

Creating a Personal Financial Plan

Overview

Setting goals are important and often used to measure success. However, simply setting goals does not ensure you will someday accomplish them. Achieving goals requires establishing a plan. Planning is important to ensure a direction for your day-to-day actions. Being deliberate about establishing a plan can help guide the decisions you make to aid you in reaching your goals. The further your goals are from today, the more important it is to have a plan to ensure your success in reaching those goals. Think about it. You may not consult a map for a trip to the store across town, but you will probably want directions, or a plan, for a spring break trip to California.

When it comes to personal financial goals, many can be long term. Paying off student loans, a new car, or a mortgage on a home does not happen in a month or even a year. Retirement is an even longer-term goal. When it comes to financial matters, planning can be of paramount importance. Creating a personal financial plan has six basic steps:

1. Determine your current financial situation
2. Develop your financial goals
3. Identify alternative courses of action
4. Evaluate alternatives
5. Create and implement your financial action plan
6. Review and revise the financial plan

It is never too early to begin planning. In fact, the earlier you begin planning for your financial future, the sooner you will reach your goals. Because of the nature of interest and compounding that can be associated with investing, starting early can have great benefits. The longer your investments have to grow, the greater their growth will be. For instance, if you invest \$5,000 today and receive a 6% annual compounding interest rate, your investment will grow to approximately \$10,000 within 12 years. Within 24 years, the \$5,000 investment would grow to \$20,000 and within 36 years to \$40,000. While a \$5,000 investment at that rate made at age 48 would only grow to \$10,000 by age 60, the same investment made at age 24 would grow to four times that value by the same age. As you can see, it can certainly be advantageous to get started planning for your financial future as early as possible.

The worksheets on the following pages will help you navigate the six steps outlined above for creating your personal financial plan. Remember, your financial goals won't be realized just by setting them. You have to be intentional about creating a plan and diligent in executing it. After all, directions to your spring break destination won't do much good unless you follow them.

Step #1:

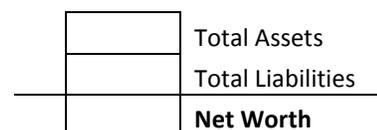
Determine Your Current Financial Situation

Before you can begin setting goals and developing strategies to achieve them, it is important to understand where you are now. The first step in creating your personal financial plan is determining your current financial situation. Having a thorough understanding of your current financial situation will help you to formulate realistic and well-informed goals. Taking a detailed look at your situation may also help you identify specific changes you could make to change your situation and help you achieve the goals you will create later in the planning process.

To gain insight into your current situation, it can be helpful to determine your current net worth. To calculate your net worth, you will need to total your current liabilities and subtract them from your total current assets. Assets are simply what you own that has value. These include: cash and cash equivalents, such as physical cash on hand, checking accounts, or savings accounts; personal property, such as equity in a home, other real estate owned, or a car; and invested assets, such as stocks, bonds, or pensions. Liabilities include value of what you owe including current bills and outstanding debt. Utilizing the charts below, calculate your current net worth.

Assets (What I Own)	
Cash & Cash Equivalents	
Cash on Hand	
Checking Account	
Savings Account	
CDs	
Life Insurance Value	
Savings Bonds	
Money owed to me	
Total Cash Equivalents	
Personal Property	
Estimate Equity in Home	
Other Real Estate	
Household Furnishings	
Specific Items of Value	
Automobiles	
Other Personal Property	
Total Real & Personal Property	
Invested Assets	
Stocks & Mutual Funds	
Bonds	
Government Securities	
IRAs	
Pensions	
401(k)s and similar plans	
Total Invested Assets	
Total of All Assets	

Liabilities (What I Owe)	
Current Bills	
Charge Accounts	
Credit Card Balances	
Utilities	
Rent	
Insurance Premiums	
Taxes	
Other Bills	
Total Current Bills	
Outstanding Debt	
Home Mortgage balance	
Other Mortgages	
Automobile Loan balance	
Student Loan Balance	
All Other Loan Balances	
Total Outstanding Debt	
Total of All Liabilities	



Step #2:

Develop Your Financial Goals

Once you have evaluated your current financial situation, you are ready to move forward in the financial planning process. The second step is developing your financial goals. Setting goals will give you a direction for your plan and a destination toward which you want to head.

When creating financial goals, you will want to consider obvious objectives such as monthly savings or retirement investments. However, also consider other goals you have which may not immediately stick-out as financial ones. The goal of backpacking through Europe upon graduation may not seem like a financial goal on its face. But, when considering the cost of a three week European vacation, you may want to think about adding this goal to your personal financial plan. Do you think you may need a new computer within the next couple of years? Maybe add purchasing a new computer in two years to your list of goals. Anticipating future expenditures you would like to make and incorporating them into your financial plan can help you put yourself in a position to afford them as they arise without having to make sacrifices elsewhere in your budget.

As you develop your financial goals, recall the first tip from Chapter One which discussed setting your goals. Your goals should be SMART, that is specific, measurable, attainable, realistic, and time-based. You should also develop short-term, intermediate, and long-term goals. Developing each of these types of goals will allow you to achieve successes early in the plan while also keeping your eye toward the future. Short-term or intermediate goals may also serve as stepping stones to reach long-term goals. For instance, a short term goal of saving \$200 a month may help you accumulate funds for the down payment on a home. An intermediate goal of paying off student loan debt a year ahead of schedule may help you free-up monthly income that could instead be used to make a car payment.

When developing your goals, be sure to differentiate between necessities and wants. Establish priorities. Consider the net worth you calculated in step one and how realistically your goals align with your current financial situation.

Considering the points in this section, reexamine the financial goals you set in Chapter One. Using the worksheet on the following page, add to, amend or re-record those goals for incorporation into your personal financial plan. Be sure to prioritize your financial goals in order of their importance to assist you later in the planning process.

Once you have set your goals, refer to your target date and the duration of your goals' costs to determine a monthly cost that will be associated with working toward your goal.

Step #3:

Identify Alternative Courses of Action

So far in the planning process you have evaluated your current financial situation and established some SMART short-term, intermediate, and long-term goals. But your goals won't be accomplished simply by creating them. You will have to devise strategies to help you bridge the gap from where you are today to where you would like to be. Just as there is more than one way to get from campus to your favorite ice cream shop in town, there is more than one route you can take to achieve financial success as you have defined it. The next step of the financial planning process involves identifying alternative courses of action that can lead you to your goals.

Let's suppose you're planning to study abroad next year. You'd like to be able to make the most of your experience while overseas and have enough financial resources to travel while abroad. You have decided you would like to have saved \$4,000 by the time you depart in 15 months, specifically for your travel endeavors. Maybe your financial situation is such that, so long as it persists in its current form, you will be financially prepared for your travel adventures while abroad. But if you are like most college students, that is not likely.

So what are your options for changing your current situation to make this goal a reality? We'll say you currently have an extra \$1,000 in savings from your last summer job that you are willing to shift into your semester abroad travel fund. This leaves you with \$3,000 to generate over the next 15 months, or \$200 dollars a month you will need to deposit into your travel fund to reach your goal. Thinking back to the budgeting and saving exercises from the previous chapter, perhaps you could decrease allocations to various expenses and shift more of your monthly income to savings for your travel fund.

Recall the budget you created in chapter one. Maybe by limiting unnecessary travel and carpooling whenever possible, you could decrease your transportation expenditures by \$75 per month. Perhaps by making more meals at home and limiting your new clothes purchases, you could cut your food and discretionary allowance allocations by \$50 each. Going to discount movie theaters could help you decrease your expenditures on entertainment by \$25 per month. By implementing good savings habits, you may be able to free-up enough of your current income to deposit in your travel savings so that in 15 months you will have reached your goal.

But maybe you have already applied the principles of the saving activity from chapter one to your current budget and there is little for you to cut. Adding a new job or hours to an existing job may help you increase your monthly expendable income so you can contribute the needed amount to your travel savings. At a minimum wage of \$7.25 per hour, about 7 hours per week would help you earn your monthly \$200 contribution you need to be making to your study abroad travel fund.

Generally, your alternative courses of actions will fall into one of two categories: reallocating existing resources, or generating new ones. Existing resources can be utilized by earmarking current savings or shifting current allocations as in the example above. Generating new resources may require changing jobs to improve your wage outlook, taking on additional hours or investing your savings more aggressively to generate higher rates of return.

Goal Strategies Worksheet

Select one of your short-term, intermediate, and long-term goals you established earlier. Consider the target date for accomplishing the goal and the monthly cost associated with the objective. Brainstorm three different strategies for reaching each goal, making use of a strategy from both categories discussed above.

Short-term Goal:	
Target Date:	Monthly Cost:
Strategy 1:	
Strategy 2:	
Strategy 3:	

Intermediate Goal:	
Target Date:	Monthly Cost:
Strategy 1:	
Strategy 2:	
Strategy 3:	

Long-term Goal:	
Target Date:	Monthly Cost:
Strategy 1:	
Strategy 2:	
Strategy 3:	

Step #4:

Evaluate Your Alternatives

Once you have given serious thought to the options available that could lead you to your goals, you may begin to realize just how many options there are. So, which courses of action should you take to achieve your desired goals? The answer is: that depends. While the Declaration of Independence tells us all men are created equal, the same may not be said for the various financial strategies available to aid you in accomplishing your dreams. Therefore, before you can select strategies to complete your financial plan, you'll have to thoroughly evaluate and weigh your options.

When assessing your options consider the pros and cons of each option. An option you are considering to increase your income may be moving income you are saving from a savings account to a stock portfolio. The change in investment methods may increase your rate of return received on your savings, helping you generate new revenue without having to work more hours. However, the stocks your savings are now invested in may also carry substantially more risk than did the savings account in which you previously deposited your savings. When evaluating your alternatives, also be sure to consider the opportunity costs of what you will forego to pursue your goal through each course of action.

Adequately evaluating each of your options can help to ensure you select the best course of action to accomplish your financial goals. Using the chart below, consider one of your goals from above and weigh two strategies you identified that could lead you to success.

Goal: _____

Strategy 1:	
Pros	Cons

Strategy 2:	
Pros	Cons

Step #5:

Create and Implement Your Financial Plan

At this point, you have done the bulk of the work associated with creating a personal financial plan. So far you've looked at your current situation, set goals, identified alternative courses of action, and evaluated your options. Now it's time to put all of the pieces together to create and implement your financial plan.

As you put together your financial plan, it's important to look at the entire picture. Having identified options for reaching your goals and having weighed each strategy, it's now easier to look at the cost of your goals in terms of your current situation. This can help you to prioritize your goals as you consider how much it will cost you to implement each one.

Finalizing your plan will require you to make decisions as to which goals to pursue and the best courses of action to take. All of this will have to be weighed in terms of your current situation and practical predictions for your future to maintain realistic and obtainable goals.

Once you've gone through the effort of creating your plan, discipline is paramount. After mapping your path to your goals, it's important that you follow that path. Be conscious about establishing actionable steps you can take to lead you to success when creating your plan. Having concrete steps to take will help you ensure you are doing what you need to do to stay on track to accomplish your goals.

Step #6: Review and Revise your Plan

The final step in developing a personal financial plan is perhaps the most important. You may have done your due diligence at each step along the way and created a solid financial plan. However, one fact remains: life happens. For this reason, it is important to review your plan often and revise it as needed.

Reviewing your financial plan can help you to gauge your progress toward meeting your goals. Original strategies may not be having the expected results and may require adjustment to help you meet your goals.

Additionally, no matter how carefully you go through each of the steps to create your financial plan or how perfect the plan may be when conceived, unforeseen events will occur. Your financial situation will change from time to time. You may incur unplanned expenses or receive unplanned incomes. These events may require you to change the path you will follow to reach your goal.

Your goals may also change. While owning a home may not be a priority now, it may be a goal you have later. As current goals wane from your list of priorities and you develop new goals, your plan will have to change to help lead you to your new objectives.

The fact is your life will change. Your financial plan will have to change too. Be faithful in reevaluating your plan from time to time to ensure your goals haven't changed and that you are on pace to reach those goals.