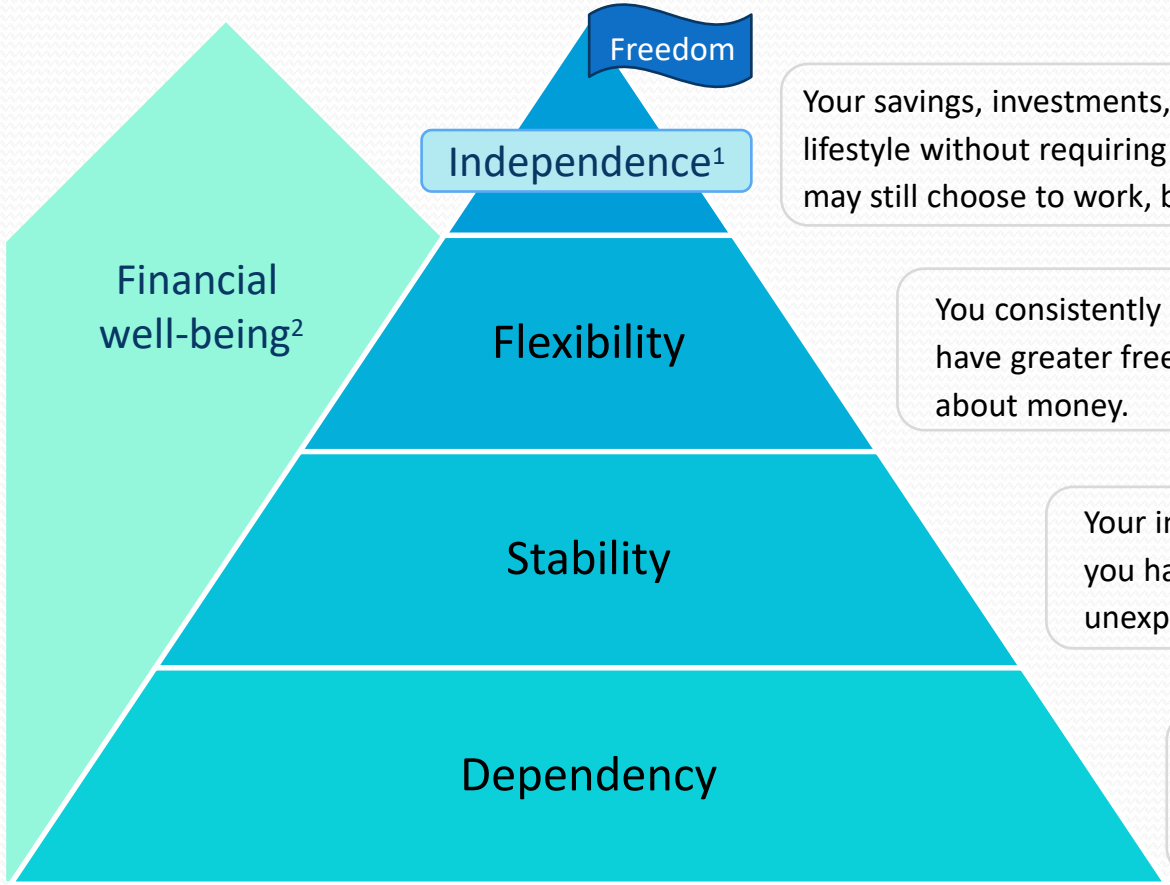
Where are you on the path to financial independence?

Financial independence is a journey, not an overnight achievement. You can think of it as four stages.



Your savings, investments, and other reliable sources of income can support your planned lifestyle without requiring you to depend on a paycheck or financial support from others. You may still choose to work, but you no longer have to work (for a paycheck) simply to pay your bills.

You consistently save and invest, reduce your reliance on debt, and build wealth. You have greater freedom to make changes in your life without immediately worrying about money.

Your income covers your expenses, you manage debt responsibly, and you have emergency savings. You're becoming less vulnerable to unexpected expenses.

You depend on your job, family, or borrowed money to cover your expenses. An unexpected bill can create financial stress, and losing your income could put your financial security at risk.

Notes:

1. While people often use financial independence and financial freedom to mean the same thing, they describe different milestones on a personal finance journey. Financial independence means you have enough money to cover your basic expenses without needing a job, while financial freedom means you have the wealth to live exactly how you want.
2. Achieving financial independence directly supports a person's financial well-being by giving them security, control, and freedom.

DIYMONEYTRACK.com

Sources- DIYmoneytrack.com, ChatGPT

How to calculate your financial independence ratio

Steps:

1. Calculate your **annual expenses**
2. Calculate the **income** your financial resources can provide
3. Compare your resources with your expenses and calculate your **Financial Independence Ratio (FIR)**

Simple Financial Independence Calculation

For illustrative purposes

Financial Independence Ratio (FIR) = Income from Financial Resources ÷ Annual Expenses × 100

	Employed			Retired		
Financial measure	**Current Year**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**5-Year Total**
Annual expenses	**$ 84,000**	**$ 94,000**	**$ 86,000**	**$ 90,000**	**$ 80,000**	**$ 434,000**
Estimated pre-tax investment withdrawals*	$ -	$ 4,000	$ 41,000	$ 82,000	$ 60,000	**$ 187,000**
Other reliable pre-tax income	$ 86,000	$ 88,000	$ 45,000	$ 8,000	$ 20,000	**$ 247,000**
Total available income	**$ 86,000**	**$ 92,000**	**$ 86,000**	**$ 90,000**	**$ 80,000**	**$ 434,000**
Income minus expenses	**$ 2,000**	**$ (2,000)**	**$ -**	**$ -**	**$ -**	**$ -**
FIR	102%	98%	100%	100%	100%	**100%**

4. Track **FIR over time**, especially as you near retirement
5. Establish a budget and **savings margin** (e.g., emergency fund) to cover unanticipated expenses

Worksheet download for detailed steps and to calculate your FIR