
WHAT IS FINANCIAL PLANNING ANYWAY?

Let's say your boss assigns a project to you at work. How would you go about accomplishing it? Would you:

1. Determine what goals must be achieved, review available resources, determine customer needs, study the competition, plan a sequence of actions to achieve the goals, and then execute the plan?
2. Move forward with no clear goals or time frame, no idea what resources are available, no idea who the customers and competitors are, no plan what to do next, and just hope that things will be okay?

Now let's say your project is to buy a house, or to send your kids to college, or to retire comfortably. How would you go about accomplishing those? Let's face it. Most of us tend to go with option 2.

This is where financial planning comes in useful. "Financial planning" may sound like something for rich people with a lot of money or for big time stock and bond investors ... but it's not. Financial planning is about life. It's about determining your goals and figuring out how to use the financial resources you have in order to reach your goals.

Financial planning is about more than investing ...

Controlling spending Increasing savings Managing credit

Reducing taxes Paying for college Buying a house

Protecting family and
assets with insurance Retiring comfortably Estate planning

... it's about managing your life!

THE FINANCIAL PLANNING PROCESS

Just as there are systematic steps for planning a project at work, there are systematic steps for planning your finances. The ability to plan is not something you're born with, it's something you can train to do, and do well. Here's one system adapted from the way a professional CERTIFIED FINANCIAL PLANNER® works:

1 GATHER INFORMATION Pull out your pay stubs, your bank statements, credit card bills, mortgage papers, credit report, everything that has anything to do with your income, spending and debts. Study the current economic environment. Also, think about your personal situation – where you and your family are in life, what life events are coming your way, and what your money habits are.

2 DETERMINE YOUR GOALS Now think about where you want your life to go short term, say one to five years, and long term, from six years to forever. Be specific about what you want by when. "I want to be rich" is not a goal, it's a daydream. "I want to save \$20,000 as a down payment for a house in three years" is a goal. And write down your goals – that makes them more real.

3 ASSESS THE SITUATION Now look at the information you gathered with a critical eye. How does your income compare to your spending? What are you spending on? Are you saving enough? Do you have too much debt, or the wrong kind of debt? Are you insured against the risks you face? Here it can be useful to draw up a spending plan, which lists all your income and expenses, or a net worth calculation.

4 CREATE AN ACTION PLAN Take your analysis of where you are, compare it to your goals describing where you want to go, and figure out how to get from point A to point B. Create a new spending plan that embodies better spending and savings habits. Decide which credit cards or loans to keep and which to pay off. Choose savings and insurance products. You may have to revise your goals if they are unrealistic.

5 EXECUTE THE PLAN A plan that isn't executed is useless. Draw up a time table – do this in week one, and that in week two – and stick to it.

6 MONITOR THE PLAN As you follow your plan, keep an eye on changing circumstances and make adjustments as needed. A new job may let you boost your savings rate. An unexpected crisis may force you to push back some goals. Changing family circumstances may create new goals or make old goals irrelevant. And especially check to see if unnoticed bad habits are pulling you off course.

A BASIC FINANCIAL PLANNING STARTER KIT

Everybody is different so every financial plan will be different, but most well-rounded plans will contain some common elements. What are some of the basic building blocks? Here's a suggested Financial Planning Starter Kit to get you going in the right direction.

CALCULATE YOUR NET WORTH

Just like a corporation, a balance sheet can show you how much you're worth. Do it each year and you'll see what direction you're headed in. List your **ASSETS** (money in the bank, investments, and real property like your house or your car, etc.), then list your **LIABILITIES** (money you owe like your credit card balance, mortgage balance, bill and taxes due). **ASSETS minus LIABILITIES equals NET WORTH.**

BUILD AN EMERGENCY FUND

Try to keep on hand enough easily-accessible funds to cover for three to six months of essential payments (food, rent or mortgage, insurance premiums, etc.). No one knows what will happen tomorrow – a broken refrigerator, a job loss, a hurricane. An emergency fund could be the difference between whether the emergency is a just a headache or a major crisis.

CREATE A SPENDING AND SAVINGS PLAN

Take out your bank statements, check books and credit card bills. List all your income and expenses. Study your expenses – you may be surprised how little things can add up. Now that you know how the money comes and goes, choose where to spend and where not to spend. Tip 1: think of savings as a bill you have to pay regularly. Tip 2: involve your whole family because everyone has to live with the plan.

GET KEY ESTATE PLANNING DOCUMENTS

Will – decide who gets your assets when you are gone ... and who will be the guardian for your kids
Financial Power of Attorney – appoint someone to take care for your finances when you can't
Health Care Power of Attorney – name someone to look after your medical care when you can't
Living Will – declare what life-saving measures can be taken should you be incapacitated

MANAGE YOUR CREDIT

Know what you owe. List your debts, including the lender, balance, interest rate and monthly minimum. How much of your income do they eat up – too much? One tactic is to cut your debt is to attack the highest-interest-rate loan and repay as much as you can each month until it's gone, while paying the minimum on the rest. Then attack the next-highest-rate loan. And check your credit report for errors.

GET ESSENTIAL INSURANCE COVERAGE

If you get sick, suffer an accident, suffer property damage or die, you (or your survivors) may take a bad financial hit. The right insurance can soften the blow – health, disability, auto, homeowners' or renters' and life insurance to start. That's a lot, so figure which are essential (if you're single and have no kids, do you really need life insurance?), but get what you need to protect yourself and your family.

Now add some goals and an action plan to achieve them, and you'll be well on the way to taking control of your financial future!