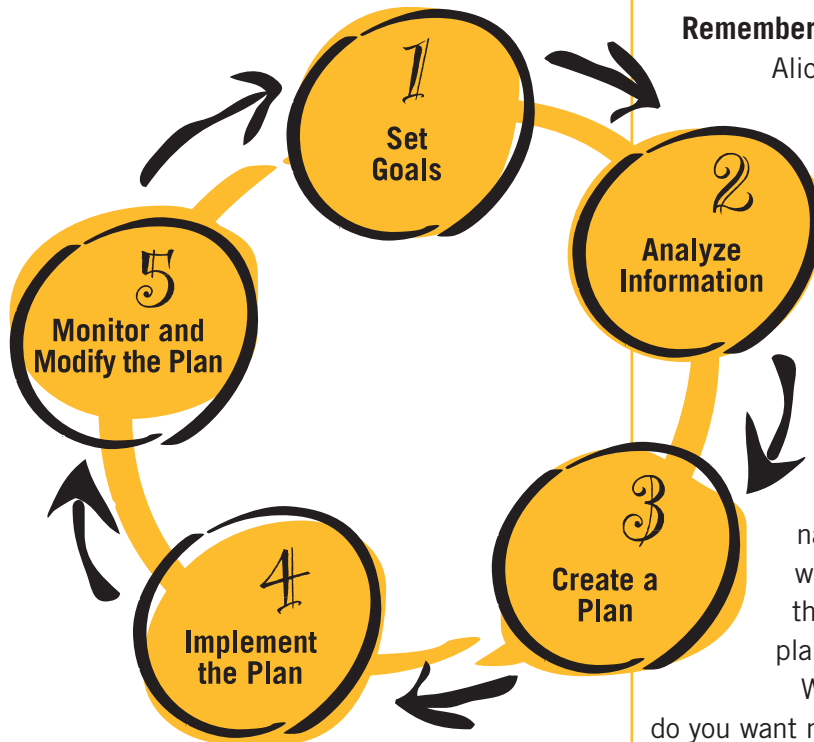


So why this difference, and what are the elements of a good financial plan? Look at the graphic below.



Notice that financial planning is an ongoing, thinking process. The plan itself might be in writing, but it can and should change over time as your circumstances in life change.

Let's look at each of the financial planning pieces in more detail.

“A good financial plan distinguishes between needs and wants.”

Step One: Set Goals



Remember the story about

Alice in Wonderland? There's a scene where she meets the Cheshire Cat and asks for directions. Unfortunately for Alice, she wasn't sure where she wanted to go. What the Cheshire Cat told Alice, and this holds true for you, too, is that without a plan (or a blueprint, or a roadmap), you'll never know if you've reached your destination because you won't know where you're headed. Probably the biggest part of financial planning is knowing yourself.

What do you want to be? What do you want money to do for you? What kind of career do you want to live? What kind of car do you want to own? The answers to these questions all involve money, to one degree or another.

With rare exceptions, most of us do not have enough money to do everything we want. Instead, we have to make choices and tradeoffs because we have limited amounts of time and money—limited resources, in economic terms. To help make those choices, a good financial plan distinguishes between needs and wants.

Needs Versus Wants

Needs are essentials, the basics of life. Think food, clothing, and a place to live, etc. **Wants** simply increase the quality of living. Going to movies, eating out, and cruising on Friday nights (which costs gas money) are wants. These are all fun and interesting to do, but your life wouldn't be over tomorrow if you couldn't go to the movies tonight. There's nothing wrong with



wants, but for most people with limited amounts of money, needs get taken care of first.

In the center column in Assignment 1.1, list five items or activities that cost money. Then take a look at each item and put a check mark in the Need or Want column as you see fit.



Assignment 1.1

My Needs and Wants: Can I Tell the Difference?

Need	Item/Activity	Want

Compare your answers with some of your classmates. Is there a difference between your needs and theirs? What about your wants?

People define needs and wants differently (and that's okay!), depending on their own values. Your **values** are simply the beliefs and practices in your life that are very important to you. Lots of things may influence your values, such as your family, your friends, your teachers, your church, or your work.

Some Examples of Values.

- ✓ Earning good grades.
- ✓ Being responsible with money.
- ✓ Being on time for work.
- ✓ Telling the truth.
- ✓ Spending time with people you love.





And whether you realize it consciously or not, you do have a set of values. Some of those values relate to money, like having a good credit record. The more aware of your values you are, the easier it is to set goals that will make your life satisfying. To help you identify your personal financial values, fill out Assignment 1.2.

coat because your old one is too small.

To be really effective, goals should always be in writing and should be meaningful to you. Your friend's goals might be really cool, but they won't mean as much to you as your own goals, which are based on your values. It's helpful to define your goals in a "SMART" way. Think of it like this:



Assignment 1.2

My Values

Value	Why it's important to me

Specific. "I want to spend my entire Spring Break at Daytona Beach." Not "I want to do something fun over Spring Break."

Measurable. "I need \$120 for my share of the gas, hotel room, and food for the week." Not "I need some money for my trip."

Attainable. "I'll save \$15 a week from Thanksgiving until Spring Break." Not "I'll win a weekly radio call-in contest to get the money to pay

for my trip."

Realistic. "I plan to drive from Omaha to Daytona in about 24 hours by using four drivers." Not "I want to drive from Omaha to Daytona in about half a day."

Time-bound. "I'll have the \$200 for my trip expenses saved up by March 5th." Not "I want to save up enough money by early spring."



One way of mapping your future is by understanding and implementing your goals.



Setting Goals

A **goal** is a destination, something you want or need, which you acquire by taking certain steps. It gives direction to your plan of action. One of the most valuable things you can learn to do is to identify your goals clearly. Your goal might be to travel to Florida over Spring Break. You may have a goal to install a new equalizer in your car's sound system. Or it might be to buy a new

Think of your goals as what you want to be, do, or have—in other words, where you want to go. Remember, part of setting SMART goals means they are realistic and attainable.

It's very helpful to break up your goals into three time periods for planning purposes.

Sample SMART Goal Timelines.



Short-term: to save \$25 by the 1st of next month so I can take my friend out for pizza and a movie.

Intermediate-term: to save \$10 a week for the next 25 weeks to buy a new outfit for the prom.



Long-term: to save \$2,000 per year from summer jobs for the next four years for a down payment on a new car.

Timelines for Goals

Short-term goals have a time frame of up to three months. Intermediate-term goals take place between three months and one year. And long-term goals are out more than a year. Those long-term goals require patience to achieve and a willingness to give up something you want now in return for something better later.

This is known as **delayed gratification**. For example, a person can buy a new shirt now on credit—and possibly pay more for it—or save up the money to pay cash for it later. With the national savings rate close to zero, many people are apparently choosing instant gratification instead of waiting!

Using Assignment 1.3, write down some of your own goals. Remember to make them look SMART!

If you're like most people, you may have noticed that the total of all of your goals takes more money than you can set aside each week. Don't puzzle over that too long for now. We'll talk about how to handle that problem later.

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



We'll make use of this information later in Unit 3, but for now, try to fill in the table for the last seven days. If you can't remember every dollar you spent or received, that's okay; just do the best you can. But, keep track on a daily basis.

Step Three: Create a Plan

Look back at the goals you listed in the "My SMART Goals" table. How much is

the weekly dollar amount you need to save?

(Assignment 1.3)



Next look at your Personal Spending Record for the last week. How much money, if any, did you have left over at the end of the week?

(Assignment 1.4)



If you do have money left over, then you're ahead of the game and ready to start meeting those goals. But if you're like most people, your "leftover" money isn't nearly

enough to cover what you need to save for your goals. You have limited resources. So what do you do? Time to make some financial decisions and formulate a plan. **Decision making** is the process of considering and analyzing information in order to make a decision.



Assignment 1.4

Personal Spending Record of:

Week of:

	INCOME +\$ (A)	SPENDING -\$ (B)
Sunday		
Monday		
Tuesday		
Wednesday		
Thursday		
Friday		
Saturday		
Totals		
Difference (A minus B)	\$	

By the way, ideally your total for column A will be bigger than B—if you practice delayed gratification.

Now that you have some idea of where you are (your financial resources) and where you want to go (your goals), the trick is figuring out how to get there. To do that, move on to the next step.

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Making Decisions

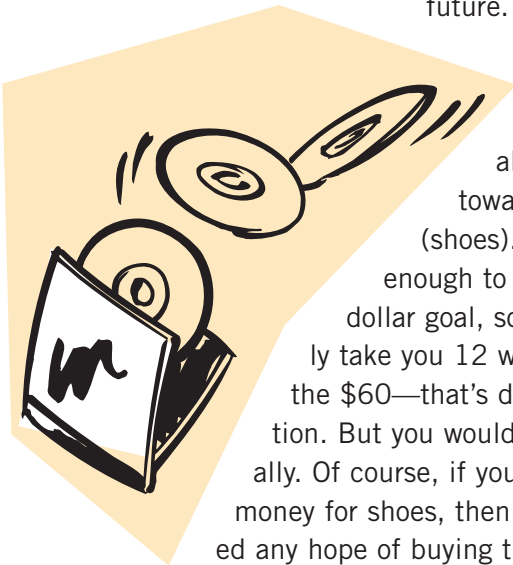
Let's say you have two goals you want to meet. Here are the two goals:

Goal A: to save \$4 per week for the next four weeks to buy a music CD.

Goal B: to save \$10 per week for the next six weeks to buy a pair of shoes.

On the average, your Personal Spending Record shows you have only \$5 left over each week. Do you choose Goal A or B?

If you go for the CD (Goal A), you can definitely meet it in four weeks. In fact, you'd even have \$1 left over each week to put towards another goal. But if you choose the CD, you basically give up any hope of buying shoes in the near future.



On the other hand, you could put all your money toward Goal B (shoes). You don't have enough to meet the weekly dollar goal, so it would actually take you 12 weeks to save up the \$60—that's delayed gratification. But you would make it eventually. Of course, if you save all of your money for shoes, then you've eliminated any hope of buying that CD.

A third option would be to split your savings between the two goals (say \$2 for the CD 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.

Another option would be to either increase your income (ask for a raise in your allowance or maybe work more hours on your job) or to decrease your purchases. This route works really well for some people, and we will talk more about it in a later unit. But for now, let's stay focused on your goals.

To help you choose, write down all the reasons for or against each option. We'll call it a "pros & cons" decision chart. Look at the example that begins this process below.



My Decision

Choosing the CD instead of the shoes

Pros	Cons
Fully meet the need for Goal A (\$4/week)	Can only put \$1/week towards Goal B
Have \$1 left over each week for other uses	Big delay in getting those shoes

You get the idea. There may be more pros than cons, or the opposite may be true. Often there is no "right" answer. Instead, you have to make decisions based on the values you listed in an earlier exercise and accept the tradeoffs.

Most people don't like making tradeoffs. It's tough! Choosing one option may mean giving up altogether on another goal. In economic terms, this is called **opportunity cost.**



In our example of the CD and shoes, choosing the CD means delaying the shoes. We give up the opportunity of getting those shoes in six weeks.

Think of it this way. When you spend cash on a hamburger, fries and a shake, you can't put that money towards gas for your car. Choosing "fuel" for your stomach means giving up fuel for your car.

Which is worse, an empty stomach or an empty gas tank? Who knows? Only you can decide. But with limited resources, you can't do it all. The opportunity cost of buying fast food means no gas for the car. So you make choices and realize you're giving up certain goals or opportunities as well. And that's okay, because that's how most people live.

Below is a blank "pros & cons" chart (Assignment 1.5) you can complete to help you think through your choices. Try to think about each decision from as many different points of view as you can. It's okay to ask other people, like your friends, teachers, and parents, for their input as well!

Putting It All Together

Once you decide which goals to work towards now and which ones will have to wait, you have started to put your plan in place. The key is making sure you have enough income left over to start saving for your goals.

There's a lot more to know about how goals and decisions affect your plan. That's the whole focus of this course. But by the end, you'll see how all the pieces come together.

Once you see the big picture, you're ready for the next step in the financial planning process.



Assignment 1.5

My Decision:

Pros	Cons

Step Four: Implement the Plan

With your plan in place, all you have to do is make it happen. Knowing what you should do and actually doing it can be challenging. It takes discipline.

Did you make any New Year's resolutions this year? Have you broken any yet? If so, you know it can be tough to stick with your plans sometimes.

We'll talk later in the course about some specific things you can do with your money to help you stay on track. In a more general sense, one thing you can do today is to find someone to encourage you to be accountable for your goals.

The 3 Rs of Money: Reality, Responsibility & Restraint.

In some form or fashion, you'll be using money the rest of your life, so you may as well sharpen your money-handling skills now.

Recognize 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**.

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

Personal Financial Responsibility

Personal bankruptcies have risen to record levels in the last few years—well over a million per year—in spite of a very strong economy. Bankruptcy is a legal way for a person to walk away from paying some or all of their bills.

You have a choice when it comes to being responsible for your money. If you handle it wisely and respectfully, you take personal responsibility for your actions and decisions.

Find someone who will encourage you to stick to your goals, like your Mom or Dad. Show them the goals you wrote down earlier. Tell them about your plans. Then ask them to check in with you once a week or so to see how you're doing.

Or ask a good friend or even a teacher to spot-check your progress. The point is: you don't have to go this alone! Your odds of success are better if you have a "partner" to pick you up when you're discouraged. Doing important things with someone who supports you—working out, finishing up your homework, etc.—is almost always easier than going it alone.



Step Five: Monitor and Modify the Plan

After you create a plan, be aware you may need to change it over time. You will run into unexpected obstacles. Your goals may change, or your resources may change. That's life, and it's normal.

You may have an unexpected repair bill, like replacing a blown tire on your car. On the other hand, you might receive \$50 from your aunt for your birthday. So, good and bad things will happen as time goes by.

Later in this course, we'll talk about handling unexpected bills. For now, the important idea is to keep an eye on your plan and keep it flexible. It is, after all, just a plan. Remember that it's not written in stone, and it is really there to provide you with direction.

Over time, your values and goals may change. Don't be afraid to revise your financial plan. When you complete a goal, cross it off your list. Then revisit your list of goals and do a check-up. Ask yourself these questions:

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

Now you can see how all these elements combine to affect the financial planning process: your values influence your needs and goals; the decisions you make affect your goals; spending money on your wants may limit meeting your needs; and all of this is your personal financial responsibility.

That's financial planning in a nutshell: making money work for you to let you lead the kind of life you want. Be careful about getting mixed up here and letting money control you. Money is just a means to an end.

With a personal financial plan, as you journey through life and come to forks in the road, you can forge ahead with few hesitations. Rather than wandering aimlessly, you'll know where you want to go today and tomorrow, and you'll have a better idea how to get there.

