Managing Your Finances
Part I

Planning for Financial Stability
A seven step plan for a secure future
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Financial Stability Does Not Happen By Accident

- A personal financial plan involves:
  - Specifying financial goals
  - Financing and investment plans
  - Following the plan
A Financial Plan is like a Builder’s Blueprint

- spells out every aspect of how to accumulate and grow wealth
- provides for emergencies
- ensures you are making steady progress toward your financial goals
Components of a Financial Plan to Build a Solid Future

- Communication and Recordkeeping (part 7)
- Retirement and Estate Planning (part 6)
- Personal Investing (part 5)
- Protecting Your Assets and Income (part 4)
- Personal Financing (part 3)
- Liquidity Management (part 2)
- Budgeting & Taxes (part 1)
Component One - Budgeting and Taxes

• Budgeting is the process of forecasting future expenses and income.

• Creating a budget involves four steps:
  – Establishing your net worth
  – Establishing your income
  – Identifying your expenses
  – Considering the impact of taxes
Establishing Your Net Worth

• Net worth = Assets – Liabilities

• Example: You own a car worth $8,000
  You owe the bank -$3,000
  Your net worth is: $5,000

Sometimes you hear people refer to equity in a home or car. This means ownership.
Establishing Your Income

• Income is the money coming in through:
  – Wages
  – Allowance
  – Child support
  – Interest earned on assets
  – Monetary Gifts

• Generally, more education or specialized training translates to more income
Identifying Your Expenses

• Start by estimating how much you spend each month.
• Accurate estimates of your expenses helps determine how much you can save.
How We Spend Our Money?
US Department of Labor Survey

- Food 12.6%
- Housing 33.8%
- Apparel & Service 3.9%
- Transportation 17.6%
- Health Care 5.7%
- Entertainment 4.9%
- Insurance & Pensions 10.9%
- Other 10.6%
Consider The Impact Of Taxes

• Taxes = Money owed to government on earned income. The more you earn the higher your taxes. Ways to reduce taxes are:
  – Retirement or College plans
  – Charitable giving
  – Mortgage interest
Component 2 - A Plan For Managing Your Liquidity

• Liquid assets refers to readily available cash.

• Liquid assets is not the same as net worth.

• If you do not have enough money to cover immediate needs, you have a liquidity problem.

• Credit is often used to cover immediate cash shortfalls, but don’t forget the interest you will pay.
Managing Your Liquidity

Money Management

- Keep some money available in case it is needed
- Ensure access to credit if needed

Access to money and/or credit to cover expenses not covered by current income
Component 3 - A Plan For Financing

• Major purchases such as cars, houses and paying for college typically require borrowing money.
• It is common to pay a portion and finance the rest.
• Long term financing has a lower interest rate than short-term (credit cards).

Keep in mind… some lenders will loan you more money than you should borrow!
Component 4 - A Plan For Managing Risk

• As you accumulate assets, you need to devise a plan to protect those assets.

• Insurance planning is a component of financial planning.

• Typically people insure:
  – houses
  – cars, boats
  – health and disability
  – life
  – valuable assets
Component 5 - Plan For Investing

- You need to accumulate funds for liquidity to meet day to day expenses.
- Other investing may be done with the expectation of earning money.
- Common investments include
  - stocks,
  - bonds,
  - mutual funds
  - real estate

Riskier investments can mean greater returns but can also mean significant losses.
Component 6 - A Plan For Retirement

• People who retire young are often people who began planning for retirement when they were young.

• The government provides ways to save for retirement that allow you to accumulate wealth without paying taxes until you retire.

• By putting off paying taxes until later, you increase the amount invested.
Communicating your financial plan to your family is critical.

Keeping records is essential when you file taxes and calculate your net worth.

Good financial records can be a motivational tool.

At some point, your financial records might be important to your heirs.
Resources and References