

FINANCIAL PLANNING: BEING IN THE DRIVING SEAT

Kim has always spent her cash before she's even earned it. Nick finds out what he wants to buy (like his new guitar), works out how he's going to buy it, then saves his money until he can afford it.

Why are Kim and Nick so different? Why are some people good with money, while others never seem to have enough, and live from payday to payday?

It comes down to something called financial planning. This is just a fancy name for the process of deciding what your money goals are, then working out a plan to achieve them and putting that plan into action. It helps you to handle all aspects of your money, including spending, borrowing, saving and investing.

It's quite easy to learn how to create a financial plan for yourself – just follow these five simple steps.

What is financial planning?



Financial planning is an ongoing, thinking process.

It's not set in concrete and should change with you.

Let's take it step by step...

Step 1

It may sound pretty basic, but if you don't know where you're going, how will you know how to get there? What you need is a destination, or a goal. People with goals can plan and work out the best way to get to where they want to be. Goals are like signposts, providing direction for our plans and actions.

A big part of setting financial goals is knowing what you want. What do you want to spend money on? How much time do you want to spend working? What do you want to do with the money you make?

Apart from a few rare exceptions, most of us don't have enough money to do everything we want. We have limited amounts of time and money, so it's about making choices and tradeoffs. This means that understanding the differences between what our needs are and what our wants are is important.

Needs vs. wants

Needs are essentials, the basics of life that we need to get by. Think food, clothing, and a place to live. Wants simply increase the fun in life, like going to the movies, wearing the right clothes, and getting a new guitar.

Right now, you're probably more interested in wants. That's OK. But remember your life won't be over tomorrow if you skip the movies tonight. And for most people, needs get taken care of first.



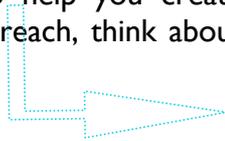
Needs and wants: can I tell the difference?

Read the list below and tick whether the item is a want or a need.

Need	Item	Want
<input type="checkbox"/>	New CD	<input type="checkbox"/>
<input type="checkbox"/>	Weekly groceries	<input type="checkbox"/>
<input type="checkbox"/>	Sunscreen	<input type="checkbox"/>
<input type="checkbox"/>	Movie ticket	<input type="checkbox"/>
<input type="checkbox"/>	Toilet paper	<input type="checkbox"/>

Work out your goals

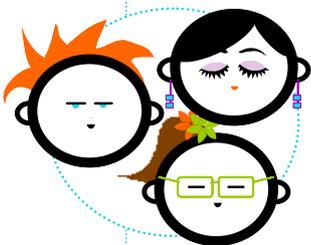
One of the most valuable things you can learn is how to identify your goals clearly. Your goal might be, say, to have fun on the Gold Coast during summer. To help you create goals that are within your reach, think about it in a SMART way.



Start setting your goals by writing them down. Be SMART and remember to distinguish between your needs and wants.

Timelines for goals

It helps to break up your goals into three time periods when you're planning. Short-term goals have a time frame of up to three months. Medium-term goals take place between three months and one year. And long-term goals are for longer than a year.



Kim's definitely a **short-term** girl – she needs the outfit by the end of the month.

Nick's next goal is **medium-term** – he's planning to hire recording equipment within the next six months.

Mel is looking to the **long-term** – uni is years away.

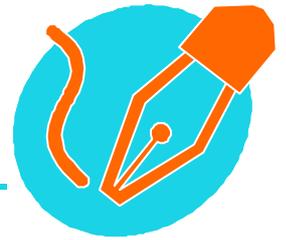
Specific. "I want to visit all the theme parks on the Gold Coast in my summer holidays." Not "I want to see the sights on my summer holiday."

Measurable. "I need \$200 for the entrance fees, food and souvenirs." Not "I need some money."

Attainable. "I'll save \$20 a week for 10 weeks starting in October." Not "I'll win a radio contest to get the money."

Realistic. "I plan to visit all the theme parks in the first week of my holiday." Not "I want to go to all the theme parks on the same day."

Time-bound. "If I start to save in October and stick to my plan I'll have the \$200 in time for my holiday." Not "I want to save up enough money before I go."



My SMART goals

Specific goal	Achievement date	Timeline (short, medium or long)	Estimated cost	Amount to save each week

If you're like most people, you may have noticed that the total of all of your goals takes more money than you have each week. Don't stress about it now though - we'll talk about how to handle that later.

This first step has been a big one. There's a lot to know about your needs, wants and goals. But it gets easier from here. And you already know loads about the next step, because the main information source is YOU.

Your current financial picture

Step 2

The second step in the financial planning process is to evaluate information about yourself. Let's start with where you are now. How do you get money? Do you have a job or receive an allowance? How much do you earn each week?

Next, ask yourself where your money goes. How much do you spend each week? What do you normally spend your money on? Do you owe anyone money for the stuff you already have? For instance, maybe you borrowed money from your parents for a stereo.

Answers to questions like these help you work out your current financial picture. First off, start tracking your cash flow. Cash flow is simply what money comes in and what goes out - a measure of what money you receive and the money you spend. How you manage cash flow has a direct impact on your goals.

Kim's cash flow



Let's have a look at how Kim manages her cash...

	Money coming in	Money going out
Monday		Kylie tickets - \$75
Tuesday	Fashion shop pay - \$96	
Wednesday		Nail polish - \$12
Thursday		DVD - \$25
Friday		
Saturday	Allowance - \$20	Lunch - \$7
Sunday		Coffee - \$2 Movie - \$8
TOTAL	\$116	\$129

As you can see, Kim spends more than she earns. She borrows money to cover her spending habits.

To help you get a handle on where you are now, complete a cash flow for the last seven days. If you can't remember every dollar you spent or received, that's OK, just do the best you can. But get into a habit of tracking your cash flow so you know what's coming in and going out weekly.



My cash flow

	<i>Money coming in</i>	<i>Money going out</i>
<i>Monday</i>		
<i>Tuesday</i>		
<i>Wednesday</i>		
<i>Thursday</i>		
<i>Friday</i>		
<i>Saturday</i>		
<i>Sunday</i>		
TOTAL		

OK. You should have some idea of where you are (your financial picture) and where you want to go (your goals). Now the trick is figuring out how to get there.

To do that, move to the next step.

Step 3

Remember the goals you listed in step one? Now it's time to work out how you are going to achieve them.



My left overs?

<i>My total weekly money coming in</i>		\$
<i>My total weekly money going out</i>	-	\$
<i>Amount left over</i>	=	\$

If you do have money left over, you're already ahead of the game and ready to start meeting those goals.

But, if like most people your "left over" money isn't enough to cover what you need for your goals, what do you do? Simple. Start making some financial decisions and put a plan into action.

Making decisions

Let's say you have two goals you want to meet, but after doing your cash flow you realise that you have only \$5 left over each week. Do you choose Goal A or Goal B?



If you go for the movie tickets (Goal A), you can definitely make the goal in four weeks. You'd even have \$1 left over each week to put towards another goal. But if you choose the movie tickets, you basically give up any hope of buying shoes in the near future. That's the tradeoff.

On the other hand, you could put all your money towards the shoes (Goal B). Making this choice means you don't have enough to meet the weekly dollar goal, so it would take 12 weeks to save up the \$60. But you would make it eventually. Then again, if you save all of your money for shoes, you've eliminated any hope of buying the movie tickets.

A third option would be to split your savings between the two goals (say \$2 for the tickets and \$3 for the shoes). In this case, you'd need a lot more time to meet both goals, but at least you'd be working towards both.

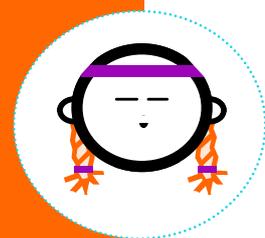
It's good to have options, and there are still more in this situation! You could either increase your income (ask for a raise in your allowance or maybe work more hours on your job) or decrease your purchases.

There is often no "right" answer. You have to make decisions based on your priorities and accept that you may have to compromise. Most people don't particularly like this - choosing one option usually means giving up something else. But the reality is, that's how most of us live. What's good is knowing what is really important to you.

To help you decide which goals you want to pursue and how you want to save for them, write down the reasons for or against each. We'll call it a PROS and CONS decision chart. Looking at Lena's situation will help you see how it's done.

Lena has \$5 left over per week. Her goals are:

- Goal A, save \$4 per week for the next four weeks to buy tickets to a basketball game.
- Goal B, save \$5 per week for the next 12 weeks to buy new training shoes.



Let's look at her option for choosing the tickets instead of the shoes. (She'd have another pros and cons chart for choosing the shoes over the tickets):

Pros for basketball tickets	Cons for basketball tickets
She can easily cover the \$4 a week needed.	Only has a \$1 left over to put towards the training shoes.
She has a \$1 left over.	Big wait to get those shoes.

My pros and cons

Now it's your turn. Here are a couple of blank pros and cons charts to help you work through your options.

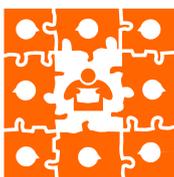


Option 1: _____

Pros	Cons

Option 2: _____

Pros	Cons



Putting it all together

Once you decide on the goals you want to work towards now (and which ones will have to wait) you've started to put your plan in place.



My chosen goal(s)

.....

.....

Step

4

So you have your plan. Now you have to kick into action and make it happen! Easier said than done? Yes, knowing what you *should* do and actually *doing it* can be challenging. It takes discipline and strength to stick to your plan.

To keep on track, you can find someone in your family (or a friend) who encourages you to work towards your goals. Show them your goals and explain your plans. Then ask them to check in with you once a week to see how you're tracking. Going through the process with someone who supports you is almost always easier than going it alone.

Be aware that you may need to be flexible with your plan. Like anything in life, you may well run into unexpected obstacles. Your goals may change, your life may change, or your resources may change. All of that is normal. You may need to cope with an unexpected bill, like new wheels for your skateboard, or you might have a stroke of luck and receive \$50 from your aunt for your birthday. Good and bad things will happen as time goes by.

Later in this guide, we'll talk about handling unexpected bills. For now, the key idea is to keep an eye on your plan and remember that it's not set in concrete. The plan is there to provide you with direction.

The 3

's of money

You'll be using money the rest of your life, so you may as well sharpen your money-handling skills now.

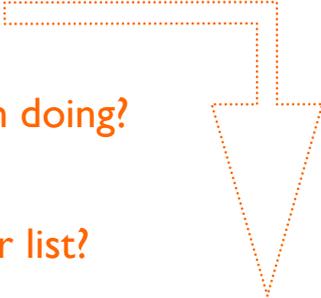
Recognise that unless you strike it rich somehow, you'll have limited amounts of time and money to use. That's the **Reality**.

If you handle your money wisely, you can do a lot of good for yourself and others. On the other hand, it's your own fault if you blow the dough. That's the **Responsibility**.

You show **Restraint** when you have the self-control to save your money for a future goal instead of spending it now.

Step 5

Over time, your values and goals change and you'll need to revise your financial plan accordingly to keep up. When you complete a goal, cross it off your list. Then revisit your list and do a check-up. Ask yourself these questions:

- 1 Are your existing goals still worth doing?
 - 2 Is there a new goal to add to your list?
 - 3 Is there an existing goal you want to drop or change?
- 

Stop for a minute and think about what we've covered. All the elements come together to make up the financial planning process. The decisions you make affect your goals... spending money on your wants may limit how you meet your needs... and all of this is your personal, financial responsibility.

That's financial planning in a nutshell: making money work for you. It'll let you lead the kind of life you want, guide you when it's time to make some decisions, and keep you on the straight and narrow in terms of meeting your goals. Having a plan means you know where you're going and when you're coming unstuck.

Finally, keep in mind that money is just a means to an end. Be comfortable and in control with money and watch that it doesn't control you.

To help keep you on track, print out copies of the next page. Fill it in regularly (at least every six months) and keep it somewhere handy. This will help you review how you've gone and plan where to go to next.



Financial plan for

Step 1 Set your goals

Specific goal	Timeline (short, medium or long)	Estimated cost

My total weekly income	=	\$
My total weekly spending	-	\$
Amount left over	=	\$

Step 2 Your current financial picture

Step 3 Your action plan

Pros	Cons

Chosen goal	Achievement date	Amount to save each week

Just do it! **Step 4** Get on with it

Step 5 Keep it moving

Today's date	
Date to revise my financial plan	