Chasing Financial Freedom

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The goal of financial freedom is not to be reliant on other people to meet your financial needs.

However, it should be seen as a journey of milestones like paying off your house or education loans, and not an immediate goal.

Very few people can get out of debt overnight, and sometimes having debt does not necessarily mean you do not have financial freedom.

ARE YOU CARRYING UNNECESSARY DEBT?

72% of income in South Africa is used to finance household debt. Household debt is made up of various forms of debt, which include:

- Home loans
- Student loans
- Car finance
- Credit cards
- Store card credit

Some of these debts are unavoidable and can be considered good debt, while others increase your financial stress and are considered bad debt.

The first step to financial freedom is to pay off debt as quickly as possible and avoid unnecessary bad debts. This means avoiding going into debt to pay for things you don't need.

GOOD VS BAD DEBT

Avoiding all debt is not always ideal. You can leverage good debt to improve your lifestyle, while bad debt increases financial stress, which affects your overall wellness.

Good debt is an investment that will grow in value or generate a long-term income - e.g. a loan to purchase a house, an education loan, etc.

Bad debt is debt used to purchase things that quickly lose value - e.g. excess credit card debt, store cards, etc.

Financing a car can fall into either category. Although the car loses value, most people need a form of transport to generate an income. The balance lies in financing a car that you can afford – one that meets your need list and not your wish list.

LIVING WITHIN YOUR MEANS

Understanding the lifestyle you can afford is the ultimate key to achieving financial freedom.

Before you can do this you need to know how much of your income you are spending and where your money is being spent. You can do this by setting up a budget.

Avoid the "comparison trap" – there will always be someone who earns more than you and someone who earns less than you. Striving to meet financial milestones based on someone else's lifestyle can lead to excess debt more often than not.

SAVING VS PAYING OFF DEBT

Saving should not be considered separate to paying off debt.

Before you decide to add to your discretionary savings, you should always aim to pay off short-term debt.

However, you should never use your retirement savings to settle debt.

USING CREDIT TO WORK FOR YOU, AND NOT AGAINST YOU

A credit card can have many positive advantages that can be exploited if used responsibly:

1. **Interest-free periods** – ensure that credit balances are settled on time and in full. In addition, making use of a savings account alongside your credit card can earn you "bonus interest" without paying any interest on outstanding credit balances.
2. **Rewards programmes** – using credit often leads to additional interest rewards, but the trick lies in knowing which rewards improve your financial wellbeing, and which act as a means to more debt.
3. **Know your limits** – set limits well below your earnings to prevent debt accumulating out of hand.

The journey to financial freedom begins when you start paying attention to how you spend your money.

Seeking financial advice will always be beneficial in assisting you with your journey.