LEARNING GOAL SUMMARY

LG1 Identify the benefits of using personal financial planning techniques to manage your finances.

Personal financial planning helps you marshal and control your financial resources. It should allow you to improve your standard of living, get more enjoyment from your money by spending it wisely, and accumulate wealth. By setting short- and long-term financial goals, you’ll enhance your quality of life both now and in the future. The ultimate result will be an increase in wealth.

LG2 Describe the personal financial planning process and define your goals.

Personal financial planning is a six-step process that helps you achieve your financial goals: (1) define financial goals; (2) develop financial plans and strategies to achieve goals; (3) implement financial plans and strategies; (4) periodically develop and implement budgets to monitor and control progress toward goals; (5) use financial statements to evaluate results of plans and budgets, taking corrective action as required; and (6) redefine goals and revise plans and strategies as personal circumstances change. Before you can manage your financial resources, you must realistically spell out your short-term, intermediate, and long-term financial goals. Your goals, which reflect your values and circumstances, may change due to personal circumstances. State them specifically in terms of the desired results.

Exhibit 1.3 The Six-Step Financial Planning Process

The financial planning process translates personal financial goals into specific financial plans and strategies, implements them, and then uses budgets and financial statements to monitor, evaluate, and revise plans and strategies as needed. This process typically involves the six steps shown in sequence here.

1. Define financial goals.
2. Develop financial plans and strategies to achieve goals.
3. Implement financial plans and strategies.
4. Periodically develop and implement budgets to monitor and control progress toward goals.
5. Use financial statements to evaluate results of plans and budgets, taking corrective action as required.
6. Redefine goals and revise plans and strategies as personal circumstances change.

LG3 Explain the life cycle of financial plans, the role they play in achieving your financial goals, how to deal with special planning concerns, and the use of professional financial planners.

In moving through various life-cycle stages, you must revise your financial plans to include goals and strategies appropriate to each stage. Income and expense patterns change with age. Changes in your life due to marriage, children, divorce, remarriage, and job status also necessitate adapting financial plans to meet current needs. Although these plans change over time, they are the roadmap that you’ll follow to achieve your financial goals. After defining your goals, you can develop and implement an appropriate personal financial plan. A complete set of financial plans covers asset acquisition, liability and insurance, savings and investments, employee benefits, taxes, and retirement and estate planning. Review these plans regularly and revise them as necessary. Situations that require special attention include managing two incomes, managing employee benefits, and adapting to changes in your personal situation, such as marital status or taking responsibility for elderly relatives’
Professional financial planners can help you with the planning process. Investigate a prospective financial planner’s background carefully and understand how he or she is paid (commissions, fees, or both).

Exhibit 1.4 The Personal Financial Planning Life Cycle

As you move through life and your income patterns change, you’ll typically have to pursue a variety of financial plans. For instance, after graduating from college your focus will be on buying a car and a house, and you’ll be concerned about health and automobile insurance to protect against loss.

LG4 Examine the economic environment’s influence on personal financial planning.

Financial planning occurs in an environment where the government, business, and consumers are all influential participants. Government provides certain essential services and the structure within which businesses and consumers function. Businesses provide goods and services to consumers, whose choices influence the products and services businesses offer. Personal financial decisions are affected by economic cycles (expansion, recession, depression, and recovery) and the impact of inflation on prices (purchasing power and personal income).

LG5 Evaluate the impact of age, education, and geographic location on personal income.

Demographics, education, and career are all important factors affecting your income level. As a rule, people between 45 and 64 years old tend to earn more than others, as do those who are married. Equally important, statistics show a direct correlation between level of education and income. Where you live is an additional consideration—salaries and living costs are higher in some areas than in others. Career choices also affect your level of income—those in professional and managerial positions tend to earn the highest salaries.

LG6 Understand the importance of career choices and their relationship to personal financial planning.

Career planning is a lifetime process that involves goal setting and career development strategies. A career plan should be flexible and able to adapt to new workplace requirements. Use continuing education and on-the-job training to facilitate changes in job, employer, and even career. When making career plans, identify your interests, skills, needs, and values; set specific long- and short-term career goals; develop and use an action plan to achieve your goals; and review and revise your career plans as your situation changes. Most career decisions have monetary implications, so coordinate your career plans with your personal financial plans.