



UNIT 2 – 1

The Importance of Financial Planning

Getting what you want is not easy. Most of the time, it is a road paved with hard work and dedication in order to achieve the goal you desire. Financial well-being and home ownership require the same dedication and hard work. They require perseverance and dedication, coupled with some financial know-how.

Let's take a moment to examine the financial state of the average American household. According to several financial research publications, a full 40% of Americans say they live beyond their means; nearly half of all Americans are living paycheck to paycheck; 66% of Americans don't pay off their entire credit card balance each month; and nearly 5% of customers are late with their credit card payments. Clearly there are a great number of people who would benefit from financial planning!

Financial advisors recommend setting goals in order to achieve financial well-being. Financial advisor and author Dave Ramsey points out that "you wouldn't build a house without a blueprint, so why would you spend a lifetime of income without a blueprint?" What do you want to accomplish in 5 years, 10 years, and 20 years? Those who are financially successful have written plans and goals for their futures.

Your needs will change throughout your life, but it is essential that you have a plan for your finances. For example: Why is financial goal setting important? How do you set financial goals? Finally, what are the essential ingredients of successful financial planning?

Case Study Application

In this lesson, we will examine the importance of financial planning. As we go along, we will examine the following case study which introduces us to Matthew and his travels along the financial pathway to home ownership.



CASE STUDY: MATTHEW SETS HIS GOALS

Matthew is currently a high school junior. He enjoys school, but is looking forward to the day when he can get out, have his own place, and make his own decisions.

He is beginning to consider what he will do when he graduates from high school and the type of lifestyle he would like to have. He knows that he needs to begin planning now for his future, but he's not sure how to begin. He has some ideas for what he wants to do for his career and the type of lifestyle he would like to have. He is not sure how his future paycheck will pay for his ideal lifestyle and wonders where to begin.

The Importance of Financial Goal Setting

Financial planning is one way to take charge of your economic destiny. Your financial well-being is a reflection of your **financial values**—your personal beliefs about what you regard as important, worthy, desirable, or acceptable. Values are reflective of your upbringing and life experiences. These values vary from person to person.

You will also want to consider your attitudes toward your financial goals and well-being. What is your state of mind, opinions, and judgment regarding your lifestyle and financial state? For example, a newly married couple may have high positive regard for higher education, but one has a more positive attitude toward Northern Kentucky University and the other prefers Purdue University. One spouse may hold high value on children whereas the other may not have the same desires, beliefs, and attitudes toward raising and providing enrichment opportunities for them.

Finally, you will want to consider your goals or even dreams. Begin by writing them on index cards. You will need approximately 8-10 index cards to record the information using one dream or goal per card. Make your details specific; include the goal itself, a year for it to be accomplished, and the financial cost. For example, a goal might be to have a swimming pool within 10 years with the cost being \$50,000. Another goal could be to attain an undergraduate degree in education from the university of your choice within the next five years for a cost of \$24,000.

On the back of each card, write what you would need to do to make your dream or goal a reality. Also, if you have saved any money toward the goal, record that amount as well. Next, decide how much money you would need to save each month in order to achieve your goal. First take the numbers of years you have to



reach your goal, and then convert that into months. Next divide the dollar amount of your goal by that number.

Once you have determined how much you will need to save per month for each goal, you may find that you do not have enough cash flow to reach each goal. We all have unlimited wants with limited resources to achieve them and must weigh the opportunity cost of our decisions. This is where your priorities, attitudes, and values come into play.

Think about what you are willing to give up to achieve your goals and what you are willing to do to meet them. It is important to have goals *and* dreams. Dreams, you will find in life, can be attained with a bit of planning, hard work, and perseverance.

- Take some time to reflect on your financial values. What do you believe about money—spending, investing, saving, and giving?
- Which of your goals or dreams do you believe are achievable in the short-term? Long-term? Are there any goals that you will have to revisit and revise?

Setting Your Financial Goals

In order to reach your financial goals, you first need to know what they are. A great way to do this is to chart out a long-term plan. With a long term plan, it is best to set specifically detailed tasks with timelines and deadlines to achieve your goals. Working hard and following the plan will help you to achieve your financial goals.

A good way to begin is to write down your plan. Putting goals into writing not only makes them more realistic, it forces you to take a closer look at them. Your goals might be to buy a new car, save for a down payment on a house, go on a vacation, save for a backyard swimming pool, pay off credit card debt, buy your own home, or even plan for retirement. You will want to set goals that are SMART – **s**pecific, **m**easurable, **a**ttainable, **r**ealistic, and **t**rackable.

- **S**pecific goals mean that you should state exactly what you want to achieve, how you will achieve it, and when you will achieve it. For example, “I will pay off my credit card debt in 6 months by making a payment plan for my credit card company.”
- **M**easurable goals are goals that can be measured. You will know when you have achieved them. For example, “In six months, I will pay off my credit card bill in full.”



- **Attainable** goals are goals that can actually be reached. For example, you might make the goal to save enough money to pay cash for an iPod within the next three months rather than just charging it on your credit card.
- **Realistic** goals are goals that can be reasonably achieved. This wouldn't be setting the goal to set foot on the moon if you had no aeronautical training. A realistic goal for Matthew in our case study might be to narrow his education choices to three colleges that he considers possibilities for his undergraduate degree.
- **Trackable** goals are goals that you can record and keep track of your progress in pursuing them. For example, your goal might be to obtain a bachelor's degree in order to improve your earning potential. You can keep track of your progress toward the goal by using a list of the required courses and marking them off as you complete them.

It is a good idea to break your goals into three timeframes: long-term, intermediate, and short-term goals. Long-term goals are those goals that will take more than five years to accomplish. For example, long-term goals could include getting a college education or purchasing a home. These are goals that generally require longer commitments and often more money. Intermediate goals are goals that take one to five years to accomplish. For example, someone who has accumulated a small amount of debt may need to set an intermediate goal to pay it off. Short-term goals are those goals that can be accomplished within one year.

The third step is to educate yourself on the importance of investing. With a little bit of effort, you can learn enough about the stock market to make educated decisions that will increase your net worth. Then, identify small steps you can take to achieve your goals and put your action plan to work. Don't be afraid to delay purchases until you are financially able to afford them. It's better to wait a bit and have the money than to have to pay interest on your purchase.

Finally, evaluate and reflect on your progress. Are you making progress toward your goal? Do you need to revise your plan? Are your goals still in touch with what you want to accomplish?

Do this monthly, quarterly, or at any other set interval to determine if you are making progress towards your goals. If you are not making progress, re-evaluate your approach and make any necessary changes. The most important thing to remember about setting financial goals is to do to begin *now*. You can't reach your goals if you never begin to walk the path to get there!

- Take a few moments, and write down your intermediate financial goals. Then, write down your long term goals.



- What are considerations that you must evaluate in order to achieve the goals you have developed?

Essential Considerations for Successful Financial Goals

There are key elements or essential things to consider when setting your financial goals. Four of these include:

- **Creating wealth** – this is the beginning step in increasing your financial security. A good place to begin is to increase your value to an employer, invest in your education, build your experiences, or make yourself otherwise invaluable to your employer.
- **Maintaining wealth** – develop, follow, review, and revise your budget. This will help you to maintain your financial well-being.
- **Increasing wealth** – invest in stocks, bonds, or other savings accounts that take advantage of compounding growth.
- **Enjoy your wealth** – reward yourself occasionally for setting your goals, following your plan, and achieving your goals.

As stated in the beginning of this unit, you will also want to follow some of the strategies of today's millionaires. If you can give up a competition with your neighbors, friends, and others to keep up with spending and instead live below your means, you will be able to follow your plans more effectively. Also, you have to have patience with your plan and your savings. An emergency fund will also assist you in meeting your long-term financial goals. Having this fund will help you to insure yourself against unexpected expenses.

You will also want to consider eliminating “get rich quick” schemes from your path. Buying lottery tickets, the latest fad investment, or other shortcuts will distract you from reaching your goals. Always remember: if something seems too good to be true, then it probably is!

Most importantly, paying attention to your finances and setting goals will help you to manage your financial well-being. Ignoring your financial situation won't improve anything. Problems that are ignored don't go away; they just get bigger. Take charge of your money and your path to financial well-being. Work hard to make good choices with your spending, saving, investing, and giving. Dave Ramsey summarizes the philosophy of goal setting and successful financial planning, “If you live like no one else, later you can live like no one else.”

- Review your plan for financial well being. How can you ensure that you don't stray from the path you have set for yourself?

