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FINANCIAL PLANNING

FINANCIAL PLANNING AND GOAL SETTING

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OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.



TABLE OF CONTENTS

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THE POWER OF PLANNING

KNOWING WHERE YOU ARE NOW FINANCIALLY, WHERE YOU WOULD LIKE TO BE AND WHAT RESOURCES YOU HAVE TO MAKE THAT POSSIBLE, WILL HELP YOU FACE THE FUTURE WITH CONFIDENCE.

Today, individuals are living longer and healthier lives. However, ensuring that you can enjoy a longer and more active retirement makes it imperative to establish financial goals and plan ahead for a secure future.

Rising health care costs, changes in employer-sponsored benefit plans and potential future changes in Social Security benefits can affect the quality of your retirement.

Ironically, financial worries derive not necessarily from lack of money, but often from lack of planning. Solid financial planning can take the uncertainty out of your financial future.

This publication will help you begin the process of establishing financial goals and structuring your financial plan. Once you understand the basics, you may want to seek the advice of a Certified Financial Planner™ (CFP®) practitioner.

Knowing where you are now financially, where you would like to be and what resources you have to make that possible, will help you face the future with confidence.

Certified Financial Planner™ is a certification mark owned by the Certified Financial Planner Board of Standards, Inc. This mark is awarded to individuals who successfully complete the CFP® Board's initial and ongoing certification requirements.

Every financial plan should include savings and investment goals. By establishing goals, you have something to work towards which can help keep you focused.

It is recommended that you target at least 10 percent to 15 percent of your net income to save and invest each month. Generally, the best way to achieve this goal is to pay yourself first by setting up an automatic withdrawal that goes directly from your paycheck to a savings or investment account each pay period.

It may be helpful to categorize your financial goals into time periods:

- Short-term 3 years or less
- Intermediate-term 4–6 years
- Long-term 7 years or more

The following chart is an example that lists some common goals, time frames, amount needed and monthly contribution.

FINANCIAL GOAL	TIME FRAME	AMOUNT	MONTHLY CONTRIBUTION
Note: This example assumes that the credit card is charging 15 percent interest, the savings invested for the down payment over 5 years, and for the child's education over 12 years, are each earning 5 percent annually and that the savings invested for retirement over 30 years is earning 7 percent.			
Pay full credit card balance	12 months	$ 2,000	$180
Save for down payment on home	5 years	$ 20,000	$295
Save for child's education	12 years	$ 50,000	$225
Save for retirement	30 years	$300,000	$250
TOTAL PER MONTH			**$950**

Consider the following steps to help you plan and potentially reach your financial goals:

- Define your goals — What do you want?
- Set an amount — How much money do you need for your goal?
- Set a target date — When do you need to meet your goal?
- Write down your goals — When you write down your goals it helps you assess what you really need or want.
- Prioritize — Prioritizing your goals will help you to develop a plan you can stick to.
- Develop a plan — Establish a budget that includes your financial goals.
- Review your progress — Periodically review your plan and make adjustments as necessary.

Use the "Financial Goals Work Sheet" on the following page to list your financial goals.

For example, if your goal is a new home, you may list "new home down payment" as your goal. Next, set the target date by when you would like to achieve the goal. Finally, determine the amount you will need. Allow for inflation, which has been rising 2 percent to 3 percent annually during the past decade.

When you complete the "Financial Goals Work Sheet," you are ready to proceed to Step 2.

FINANCIAL GOALS WORK SHEET

	3 YEARS OR LESS		4–6 YEARS		7 YEARS OR MORE	
GOAL	TIME	$ NEEDED	TIME	$ NEEDED	TIME	$ NEEDED
Example: New home down payment			5 years	$20,000		

STEP 2: CALCULATE YOUR NET WORTH

Once you have established your financial goals, the next step is to determine the resources you will need to help you achieve those goals.

Complete the "Personal Financial Statement" to calculate your net worth — the value of everything you own minus the value of everything you owe. Use actual market values — what your property would be worth today if you decided to sell it and what your loans would cost you today if you decided to pay them in full.

PERSONAL FINANCIAL STATEMENT

ASSETS (WHAT YOU OWN)		LIABILITIES (WHAT YOU OWE)	
Cash		Mortgages	
Checking accounts		Personal loans	
Savings accounts		Vehicle loans	
Emergency fund		Credit card debt	
Money market accounts		Education loans	
Certificates of deposit		Investment loans	
Cash value of life insurance policies		Life insurance loans	
Retirement plans		Other	
Pension/Profit-sharing plans (money owed you if you leave your employer today)		**Total Liabilities**	**$**
IRA		Summary	
401(k)		Total Assets	$
Keogh plans		Less Total Liabilities	$
Money owed to you		**Net Worth***	**$**
Stocks/Bonds/Mutual funds		As of (date):	
Real estate investments			
Your home			
Other investments			
Rental or vacation property			
Vehicles			
Furniture/Appliances			
Jewelry/Furs			
Collectibles/Artwork			
Miscellaneous property			
Other			
Total Assets	**$**		

*If your net worth is negative, you may need to focus on cutting your spending and re-paying your debts.

Once you have completed your personal financial statement, you should be able to identify the resources available to help you achieve your goals. Net worth is just one aspect of your financial situation.

Income from resources such as salary, investments and retirement are important in helping you to achieve your financial goals. Determine how much is coming in, how much is going out and where it is going. When calculating your personal finances, be sure to include income from all of these resources.

Use the "Income And Expense Summary" on the following page to estimate your current monthly income and expenses. It may help to use your bank statements and credit card statements. Record your expenditures to analyze your spending habits and make adjustments to help you achieve your financial goals.

When you have completed the "Income And Expense Summary," you are ready to move on to Step 4.

INCOME FROM RESOURCES SUCH AS SALARY, INVESTMENTS AND RETIREMENT ARE IMPORTANT IN HELPING YOU TO ACHIEVE YOUR FINANCIAL GOALS.

INCOME AND EXPENSE SUMMARY

MONTHLY INCOME

Monthly gross income ______
Other income (spouse, interest, etc.) ______
Total Monthly Gross Income =$ ______

Deductions

FITW — Federal Income Tax Withholding (if applicable) ______
SITW — State Income Tax Withholding (if applicable) ______
FICA — Social Security ______
FICA — Medicare ______
Other deductions ______

Total Deductions =$ ______

Monthly Net Income
(total gross income minus total deductions) **=$** ______

EXPENSES

Charitable Giving
Place of worship ______

Savings/Investments (generally target at least 10%–15% of monthly net income) ______
Emergency fund ______
Retirement accounts ______

Home/Utilities
Food ______
Rent/Mortgage payment ______
Utilities ______
Home maintenance ______
Property taxes (1/12 of total annual expense) ______
Furniture ______
Phone/Cell phone ______
Internet services ______

Debt
Credit card(s) payment ______
Loan(s) payment ______

Insurance
Auto Insurance ______
Renters/Homeowners insurance ______
Life insurance ______
Health insurance ______
Disability insurance ______

Education
Tuition ______
Room/Board/Travel ______
Books/School supplies/Uniforms ______

Transportation
Vehicle payments ______
Gasoline/Parking/Tolls ______
Vehicle maintenance ______
Registration/License fees (1/12 of total annual expense) ______
Public transportation ______

Personal
Clothing ______
Laundry/Dry cleaning ______
Grooming ______
Child-care expenses ______

Recreation
Vacation(s) (1/12 of total annual expense) ______
Entertainment/Dining out ______
Hobbies ______
Club fees/Organization dues ______
Cable/Satellite television ______

Total Monthly Expenses =$ ______

Calculate Monthly Cash Flow

Monthly Net Income =$ ______
Less Total Monthly Expenses –$ ______
Net Cash Flow (Deficit*) =$ ______

*If your net cash flow is positive, you can save more for emergencies or other financial goals. If negative, you should consider decreasing expenses or increase income (by taking a second job, for example) to reduce or eliminate debt.

Now that you have identified your financial goals, calculated your net worth and evaluated your income, the next step is to assess all of your resources and begin developing your financial plan.

Emergency Funds And Insurance

This assessment should begin with a look at your financial foundation. That foundation helps protect you against unexpected losses that might otherwise keep you from meeting your goals.

A strong foundation begins with an emergency fund of easily accessible savings. Most experts recommend this fund should equal 3 to 6 months of basic living expenses to help protect you from unexpected bills or unemployment.

If you do not already have an adequate emergency fund, consider making it a priority on your list of financial goals. Keep your emergency fund in a liquid, easily accessible account such as a savings or money market deposit account.

Unfortunately, even an emergency fund cannot prepare you for catastrophic loss or illness. Most individuals buy insurance for these costly emergencies.

The most common types of personal insurance include:

- Auto.
- Personal property.
- Homeowners/Renters.
- Health.
- Life.
- Disability.
- Personal liability.

THE USAA EDUCATIONAL FOUNDATION PUBLICATIONS, *BASIC INSURANCE COVERAGES, AUTO INSURANCE, HOMEOWNERS INSURANCE, HEALTH INSURANCE, LIFE INSURANCE* AND *LONG-TERM CARE,* OFFER MORE INFORMATION. SEE "RESOURCES" ON THE INSIDE BACK COVER OF THIS PUBLICATION TO ORDER FREE COPIES.

It is important to review your current coverages at least annually to determine if you are adequately covered. Remember to factor in group coverage provided by your employer and government coverages such as Medicare, Social Security Disability Insurance and Workers' Compensation. You should also contact your attorney regarding your estate planning documents including a will, durable power of attorney and health care directives.

STEP 5: SAVE FOR YOUR GOALS

Once you have established a solid foundation with an emergency fund and insurance, you are ready to begin saving and investing for your financial goals. For this next exercise, you will use the "Savings Goals Work Sheet" on the following page to identify the gaps between your financial goals and your resources. Then take a look for ways to combine the two.

Completing The "Savings Goals Work Sheet"

Goals — Record the goals you listed on the "Financial Goals Work Sheet" on page 5.

Target dates — Record the target dates of your goals.

Amount needed — Estimate the amount needed for each goal using today's dollars. Example: If your goal is to make a 20 percent down payment on a home valued at $100,000 today, you would need $20,000 for the down payment. You would enter $20,000 as the cost of the goal — even if your target date is several years away.

Current assets — Identify any assets on your "Personal Financial Statement" on page 6 you are willing to commit to your goals. Then, indicate how much you would like to allocate to each of your goals. Example: If you have $10,000 saved in a money market deposit account, you may decide to allocate half of it to the down payment. In this case, you would write $5,000 under Current Assets.

Gap — Indicate the gap between the cost of each goal and the assets you have allocated to it.

Number of years to target date — Enter the number of years between now and your target date.

Amount to be saved each year — Divide the gap by the number of years to the target date. That amount will be what you need to save each year to reach your goal.

Total — Add all the amounts to determine the total amount you will need to save annually to reach your goals. This amount does not account for any interest or appreciation/depreciation on the assets identified.

SAVINGS GOALS WORK SHEET

GOALS	TARGET DATES	AMOUNT NEEDED	CURRENT ASSETS	GAP	NUMBER OF YEARS TO TARGET DATE	AMOUNT TO BE SAVED EACH YEAR
Example: New home down payment	October 2014	$20,000	$5,000	$15,000	5	$3,000

Total $ ________

Finding The Gaps

Now look back at the savings and investments line on your “Income And Expense Summary” on page 8. How does the amount you are currently saving compare to the amount you have determined you should save each year to reach your goals?

Some individuals discover they are saving more than enough to meet or exceed their goals; but for many, the conclusion is much different.

The “Savings Goals Work Sheet” encourages you to work on your goals today. It assumes your pay increases and returns on investments will only keep pace with the rate of inflation.

Adjusting Your Plan

Here are some questions to ask yourself if the amount you are now saving falls short of the amount you need to save to reach your goals.

- Are you paying yourself first with a disciplined saving and investment program that puts away at least 10 percent to 15 percent of your net income?
- Could you increase the amount you are saving?
- Could you earn more and/or spend less?
- Are you spending too much on impulse purchases and neglecting long-term savings goals?
- Are your goals too ambitious?
- Could you change or eliminate any of your goals?
- Could you delay any target dates of your goals?

With these questions in mind, take another look at your “Savings Goals Work Sheet” and at your “Income And Expense Summary.” Make adjustments in both until your actual savings is equal to your goal savings. When you are finished with your adjustments, you should have a savings plan for this year and a forecast for your future.

Remember to repeat this exercise annually. If your income increases, you receive interest and dividends, unexpected bonuses or find other ways to accelerate your savings, then you will accelerate your progress toward your goals. Be prepared to modify your goals if you suffer a setback. The key is to remain flexible.

Now that you have completed your analysis, it is time to create your action plan for next year.

Your Savings Plan

You can begin by developing your "Savings Plan," including the amount you plan to save and the method you will use to save it. An effective savings plan begins with these basic elements.

- Start saving early. The earlier you begin, the more money you can potentially accumulate.
- Save your pay increases. Either put the money into your retirement plan or into another savings plan.
- Establish an automatic savings plan. Have money deducted from your pay or your bank account and automatically deposited in a savings account.

SAVINGS PLAN

For the year beginning ________ / ________ / ________ and ending ________ / ________ / ________.

Amount to be saved this year: $ ____________________

Amount to be saved each month: $ ____________________

Description of savings methods: ____________________

____

____

Your Investment Plan

Next, examine each of your financial goals to determine whether it is a short-term (3 years or less), intermediate-term (4 to 6 years) or long-term (7 years or more) goal. This will be determined by the length of time you have until the goal's target date, or until you will need the money allocated to that goal.

For each of your goals, consider how much investment risk you are willing to take for the goal. Generally, the riskier an investment, the more it fluctuates in value. Generally, its potential return may be greater, but so is its potential loss.

To determine how much risk you are willing to take for each of your goals, consider the following.

- How essential is the goal?
- Can you afford to lose any or all of the money you are investing?
- Do you want to protect that money — even if it means potentially lower returns?

STEP 7: UPDATE

Review your financial situation and adjust your goals and plans for reaching them at least once each year and at significant life events — such as graduation, marriage, birth or adoption of a child or purchase of a home. A good time for your annual review is when preparing your federal income tax return when financial records are nearby.

Re-evaluate your life-long goals and anticipate economic factors that affect your plan.

- Rate of inflation.
- Your federal income tax bracket.
- Interest rates.
- Overall economic conditions.

Re-inventory your resources and update your work sheets, so you can see what adjustments you need to make to your financial plan.

Consider Professional Assistance

You may want to consider working with a Certified Financial Planner™ (CFP®) practitioner if:

- You want to improve your overall financial situation but do not know where to start.
- You would like a professional to evaluate your existing financial plan.
- You need specialized advice about investment strategies, risk management, estate planning or adapting your savings plan for changing family circumstances.
- You have experienced a specific life event, such as graduation, marriage, birth or adoption of a child or purchase of a home.
- You do not have time to build your own financial plan.
- You need help balancing multiple goals, such as saving for college and retirement.

Selecting The Right Planner

Make sure you find the right planner for you and your family.

- Ask individuals you respect for names of financial planning professionals they have used.
- Ask about the planner's background and work experience.
- Ask as many questions as you need to understand and feel in control of your financial future.

16 NOTES

RESOURCES

The USAA Educational Foundation offers the following publications.

MAKING MONEY WORK FOR YOU (#523)

PLANNING FOR RETIREMENT (#508)

ESTATE PLANNING (#518)

MANAGING YOUR PERSONAL RECORDS (#506)

RETIREMENT PLANNING IN YOUR 20s AND 30s (#516)

MANAGING CREDIT AND DEBT (#501)

BASIC INVESTING (#503)

STOCKS AND BONDS (#553)

MUTUAL FUNDS (#517)

ANNUITIES (#525)

GET INVESTMENTWISE (#521)

BASIC INSURANCE COVERAGES (#530)

AUTO INSURANCE (#526)

HOMEOWNERS INSURANCE (#558)

HEALTH INSURANCE (#545)

LIFE INSURANCE (#507)

LONG-TERM CARE (#537)

IDENTITY THEFT (#520)

FINANCING COLLEGE (#513)

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If a Web site address, physical address or phone number has changed since you received this publication, log onto a search engine and type in keywords of the subject matter or organization you are researching to locate such updated information.

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