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Planning for Financial Independence

In honor of our national independence day on July 4th, I thought it might be a good time to discuss what financial independence means to each of us individually. We probably each have a different definition of financial independence. Do you know what financial freedom means to you? And, more importantly, what concrete steps are you taking to achieve that freedom and independence?

Many basic psychology classes discuss Maslow's theory of motivation and his hierarchy of needs theory. Simply, the hierarchy can be thought of as a pyramid. At the bottom of the pyramid are our physiological needs such as breathing, food, water and sleep. After we achieve these basic needs we are concerned about our safety. Safety, according to Maslow means things such as security of body, security of employment, security of resources and security of property. Once our security needs are met, we focus on meeting our love and belonging needs – the need for friends and family and having a sense of belonging. After our need for belonging is satisfied, we strive to meet our esteem needs which means having a sense of self-respect, confidence, achievement, a respect of others and a respect by others. Then, finally, at the top of the pyramid is the need for self-actualization which means striving to reach one's full potential. People who are working on satisfying their self-actualization needs are focused on problem solving, morality, truth, justice, wisdom and meaning.

I think we can loosely take Maslow's hierarchy of needs and create a hierarchy of financial freedom. At the bottom of the pyramid would be the need to have the financial means to provide for our own food, clothing and shelter. Probably most young adults would define financial independence along the lines of being able to provide for their basic needs without having to rely on help from their parents. Once these basic needs have been achieved, then the definition of financial independence could expand to include financial safety. This could be defined as having an adequate rainy day fund, living in a safe neighborhood and having adequate property and health insurance. After our financial safety need goals have been achieved then financial independence might be defined along the lines of providing for the family. Maybe this could mean starting a college investment plan for the children, saving for retirement and having adequate life and disability insurance.

After these goals have been met financial freedom might be defined as having sufficient assets so a person does not to have to work if he or she chooses not to. In other words, financial independence means retirement. When a person has achieved financial independence, they can stop working, enjoy life and

know that they don't need to be concerned about running out of money. I suspect that many of us, after having satisfied our basic physiological, security and belonging needs would define financial independence in this manner.

Maybe your definition of financial freedom is not only retirement but also the desire to give back to society and to help others achieve their financial independence. This could mean helping family members or it could mean donating cash or time to the charities of your choosing.

No matter what your definition of financial independence is, July 4th might be a good day to take a moment to reflect on how well you are progressing towards achieving your financial independence goals and what concrete steps you will take in the next year or two to move closer to the top of your own financial freedom pyramid.