

FINANCIAL STAGES OVERVIEW

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During the last 20 years I have worked with many clients who attempt to get their money “stuff” together. I hear people make statements like “I just don’t get money”, “I can’t seem to stop spending”, “I can’t save any money”, “I would save if I made more money”, “I don’t know how to manage my money”. As a society, we are obsessed with consuming and owning a lot of “stuff”. With a savings rate of about five percent of income, it is not surprising that most people get to retirement with very little in net assets. According to Stanley and Danko in *The Millionaire Next Door*, the percentage of millionaires in America is about 3.5% of the population. I suspect the other 96.5% are far from accumulating a million dollars and in fact, end up with very little during the later stages of their lives.

The journey is a long one, particularly when someone is at the beginning. I remember shortly after starting my CPA practice that it seemed that everyone seemed to have a higher income than I and seemed to have more net assets as well. In spite of feeling that I would never be able to get ahead, I started on my financial journey, more on faith than anything else. The road to financial independence is long and full of many dead ends and hazards for those of us who travel it.

People who are self-employed generally start their own businesses or professional practices. Occasionally, they purchase their business or practice. Self-employed individuals need to work through various stages on their path to financial independence. These financial stages are as follows:

1. Survival
2. Income Taxes
3. Cushion
4. Debt Payoff
5. Savings
6. Accumulation

The first stage that must be addressed is **SURVIVAL**. Survival is the situation where your income is less than your business and personal expenses. In other words, you are spending more than you are earning. After getting out of survival, the next stage is **INCOME TAXES**. During this stage, people must accept the fact that they have taxes to pay and actively plan to save for them. Taxes are an expense that can be managed by taking advantage of available deductions; however, they cannot be eliminated without doing substantial harm to a person’s financial situation. Once taxes are being provided for on a regular basis, we begin to deal with saving a **CUSHION**. Your financial cushion is your “mad money,” funds available for short term usage and short term emergencies. The next stages are **DEBT PAYOFF** where we begin to actively accelerate payment on the various debts we have incurred up to this point and **SAVINGS** which becomes an issue as we grapple with how to take a percentage of our income and set it aside for investments. Finally in **ACCUMULATION**, the issue becomes how to invest our savings as it grows.

Each stage has individual issues that must be resolved to successfully master the financial behaviors and move predominately into the next stage. How you handle money is also different at each stage. Generally earlier stages have to be resolved before you can move on to later stages. Failure to do this usually results in your having to go back and deal with prior stage issues at a later time. Once you get past **INCOME TAXES**, the later stages, particularly **DEBT PAYOFF** and **SAVINGS** merge into each other. During 20 years in practice, I have never seen anyone become financially independent without satisfactorily resolving the issues in each stage.

While each stage has behaviors that must be mastered in terms of handling your money, the real issue is learning to adopt a certain consciousness about money at each stage. Before the shift in consciousness occurs, people are often stuck, sometimes for years, in a stage. I have seen people struggle for years in survival mode and never earn enough money to provide for themselves and their families. More frequent is the rampant hyper consumption so common in our society that keeps people from getting ahead. All the income is simply spent. Many self-employed persons also have a hard time with their income taxes. Sometimes the issue is showing them how to set up a system to save for their taxes. Often, people seem to get into a lot of denial about taxes, convincing themselves that they are somehow exempt from taxes, or that they will simply pay them later. It is not uncommon for professionals to be a year or more behind in paying off their taxes. In one case, I have seen one individual struggle with paying their taxes for over 15 years!

Once people shift their consciousness, the “problems” they experienced in a particular stage usually disappear rather quickly. They are then ready to move on.