

How to

**STOP**

*living*

***Paycheck  
to  
Paycheck***

A Step-by-Step Action Plan

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*“The mint makes it first,  
it is up to you to make it last.”*

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*Evan Esar*

# Introduction

Most people, as Henry David Thoreau said, “Lead lives of quiet desperation.” The fact is many folks earning what looks like a comfortable income still live paycheck to paycheck. They’re one setback away from financial disaster – and they know it. Does this describe you?

If so, this e-book may be just what you’re looking for. *It lays out a clear plan that puts all the financial information together into a step-by-step path that you can follow to turn your financial life around.*

This e-book helps you acknowledge your current financial state, encourages you to know figures such as your total income and what you pay out monthly, helps you stop unnecessary spending today, and shows you a savings plan you can start now.

Also, you’ll receive information about how to pay off your debts, earn extra income, put your savings to work for your best interests, and finally do a budget. If you’re ready to tackle these tasks and really clean your financial house, read on.

# Step One:

## Acknowledge Your Current Financial State

The first step is figuring out where you are, financially. For many, doing so is an eye-opening experience. Here's how to do it. Take out a pen and paper.

**1. How much money do you have right now?** Write down the amounts of money you have in each of the following accounts and your wallet and then total them all:

- Each checking account
- Every savings account
- Money Market account
- Stocks/Bonds/CDs
- Wallet/Purse
- Other accounts or places you have money

The total should reflect all the money you have in the world at this moment. For the coming months, it's wise for you to have an idea of this figure at all times. Why? Because people who experience ongoing financial struggles usually don't have any idea how much money they actually have.

## *Your plan is to become an informed financier, right?*

Doing so means you'll keep a focus on your money.

2. **What is your total debt?** How much money would it take to pay everyone off and not owe anyone? List each of your creditors and the current amount you owe each one. It will take a bit of time to calculate your total debt, but doing so is a part of becoming better informed.
3. **Are you living paycheck to paycheck?** Ask yourself, "What would happen to me and my family if I didn't receive my next paycheck?" If you're living paycheck to paycheck, then you're just one paycheck away from financial calamity.
4. **Recognize you can have a better financial life even with your current income.** Although you may not believe it at the moment, you can improve your financial status by changing how you handle your dollars. Even if nothing else changes, in terms of how much money you earn or what your rent costs, you can alter how you're living financially. It can be done.

Examining your current financial status is an important step on your path to financial recovery. Being aware of your assets, your total debt, whether you're living paycheck to paycheck, and understanding that you can improve your financial life with your same income all make up the integral first step to getting your financial life in order.

# How to Stop Living Paycheck to Paycheck

*“Don’t tell me where your priorities are.  
Show me where you spend your money  
and I’ll tell you what they are.”*

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James W. Frick



## Step Two: Know Your Income Amount and What You're Paying For Each Month

Now that you know where you currently stand, it's also important to determine how much money you've got coming in during a month and how much money is "going out" and for what purpose.

**1. Income.** *Make a list of all the money you have coming in each month.*

Although you might think you already know how much (and maybe you do), write it down anyway.

- If you receive child support or stock dividends, put them on your list and the approximate monthly amounts you receive. Once you've listed all income for the month, total it. This figure is your total monthly income.

**2. Outgoing.** Write down everything you spend money on each month.

- First, *list everything you pay a recurring monthly payment for.* This listing should include things like: mortgage payments, rent, car payments, car insurance, life insurance, utility bills, water bills,

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garbage collection fees, land-line telephone and cell phone payments, cable television or satellite services, kids' lunch money, and medication costs.

- Next, ask yourself how much money you spend on groceries in a month. If you have no idea, you'll soon be keeping track of all your expenditures for a week (in Step Three) so you'll be able to extrapolate that figure for a monthly total. In the meantime, estimate. Also, list your transportation/gasoline costs.
- If you get a haircut every four weeks, a manicure every week or two, go to the movies once a month, and golf once a week, include all costs associated with these services and activities in your list of outgoing monthly dollars.
- Now figure out what you're spending for coffee drinks, lunches out, dinners out and alcohol. You're going to be truly shocked when you write out what you spend on these items in a month. Be honest with yourself about how often you're buying coffee or other drinks, stopping for snacks, at the bar, and eating out.
- Start a separate list for charges that occur once or twice a year like medical and dental appointments, vision services and supplies (glasses and/or contacts), real estate taxes, and the like and list costs for each. Add these expenditures up and divide them by 12 to add that amount to your monthly expenses.

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- Finally, add up all the monthly expenses to arrive at a grand total for your monthly expenditures. What do you think about this total? Is it far more than you anticipated? Or not too bad?
- 3. Time to subtract!** Now, subtract your outgoing monthly expenses figure from your total monthly income you figured in #1 above. Hopefully, you have a positive number left. If you don't, understand that you've been spending more every month than you've been earning – a risky situation.

Educating yourself about your own finances is simply the smart thing to do.

*Knowing incoming dollars, outgoing dollars, and whether you've got anything left for the month is enlightening.*

And once enlightened, you're more motivated to make changes.

*“Many people are in the dark  
when it comes to money, and  
I’m going to turn on the lights.”*

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Suze Orman

## Step Three: Cut Excess Spending Today

If you've committed to altering your money situation, it starts right this minute, not next Monday or next month. From this moment forward, you'll be doing some things differently.

- 1. Keep track of all expenses for 7 days in a spiral notebook.** Find a notebook or 8-1/2" X 11" piece of paper. If today's Tuesday, write "Tuesday's (Month, Day, Year) Expenditures" at the top.
  - For the rest of today, each time you spend a dime, write down the amount and what you spent it on, i.e., "latte at Starbuck's, \$3.75." It doesn't have to be fancy. Just list every expense. At the end of today, total the dollars you shelled out for the day.
  - Repeat this listing, starting with the day and date at the top every day for 7 days.
  - At the end of each day, look at each entry on that day's list. Which entries were appropriate, such as paying your utility bill or putting gas in the car? Which entries were frivolous expenditures, like a latte, a candy bar at the convenience store and the \$30 worth of magazines you bought from the girl across the street?

- *Let's define "frivolous expenditure" as something you could have lived without and still made it through the day, week or month.*  
When you keep track of your expenses, you can see where your money's being spent. You'll find extra money to save every week if you do this exercise for 7 days straight.
  - Even though you're starting your new financial plan today, go ahead and complete this exercise. It's good to do this 7 day listing every 6 months to ensure you're refraining from gradually drifting back to habits of frivolous spending. Mark your calendar now to track your expenses for a week 6 months from today.
- 2. Discover where your unnecessary (frivolous) spending is and then stop it.** You've now discovered some situations where you're spending money that you could be saving.
- Was it the coffee and snacks at the convenience store when commuting? Was it ordering from the television shopping networks or stopping every day to get prepared meals? Maybe it's randomly shopping at the home improvement stores and picking up a few tools or items here and there.
  - Consider other expenditures that might not have occurred over the last week but are still troublesome.

*As of today, commit to a new way of spending.*

**3. Take a long look at the list of outgoing monthly expenses you made in the prior chapter, Step Two.** Is there anything you can cut out? Can you alter your lifestyle to reduce spending, at least for 3 or 6 months to see what it's like?

- Do you really have to stop at the bar after work 3 times a week for a drink and a snack?
- Or get a manicure every 2 weeks?
- Do you thoroughly take advantage of the fact that you're paying for over 200 television channels on the cable bill?

**4. Get rid of at least one recurring monthly expense and lower at least two more monthly expenses.** How will you do it?

- If you agree to avoid the gourmet coffee store for a month or drive straight home after work instead of stopping for a drink and snack, you just got rid of a recurring monthly expense.
- It shouldn't hurt too much to slash another two monthly expenses. Consider these sample options: if you get a professional manicure every week, switch it to every other week. If you get a haircut every 4 weeks, do it every 6 weeks instead.

**5. Remove all credit cards from your wallet or purse except for the one with the lowest interest rate.** You won't need them since you've decided to cut your excess spending. If you don't know your interest rates, it's time to learn them. Get out your most recent monthly statements and circle the rates you're being charged each

month on any balances you carry.

- Feel free to post those interest rates on the back page of your spiral notebook for future reference because you're going to need them. Put your credit cards away for now, except for the one you saved. Write on a sticky note "for emergencies only" and stick it on the card you'll carry with you.
- Then, use the card only for emergencies. A sale on shoes at Saks is not an emergency, nor is a tool sale at Home Depot. Remind yourself you're taking these steps because you're getting serious.

*You're going to do something really big and wonderful—you're going to change your life.*

After you keep a week-long list of expenditures, identify unnecessary spending, eliminate and slash monthly expenditures deemed frivolous or unnecessary, and carry just one credit card, you've already arrested some of your spending. You're on the path to financial healing!



*“My problem lies in reconciling my gross habits with my net income.”*

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Errol Flynn

## Step Four: Start Saving Money This Week

You might be thinking, “How can I save money when I don’t have any left after I pay my bills?” Read on to learn where your future savings will come from.

1. **Get a large jar or container with a lid.** It can even be an old-fashioned piggy bank as long as it opens easily so you can remove the money to deposit into your bank account.
2. **Each day, put your change in the jar. *Make it a habit to place the change you accumulated throughout the day into the container every day after you get home from work.***
  - If you didn’t spend any money that day to get change back, then drop in a \$1 dollar bill.
3. **Deposit the money from your jar into your local bank.** Once a month toward the end of the month, take your jar to the bank and deposit all the money into your savings account. If you don’t have a savings account yet, open one for all the money you’ll be saving.

**4. Designate a weekday to pay yourself \$5.** If you pass your local bank on your way to or from work, stop in on Wednesdays to deposit \$5 to your savings account. Take the \$5 from your coffee, grocery or lunch money.

- It's not much, but it's something. ***You're establishing habits.*** Paying yourself money weekly and placing it in your savings account on Wednesdays (or any day you pick) is a wonderful habit to build.
- If you live too far from the bank to stop each Wednesday, drop your \$5 bill into your change container on the day you chose so it can be deposited at the end of the month along with your accumulated change and \$1 bills.

***You'll feel amazing when you start saving today.***

Put cash in your money container every day. Deposit the money at the end of the month and pay yourself \$5 every week. You're starting saving habits that will build over time. Pat yourself on the back: you're saving money!

*“The art is not in making money,  
but in keeping it.”*

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Proverb

# Step Five:

## Begin Paying Off Your Debt

If you're following Steps One through Four, you've already made some positive change. You're on the road to financial recovery!

*Let's continue on the path by seriously confronting your outstanding debt.* Although this step will be tough, it's an important part of liberating yourself financially.

- 1. Make a list of all your credit cards and the total amounts you owe on each one.** You can retrieve this info from the list you first made in Step One, #2.
- 2. Decide which credit card you'll pay off first.** You can start with the card with the lowest balance and continue paying off all your credit card balances using that method. Or, if you prefer, pay off the debt charging the highest interest rates and proceed to pay off balances based on interest rate fees.
- 3. Use ½ your savings account money.** Take half the prior month's money you saved (from your container) and use it toward paying off the credit card you targeted to pay off.

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- Add these amounts with the usual monthly payment amount you would be applying toward the credit card balance. Keep following this plan every month until you pay off the targeted credit card.
4. **The process of paying off your debts will go quicker than you think. *Be aware that your ability to pay off subsequent debts after you pay off the first debt will increase dramatically.*** Why? All the money you used to put toward your first debt will then be put toward your second debt in addition to the amount you typically pay toward the second debt.
- When working to pay off the third debt, you'll combine half of your savings for the prior month with the total monthly payment you used to pay toward the first credit card (you paid off), plus the total monthly payment you used to pay toward the second credit card (you paid off), plus the total monthly payment you normally pay to the third credit card.
  - Because the monthly amount you pay toward the targeted card will increase so drastically due to paying off the prior card(s), paying off the debts will not take as long as you might think. Can you visualize how quickly you'll be able to pay down your debts once you get rid of just one credit card balance?

Once you make your list of debts and decide which you'll pay off first, you can then access the savings you've been accumulating to begin paying off the debt. You'll be pleased at how quickly you watch those balances go down, down, and down until they disappear.

*“It is incumbent upon each of us to improve spending and savings practices to ensure our own individual financial security and preserve the collective economic well-being of our great society.”*

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Ron Lewis

## Step Six: Earn Extra Income However You Can

Although you might view this step as one the one that takes the most time and energy, it's well worth your efforts. Look at all of your skills and abilities with an open mind. You'll be surprised at the people who would pay you to do those things.

**Follow these strategies to continue your journey toward financial freedom:**

1. **Advertise.** Run an ad in your local free ads newspaper to advertise what you can do: clean out garages, clean and organize closets, mow and trim yards, clean pools, baby sit, do mending, walk dogs, clean pools, help paint houses, and house sit. What other talents and skills do you have? Start out by advertising them where you can do so for free.
2. **Use your talents and skills to help the elderly.** If you live near a place that has a concentrated elderly population, make a list of all the tasks you can do for them for pay. Call the independent living facility and speak to the director. Tell him what you can do and your prices.



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- Ask him what type of help the people who live there would be willing to pay for.
  - Ask him if you can advertise your services on their bulletin board for the residents to see.
  - Also, advertise at the neighborhood stores, banks and businesses near elderly residences to clean their apartments or homes, do pressure-washing, run errands, pick up and deliver medicines, do grocery shopping, plant their gardens, and more.
- 3. Connect with your network to find ways to earn extra money.** Call small business owners you know and talk with them about any type of extra help they need, even if it's just for a couple of hours a week.

*If you advertise, use your talents and skills, and network with people you know, you'll likely find projects to do for others to earn extra cash.*

As you begin bringing in extra income, you'll find yourself worrying less about bills. Word of mouth for jobs well done will do the rest. It's empowering to know you can earn extra money when you put your mind and effort into it.

*“Early to bed and early to rise,  
makes a man healthy, wealthy  
and wise.”*

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Benjamin Franklin

## Step Seven: Keep the Other Half of Your Daily/Weekly Savings

Since you're only using half of your monthly savings to apply toward paying off your credit card debts (Step Five, #3), you might be wondering what you'll be doing with the other half. Read on.

1. **Keep the rest of your savings.** Refrain from spending the other half of the money you deposited monthly in your savings account. *For now, the plan is to accumulate the other 50% of your savings until you have 6 months' worth of emergency living dollars in the event you experience an unexpected crisis, like a lay-off or job loss.*
  - Once you have 6 months' emergency money, move it into a separate account and vow not to use it for anything else.
2. **Next goal, save for a mini-crisis.** Once you have an emergency living fund, prepare for any mini-crises that occur, like the refrigerator breaking down or the car needing new brakes. Plan about \$500 for this purpose.
  - Let's say 3 months from the time you accumulate \$500, you have to spend \$300 to repair a broken window. It's okay; that's what

it's for. Just continue to save like you've been doing and "re-pay" the money up to the \$500 mark to be prepared for the next mini-crisis.

- 3. Continue the process of saving and separating out accounts for what you need.** Later down the road, you can start a new car fund or even a vacation fund if you like. You can also use your initial savings account for these types of extras, as long as you keep track of the amounts you require to save back for other purposes so it's there when you need it.
- 4. Increase the amount you save whenever you can.** If you get a pay raise, automatically bank at least 50% of the increase in your savings account.

Learning to save is one of the most valuable lessons you'll ever discover. And it's fun to watch your money grow. Keeping back half of the money you've accumulated throughout the month to pad your finances by having a 6 month emergency fund, a mini-emergency fund, and starting separate bank accounts to save for specific large expenditures will make you feel like a rock star.

*“A penny saved is a penny earned.”*

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Benjamin Franklin

# Step Eight:

## Design a Budget and Stick to It

Now that you're on the right path to stop living paycheck to paycheck, you'll be more interested in designing a budget that fits your family. Consider your budget to be a workable plan you follow to live life in a financially intelligent way. You don't have to re-invent the wheel.

- 1. Find a budget form you like and use it.** Many websites on the Internet have free, downloadable forms to make it easy for you to create your budget.
- 2. Fill in the budget form. *Create a budget using amounts you believe you can stick to.*** Your budget is your blueprint for a life free from financial chaos. You'll be reviewing it often to see how you're doing.
- 3. Keep track of your spending by reviewing your budget and expenditures often.** To keep a sharp eye on your spending, use the right margin of your budget to record weekly amounts spent. Doing so ensures you don't exceed your total established budget amount for that expense for the month.
  - Simply print a budget form with your monthly budgeted totals every month and write the month at the top. This way you can closely track weekly expenses.

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- For example, beside “Food,” use the right margin to jot down the amounts you spend on groceries each week, like “\$88.47, \$79.82, \$94.13, and \$80.02.” This way, if your monthly budgeted amount for food is \$400, you’ll see at a glance you’re staying within budget.
- Throughout the month, keep an eye on that total to adjust what you’re spending because your goal is to spend no more than the amount (in this example, \$400) you established for the month. As soon as you see you’re overspending for a category, cut down right away.

*When you design and stick to your own budget, you’ll feel like you have better control over your financial situation.*

And in fact, you do. So, find a budget form you like or make up your own and use it monthly. Watch your spending all month by comparing what you’re spending with your projected budget amounts in each expense category.

*“The art of living easily as to money is to pitch your scale of living one degree below your means.”*

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Sir Henry Taylor



# Summary

*You truly do have the power to stop living paycheck to paycheck, regardless of what you make.*

Acknowledging your financial state, familiarizing yourself with your income and debt balances and interest rates, cutting excess spending, and saving something every single week are steps to take toward a better financial life.

Also, focusing on paying off debts, doing side jobs to earn extra income, putting some of your savings to work for you, and creating and sticking to your budget will lead you down the golden path to a solid, stable financial existence you can be proud of!

*“As sure as the spring will follow  
the winter, prosperity and economic  
growth will follow recession.”*

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Bo Bennett