



Section 4 Financial Decisions and Planning

Section 4-3 Personal Financial Planning

Financial Planning

- A formal process that involves looking carefully at your current financial situation and thinking about your future.
 - Requires a long-term commitment
 - Create a financial plan
 - **Financial plan**: contains personal and financial goals you want to accomplish along with steps and timeline for reaching these goals.
 - It's purpose is to plan for your earning, spending, saving and investing.
 - Should be reviewed yearly

Steps for creating a financial plan

- **Step 1: Gather Information**
 - Collect everything related to your finances
 - **Financial Records:** Budget, net worth statement, checkbook, bank statements, investment account statements, insurance policies, paycheck stubs, tax returns, wills, loan papers, retirement account statements
- **Step 2: Analyze Information**
 - Review your documents carefully
 - Is your income growing?
 - Is your net worth increasing?
 - Review your spending. Have your habits changed?
 - Who else depends upon your income?
 - What goals do you have to add or plan for?

Steps for creating a financial plan

- Step 3: Set Goals
- There are two types of goals: personal and financial
 - Personal goals-things you want to achieve in your life
 - Short-term-what you expect to achieve within one week to one year
 - Example: Adding \$200 to your savings account
 - Medium-term goal-what you expect to achieve in two to five years
 - Example: Saving money for college
 - Long-term goal-you you want to achieve in more than five years
 - Example: repaying college loans
 - Financial goals-how you will pay for the personal goals

Steps for creating a financial plan

- **Step 4: Develop a Timeline and Benchmarks**
 - Goals should be measurable
 - Prioritized your goals-which do you want or need to achieve first
 - Create a timeline for putting your goals in action
 - Timeline: a visual display of how long it will take to achieve each phase of your plan
 - For each personal goal there should be a financial goal
 - Create benchmarks for each goal
 - Benchmark-standards against which progress is measured

Steps for creating a financial plan

- **Step 5: Implement and Evaluate the Plan**
 - Once your goals are outlined, begin working towards them
 - Check off items on your timeline as you achieve them
 - Set new benchmarks as needed
 - Reevaluate your goals from time to time and make changes as necessary
 - Some goals may become obsolete and new goals may need to be created

Financial Advice

- Sources and Types of financial advice:
 - **Financial Planner**-a professional consultant who provides financial advice to individuals for some type of fee or commission.
 - Planners have access to all of your personal information, social security numbers, bank account numbers, birth dates
 - **Financial Expert**-gives advice based on superior knowledge and experience
 - **Financial Sections and Articles**-read sections of newspaper and magazines
 - **Seminars and Workshops**- Companies offer workshops or free seminars on financial planning
 - **Financial Websites**-Free websites that provide background information for financial planning

Protecting Your Financial Resources

- Deal only with financial advisors and financial institutions that you know and trust
- Keep good records and verify balances regularly
- Guard your passwords
- Keep monthly statements in a safe place (locked drawer, strongbox, safe)
- Be careful with your communications with providers of financial products online
- If you suspect that your accounts or identity has been compromised, call or visit your bank or financial adviser.

Protecting Your Financial Resources

- ✘ When using a computer to access your financial information, you need to be aware of the risks.
- ✘ Two most common risks: phishing and identity theft.
 - ✘ **Phishing** – Internet scam in which an email is sent from someone posing as your bank or another legitimate business
 - ✘ Verify that the email you have received is actually from place that it indicates by contacting the business directly
 - ✘ Don't respond to these emails

Protecting Your Financial Resources

- ✘ **Identity Theft**-occurs when someone uses your personal information without permission to commit fraud or other crimes
- ✘ **Hackers** are typically the source of leaked personal information that leads to identity theft.
 - ✘ If someone obtains your personal information they may be able to:
 - ✘ Apply for credit in your name
 - ✘ Withdraw money from your accounts
 - ✘ Take possession of other financial assets
- ✘ Protect your information on your computer through a **firewall**: software or hardware device-this filters information coming in to your computer
- ✘ You could also store your financial information on a separate storage device such as, a flash drive, CD or portable hard drive.