**Overview of Financial Planning**

Definition: Financial Planning is an improvement process whereby an individual or business entity identifies and executes a series of steps intended to reach reasonable and mutually agreed upon financial goals.

Steps: 1. **Defining a mission statement** that clearly states your value system, and the current

priorities on achieving short and long term financial goals that support your mission.

Spiritual Values, Family, Health, Work, Friendships

2. **Determine your current financial position** through the use of financial statements

**Income Statement** – to identify **how you are doing financially on a short** term basis

**Balance Sheet** – to determine **your financial position** as of today **based on long term**

**Decisions [Financial Archeology]**

**Budget –** **a setting down of expected income and expenses**, along with a realistic

determination of expense reduction **to achieve short term savings at year’s end**.

**3. Determine Short and Long Term Action Plans and Begin to Execute Them -**  based on your

evaluation in 2 within the context of 1, you will **determine one or two short term financial**

**action plans that support** your **mission** and meet **long term financial goals**.

Identify those that have greatest priority to complete first

Emergency Fund, Insurance, Reduce High Cost Debt, Live within a Budget

4**. Review** and Analysis **of Action Plan Success and Failure** - identify **areas where you are**

**making good progress** towards meeting your financial goals through those action plans

that are being executed

“ Failure is not fatal, but failure to change might be.”  
 [**Coach John Wooden**](http://www.brainyquote.com/quotes/quotes/j/johnwooden378437.html)  
  
Read more:[http://www.brainyquote.com/quotes/authors/j/john\_wooden.html#ixzz1kxm3EQ4o](http://www.brainyquote.com/quotes/authors/j/john_wooden.html" \l "ixzz1kxm3EQ4o)

5. Evaluate and Revise Your Financial Plan on the Basis of New Information **– go back to step 1**

and proceed to **consider what changes need to be made to your financial goals, action**

**plans**, as well as, an **update of the financial statements**.

Note: You may want to complete step 5 sometime shortly after April 15th [perhaps by June 15th] when you’ve completed your tax returns, and updated financial information may be more readily available.

Changing life circumstances may lead to alterations in your financial plan – some through the passages of life – Marriage, Children, New Job, New Home, Adoption, Higher/Lower Salary, Medical Emergency, Retirement, Divorce, and Meeting Original Goals Over Time.

Two Greatest Impediments to Meeting Financial Planning Goals – DEBT and DIVORCE. In a large number of cases, increasing family debt may significantly add to marital stress thereby raising the likelihood of divorce. If a couple has not done anything in the way of financial planning prior to divorce, they will both individually need to create a strong financial plan after separation, particularly if they have children.

Immediate Financial Planning Issues that Need to be Addressed into the Financial Planning Process

1. Medical Insurance – DON’T LEAVE UNI WITHOUT IT! If you are contemplating retirement

make sure that you have affordable and adequate health insurance, and drug benefits.

2. Consider having all your retirement savings in the CREF potion of TIAA-CREF to avoid

future withdrawal restrictions at the time of retirement. If you have funds in TIAA and are

looking to retire anytime in the next 10 years consider taking out 10% from TIAA and

transferring it to CREF.

3. Avoid taking on any new debt – particularly credit card, or installment loans. You may

consider an auto loan, but only if the low rate of financing can be justified in terms of

the savings on a more fuel-efficient car. One other consideration, is to refinance your

home mortgage if the new rate is at least 2% less than the rate on your existing home loan.

4. Review and update your auto, home and life insurance policies. Buy enough term life

Insurance to cover at least 5 to 7 times current earnings. Seek to obtain a combination

home and auto policy that offers discounts, and then follow that up with a $1 to $2 million

personal umbrella policy to cover liability at home and work.

5. Develop a Budget that will create year-end savings that can be used to fund a Roth or

Traditional IRA contribution. Generally, funding a traditional IRA will help reduce current

year’s taxes, so if you have no dependents and are in a relative high tax bracket putting

money in the traditional IRA will reduce your taxes --- the estimated savings will be:

Traditional IRA Contribution x Marginal Tax Rate

E.G. if you are in the 25% tax bracket and contribute $6,000 then your tax savings will be:

$6,000 x .25% = $1,500

On the other hand, if you have dependents and are interested in helping them pay college

tuition, you should consider funding an 529 Educational Plan for your children. You could

also consider contributing to a Roth IRA with the dual purpose of helping fund retirement, and

a child’s future education tuition needs.

General Perspectives on Money to Keep In Mind within the Financial Planning Process

Findings from the book: The Millionaire Next Door

**Most millionaires don’t drive luxury cars,** tend to live in modest homes, have continuously saved 20% of their annual income over an extended period of time, do a great deal of investing, enjoy their work, as well as, hobbies/sports, generally have an undergraduate, as opposed to, a graduate education, and many own their own businesses that provide a service or good that is useful to the public.

**Working professionals driving luxury cars, live in expensive homes**, own high priced toys [boats, planes, RV’s], generally have a great deal of debt, are living off their current income, lead stressful lives and are more **likely to get into financial difficulties** with DIVORCE because of financial arguments.

**Another perspective** in terms of lifetime income: **Assuming your annual salary averages $55k per year from age 30 to 65 [35 years], there will be 35 x $55K = $1,950,000 that flows through your hands during the average working lifetime.**  By the time you retirement, due to increases in life expectancy, the normal retirement age may very well be 70 which means the total value of life time cash flows would be: $2,200,000.

If you contributed $6,000 annually into your retirement plan and generate an 8% compound rate of return on your investments, at the time of retirement 35 years later you would have: $1,033,900. Under our current TIAA/CREF retirement plan if you made $55K a year, you would contribute 5% of that or $2,750 into retirement on average each year. The university would contribute 10% or $5,500 each year into your TIAA/CREF retirement account. So you annual retirement contributions would be: $8,250. If that annual amount were invested to return 8% a year, your retirement fund at age 65 would be: $1,421,614. If in addition to what was already being placed in TIAA/CREF you decided to put $3,000 each year into a IRA account earning 8% annually you would have an extra $516,950 at the time of retirement. If you had waited until age 45 to begin adding contributions to an IRA account, you would need to contribute $11,296 per year to achieve the same result, namely $516,950.

**Money is only useful for what it can do --- you can’t take it with you**. [Ecc 1:1-18; Ecc 2:4-11, 17-18; Ecc 5:10-12; Ecc 6:18-19]. Along with saving money you should have a strategy for employing money to be of benefit to yourself and others. Seek some financial goals that will provide enjoyment and self-satisfaction – ownership of a home, funding you, your spouse and/or your children’s education, planning and completing a vacation [provided you don’t die in the process in Death Valley or the Grand Canyon on June 22nd], learning something new – sport, instrument [such as the harp or harpsichord], painting, sculpture, reading/writing books. Other financial goals may be motivated to help others - “where your treasure is, there will your heart be also.”

**Some perspectives on benevolent goals**:

1. Does the contribution have immediate and noticeable results?

2. Does the organization you are contributing to have a high degree of integrity as demonstrated

by their meeting obligations over an extended period of time?

3. Are the managers of this organization happy to receive non-cash, as well as, cash contributions?

4. Is this organization willing to provide financial statements showing what their directors and

officers make, what their returns have been on invested contributions over the last 10 years,

what they are paying for “professional financial or marketing help” as well as an explanation of

how unrestricted gifts are to be spent?