a better deal on your insurance.

The good news is that you can get out of debt. You can save for retirement. If I can do it, so can you. Best wishes for a prosperous new year!