Managing Your Finances
Part I

Planning for Financial Stability
A seven step plan for a secure future

Financial stability does not just happen. It takes a plan. We all want to have money when we need it.
“By failing to prepare, you are preparing to fail.” -- Benjamin Franklin
Financial Stability Does Not Happen By Accident

- A personal financial plan involves:
  - Specifying financial goals
  - Financing and investment plans
  - Following the plan

Financial Stability Does Not Just Happen By Accident Or Good Fortune

Specific goals must be specific.

“My goal is to buy a new pair of shoes,” is more of a wish than a goal.

“My goal is to buy a new pair of shoes in the next two months and I will save $5 a week to accumulate the needed funds,” is a very specific goal.

If you follow through and saving the money, you will have the funds to accomplish that goal.

Have students practice making general goals more specific.
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.

A Financial plan ensures that your plan is in place to meet your financial goals. This does not mean the plan does not need to be evaluated and revised from time to time. Evaluation of your budget is a continual process as your needs change.
These are the seven components to build a solid future. At this point you should copy this list on the “Components of a Financial Plan” sheet. We will be referring back to this throughout the PowerPoint. You will list the components one through seven on your paper. This diagram lists part 1 at the bottom because it is the first component that you deal with when you get your first job. As you work towards a solid future, you will move up the pyramid. The first component, “Budgeting and Taxes” is at the bottom of the pyramid. It has several steps and you will be looking at several slides about this topic.
When you create a budget, you are forecasting what you believe your future expenses and income will be. There are four steps in creating the budget: 1) establishing your net worth, 2) establishing your income, 3) identifying your expenses, and 4) considering the impact of taxes. As we proceed through the slides, we will discuss these steps in more detail.
What does “net worth” mean? At this point I think we need to stop and define some terms. Assets are the things we own that are of value such as our home, car, collections, furniture, etc. Assets are anything of value that we could sell to get money. Sometimes we own part of an item. For instance, you bought a car and have paid on it for over a year but you still owe payments for another year. The value of the part of the car that you have paid for is an asset, but the remaining payments are a liability. Liability is our debt. When figuring our net worth we need to add together all our assets. This would include things we own of value as well as money we have saved or invested. Your earning power is also an asset. If you earn an income because you are healthy, able to work, and have a skill that your employer pays you to do; we call this an asset. Although your earning power is an asset, we do not use this asset in figuring your net worth. You have to take into consideration that some of the money you earn is used on consumable items such as food, utilities, and entertainment that does not accumulate wealth.
What is considered income? Income can come in different forms. As a student, your parents may give you allowance. This is income. If you have a part time job, you may earn wages which is income. Interest earned on a savings account is also income. A custodial parent who receives child support is also receiving income. For many people, income is mainly from the wages they earn from their job, but it can take on different forms. Monetary gifts are also income. For most people, the more education you have, the higher your income will be. As you think back to our discussion of specific goals, you might want to consider the goal of education. It might sound like, “My goal is to get a college degree by getting the best grades I can in high school so I will be accepted into college and obtain scholarships.” As you can see, there are many components to building a solid future!
Once you have established your income, you know how much you can spend. You do not want your expenses to exceed your income because this results in debt. Most people have some debt because we need to borrow to purchase large ticket items like houses and cars. We will discuss credit in more detail in later lessons. At this point you want to estimate your expenses. Every budget should have a saving plan. It is a good idea to save at least five percent of your income. Accurately estimating expenses helps you create a budget you can live with. Many students are not aware how much their parents spend on their expenses. Next time you go to the grocery store with your parent, pay attention to how much the groceries cost.
This is a survey taken by the US Department of Labor. It indicates what percentage of our income we spend on various budget items. This is an average so it will vary depending on your income. A low income may be spending a higher percentage of their income on food. When this happens to someone, some things may get neglected like saving for retirement because they are simply living day to day and cannot consider their future. It is important to consider the future, because saving for retirement at a young age gives many years for money to grow with interest.
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

One of our responsibilities as US citizens is to pay taxes. It is a fact of life. The more you earn, the higher your taxes will normally be. You will pay a higher percentage rate. As you move up the career ladder and earn more money, you might want to consider how you can reduce taxes. One way is to purchase a house. The mortgage interest that you pay when you buy a house is tax deductible which means it reduces the amount you pay in taxes. Giving to your favorite charity is another way to get a tax deduction. You can also use pre-tax dollars to contribute to retirement or college plans so this is a great way to plan for your future and save some money at the same time.
Liquid assets refers to cash that is readily available. Have you ever gone to the store and wanted to buy something, but did not have the ready cash to pay for it?

Liquid assets are not the same as net worth. You may have many valuable assets, but they would not solve a short-term financial need. You may have valuable assets, but if an emergency arose where you needed money quickly, you would not be able to solve that immediate need with the assets that you have to sell. Liquid assets refers to actual money that you have in the bank or savings that you can withdraw and use immediately. Credit is often used to cover immediate cash shortfalls, but it is not a good idea to use this too often as you do have to pay interest unless you can pay it off within a short period of time. Having money in a savings account is a good way to cover those emergencies.
As I mentioned, most people use either savings or credit to manage liquidity for unplanned expenses. Keep in mind, you have to manage your money well to have savings. Saving at least five percent of your income will help accomplish that. Ensuring that you have credit when you need it will also help you when you have a cash shortfall. In order to have good credit, you must be responsible and pay your bills on time.
When we look at the whole picture for creating a secure financial future, it has to include borrowing. Most people do not have thousands of dollars to pay cash for a house or car, so in order to get those items it will involve financing. It is common to make a down payment and then borrow the rest. Long term financing has lower interest rates than short-term loans, such as credit cards. Keep in mind that some lenders will loan you more money than you should borrow. You need to examine your budget and make intelligent decisions about financing. If you think you can’t afford something, you are probably right, even if a lending institution is willing to loan you more.
A plan for managing risk is an important component of financial stability. You worked hard for your house and car. You certainly do not want to lose those items to a fire or accident. As you accumulate items, most people manage the risk of loss with insurance. In addition to purchasing home owners and auto insurance, people also insure health, life and any valuable assets. If you lose your earning power, you lose a major asset. Health or disability insurance can help bridge the gap until you can regain your health. Life insurance pays your loved ones in the event of your death. Life insurance is important when people depend on you for your income. Sometimes people think a stay at home parent who takes care of small children does not need life insurance because they do not earn an income. Nothing could be further from the truth. If a working spouse had to pay for the services the caregiver of small children provides, it would be very expensive.
The fifth component of planning a secure future is a plan for investment. We have already talked about how you need to accumulate some funds so you have funds for an emergency, but people need to invest money to grow for future use such as retirement or college funds for children. Common investments include stocks, bonds, mutual funds and real estate. Typically, riskier investments might mean larger returns on your money, but it also might mean bigger losses. Working with a financial advisor or expert in investing can help you make wise investment choices.
The sixth component of planning for a secure future is retirement. Many companies offer 401k or 403b plans where people can invest pre-tax dollars for retirement. In these plans you typically cannot take the money out until you are 59 ½ years of age without a penalty. There are a few exceptions. People who retire young are usually those that plan for retirement when they are young. Investing at a young age allows more time for money to grow. The government allows you to accumulate wealth without paying taxes on that money until you retire. By using these pre-tax dollars, you are paying taxes on less which might put you in a lower tax bracket so you pay even less in taxes.
The last step of securing your future and the future of your loved ones is to keep good records and let your heirs know where to find those records. Dying is part of living and communicating your financial plan to your family after your death is critical. Keeping good financial records can also be a motivational tool for you to be financially responsible.
### Resources and References