## Developing a Financial Plan

## **Objective**

To develop a comprehensive financial plan to solve financial problems.

## What to Know

Research shows that people with a financial plan are more likely to pay their bills on time and save money each month. Do you have a financial plan? If you don't, this worksheet will help you create one.

You can develop a plan yourself including the eight critical components every plan should include:

- **1. Financial goals.** The first step of developing a plan involves deciding what you want your money to accomplish for you. Weigh the importance of each goal, ranking them by needs, wants, and wishes.
- **2. Net worth statement.** Your plan needs a baseline, so determine your net worth. Try not to be discouraged if your liabilities are greater than your assets. That's not uncommon.
- **3. Budget and cash flow planning.** Your budget is essential because it helps you determine where your money is going and where you can cut back to meet your goals. Use the 'Budget' worksheet if you need help with this, or any number of online apps including Mint, You Need a Budget (YNAB), PocketGuard, Personal Capital, or Honeydue.
- **4. Debt management plan.** Remember not all debt is bad debt. A mortgage, for example, can help build equity—and boost your credit score. But high-interest consumer debt like credit cards can sometimes negatively impact your credit score. Also, every dollar you pay in finance charges and interest is one you aren't putting toward your financial goals.
- **5. Retirement plan.** An old rule of thumb says you will need approximately 80% of your present income during retirement. However, this might not be accurate. If you are saving 20-30% of your pre-retirement income, then the 80% income-replacement rule is a good place to start. Otherwise, it might be best to save 100% of your pre-retirement income. There are always exceptions, so you might want to fine-tune your retirement budget or seek help from a financial advisor.
- **6. Emergency fund.** When something unexpected happens—you lose your job or have an unexpected medical expense—an emergency fund can help you make ends meet. It is a good idea to save enough to cover *at least* three months' worth of essential living expenses (e.g., food, housing, utilities).
- **7. Insurance.** In general, you want to consider:
  - Health insurance—medical bills can set you back tens of thousands of dollars. As you get older, you might also want to consider long-term care insurance.

- Disability insurance—protects you and your family if you are unable to work.
- Auto and homeowners'/renters' insurance—If you own a car or home (or rent your home) make sure you are protected.
- Life insurance—generally a good idea if you have dependents. Work with an insurance agent to understand the types of coverage available.
- **8. Estate plan.** You should have a will that outlines your final wishes regarding assets, dependents, and who you want to administer your estate. Also, keep the beneficiaries of your insurance policies and retirement accounts updated. Consider establishing powers of attorney for financial and health care decisions.

## What to Do

List your financial goals. Organize them by how soon you will need the money.

**Short-term goals** are those you hope to achieve within the next five years—such as paying off debt.

**Medium-term goals** are those you hope to achieve in the next 5-10 years—such as saving for a down payment on a home.

**Long-term goals** are those that are 10+ years away—such as retirement.

For each goal, include a dollar amount and target date.

Financial Goal	Dollar Amount	Target Date
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roperty, and so forth).			
asset			Value or Balance
		Total	
Write dawn your debts (ared	it cards martagas	Total:	and so forth)
Vrite down your debts (cred	it carus, mortgage	s, student idans	Balance
ebt			Balance
			<del></del>

and when you need each item and add a		many elements, so you re list below and note what on.  Action Ne	at action you	
and when you need each item and add a	to do it. Review the date for completion	e list below and note wha	at action you	ı need to take f
f debt is a concern,	what can you do to	manage it? Be specific.		
Are you satisfied wi	th your net worth?	Why or why not?		
minus <b>Liabilities</b> equals <b>Net Worth</b>	\$\$ \$	-		
Assets	\$	Total:		
		<del></del>		

Tax Reduction Plan

Emergency Fund	
Retirement Plan	
College Funding (if applicable)	
Charitable Giving	
Health Insurance	
Life Insurance	
Disability Insurance	
Long-Term Care Insurance	
Homeowner's/Renter's Insurance	
Auto Insurance	
Identity Theft Insurance	
Refinance	
Other	
Other	

Now that you have developed a financial plan and established what you need to do, write down specific ways you can solve financial issues you are having. For example, what are some ways you can save more money each month? What can you do to pay your bills on time, all the time? What can you do to increase your credit score? You might not have any of these specific problems, but if you have a financial problem you want to tackle, brainstorm ways of solving it below.
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Who can help you?
Reflections on This Exercise
How helpful was this exercise? (1 = not very helpful, 5 = moderately helpful, 10 = extremely helpful)
What did you learn from this exercise?