



FINANCIAL PLANNING IS FOR EVERYONE

Importance of having a financial plan and the difference
between Financial Planning vs Retirement Planning

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Importance of Financial Planning

"Plans are of little importance, but planning is essential." — *Winston Churchill, former British Prime Minister*

Everyone needs a financial plan, but not everyone needs a financial advisor. There are times when it is ok to go it alone and other times when you could benefit from sound advice from a fiduciary advisor. There is also a difference in financial planning and retirement planning.

Everyone needs a financial plan.

"If you don't know where you're going, you'll end up someplace else." Yogi Berra

My life has not evolved the way I thought it would and at times I felt as though I was just drifting through life and not really in control. Intuitively I knew I needed to save for the future, but I was not sure what that looked like. My goals also evolved over time. When I graduated from college, I was never getting married and never having children. I did not see myself taking time out of my career to stay home and raise my children. But as John Lennon said, "Life is what happens when you're busy making other plans".

So how do you create a financial plan? Carl Richards wrote "The One Page Financial Plan" and here are the steps he outlined in his book:

1. Ask why money is important to you.
2. Guess where you want to go.
3. Know your starting point.
4. Think of budgeting as a tool for awareness.
5. Save as much as you reasonably can.
6. Buy just enough insurance — today.
7. Remember that paying off debt can be a great investment.
8. Invest like a scientist.
9. Hire a real financial advisor.
10. Behave for a really long time.

Know your starting point – Net Worth

Your current Net Worth is your starting point. Your Net Worth Statement is a recitation of the basic facts of what you own and what you owe. You may have made past mistakes that will show up, but it is important to recognize that those mistakes are in the past and learn from them and move on. This will be your benchmark going forward and the goal is to have your net worth increase over time.

The dreaded budget

Most people rebel when they hear the word budget. The important thing about a budget is it gives you an awareness of how much you have to spend and prioritizes your spending. It is not so much that you rigidly stick to a budget as it is a way to track where your money is going and to give you the opportunity to reflect on how you spend your money. Are you spending money on truly important purchases that move you closer to your goals or are your purchases impulsive? Life is a balancing act between enjoying the moment and having enough in reserve to meet future goals. It is easier to say no to something now, if you know you have a bigger yes in the future.

Trent Hamm wrote a blog post entitled, "Can a Single Index Card Sum Up Your Personal Finances?" with the following advice:

Here's a simple exercise: Go through your bank statements and credit card statements for the last few months and mark each transaction with a + sign and a - sign. Write a + by every single transaction that actually covered a genuine need in your life. Write a - sign by all of the others. Then, add up all of the + transactions and all of the - transactions. I'm willing to bet that the - transactions add up to more than 20% of your spending.

Now, how much of those "-" expenses were actually worthwhile and brought value into your life? This is a situation where the 80/20 rule pops up - 80% of the actual enjoyment you got out of those purchases came from just 20% of those purchases. The other 80%? It's largely wasted on forgettable things.

Figure out how to cut out those 80% of expenses that are forgettable and you'll easily have your 20% of your income for savings.

When to hire a real financial advisor (and how do you find one)

Here are some instances when it is a good investment to hire a fiduciary advisor:

- You want to better manage your finances, but aren't sure where to start
- You don't have time to do your own financial planning
- You want a professional opinion about the plan you've developed
- You don't have sufficient expertise in certain areas such as investments, insurance, taxes or retirement planning
- You have an immediate need or unexpected life event (death of a partner, divorce, inheritance, other unexpected windfall).
- You have trouble being unemotional about money decisions and want someone to show you choices and consequences.

Looking for a trusted financial advisor can be difficult. While most people think financial advisors act in their best interest, in many cases they do not. Not all

advisors are required to put you first. Only financial advisors who are fiduciaries are required to act in the best interests of their clients. Depending on your needs here are a few places to find fiduciary advisors:

National Association of Personal Financial Advisors (NAPFA) are financial advisors who are highly competent and have met more than a de minimis certification standard, offer holistic service, and operate on an objective Fee-Only basis. That means they do not sell financial products on commission. Their only purpose is to look out for their clients' overall financial well-being. They are fiduciaries – at all times – for their clients. <https://www.napfa.org/>

The Garrett Planning Network has a nationwide membership with hundreds of independent, Fee-Only financial planners providing advice to people from all walks of life, without minimum account requirements, sales commissions, or long-term commitments. <https://www.garrettplanningnetwork.com/>

XY Planning Network is an organization of fee-only financial advisors who specialize in helping members of Gen X and Gen Y. <https://www.xyplanningnetwork.com/>

How Retirement Planning is different from Financial Planning

The difference between general financial planning and retirement planning is the level of detail. Financial Planning is a broad look at what you want in life and how you plan to get there. How much are you saving and will that realistically support your long-term goals? It looks at insurance, taxes, investments, goals and what resources you have available to achieve your goals. It is a broad overview that uses differing assumptions to indicate if you are “on track”. There are so many variables that can change over time, that it has to be broad and general. It is more focused on actions you can take now to be in a position where your plan works out.

Retirement planning is much more detailed. It gets into the specifics of what are your income sources, what expenses will you have, how will you withdraw money from your investments, have your insurance needs changed? Beyond the financial changes you'll experience in retirement, there are lifestyle changes that will occur as well. What will you do with your time? Do you plan to move? How do you plan to age gracefully? The ideal time to do a detailed plan is 3 – 5 years ahead of your retirement goal and then update annually. Most plans will need some tweaking in the early part of retirement.

Assets**Current Assets****Liquid Assets**

Checking _____
 Savings _____
 CDs _____
 Money market _____

Non-Retirement Investments

(Marketable Securities) _____
 Stocks/Bonds/Mutual funds _____
 ETFs/Real estate/REITs _____
 Life insurance (cash surrender value) _____
 College savings plans _____
 Other investments _____

Retirement savings

Employer-sponsored plans [401(k), 403(b), 457, SIMPLE, Keogh (including employer contribution if vested)]

1 _____

2 _____

IRAs _____

ROTH IRAs _____

Defined benefit (pension) plan _____

Annuities (cash surrender value) _____

Personal Use Assets

Home _____
 Home contents _____

Automobile _____

Other

Boat/recreational vehicle _____
 Collectibles _____
 Jewelry _____
 Money you're owed _____
 Other assets _____

TOTAL ASSETS:

Liabilities**Current Liabilities****Potentially Harmful Debt**

Visa _____
 MasterCard _____
 American Express _____
 Other credit/charge cards _____
 Payday Loans, Cash Advance _____

Other

Current/unpaid bills _____
 Medical Bills _____
 Other debts _____

Taxes owed

Real estate taxes _____
 Income taxes _____
 Other taxes _____

Investment loans (Short-Term)

(Long-term or Current – depending on time frame for repayment)

Brokerage account loan _____
 401(k) loan _____
 Life insurance loan _____
 Business loan _____
 Other investment loans _____

Long Term Liabilities**Real Estate**

Mortgage _____
 Additional mortgage/home equity loan _____

Other Debt

Car loan _____
 Student loan _____
 Bank loans _____
 Other personal loans _____

TOTAL LIABILITIES:

NET WORTH (ASSETS - LIABILITIES)

Spending Plan Worksheet

- Instructions:**
1. Calculate monthly net income in box 1
 2. Estimate monthly expenses (sum of fixed (2a), controllable (2b) and monthly portion of periodic expenses (2c))
 3. Compare income and expenses and make adjustments

1. Monthly net income	
Net* monthly wages	\$ _____
Net monthly wages of others in home	\$ _____
Public assistance/food stamps	\$ _____
Unemployment/disability	\$ _____
Child support/alimony	\$ _____
Social Security/retirement	\$ _____
Other	\$ _____
Other	\$ _____
Total monthly net income	\$ _____

* After tax withholding and other deductions

3. Compare income & expenses	
Net* monthly income	\$ _____
Estimated expenses:	
Fixed.....	\$ _____
Controllable.....	\$ _____
Periodic.....	\$ _____
(monthly portion)	
	<i>minus</i> \$ _____
Balance	\$ _____

2c. Periodic expenses	
<p>These are expenses that come up once or twice a year. Fill in the estimated costs under the month they are due. Taxes, insurance premiums, auto servicing, tires, license, birthdays and holidays, educational costs, vacations, etc. Do not include taxes withheld from your paycheck, but do include estimated tax payments you make to the IRS. Add your total yearly periodic expenses and divide by 12 to determine the monthly portion.</p>	
Jan _____	July _____
Feb _____	Aug _____
Mar _____	Sept _____
Apr _____	Oct _____
May _____	Nov _____
June _____	Dec _____
Subtotal	Subtotal
\$ _____	\$ _____
$\frac{\text{Total Periodic Expenses}}{12} = \text{Monthly portion periodic expenses}$	

Spending Plan Worksheet

2a. Fixed expenses

Housing	
Rent or Mortgage	\$ _____
Insurance/Taxes*	\$ _____
Utilities	
Telephone	\$ _____
Heating	\$ _____
Electricity`	\$ _____
Trash/garbage	\$ _____
Water	\$ _____
Sewer	\$ _____
Cable	\$ _____
Other: _____	\$ _____
Credit Card Payments	
_____	\$ _____
_____	\$ _____
_____	\$ _____
Auto	
Loan payment	\$ _____
Insurance*	\$ _____
License	\$ _____
Child Support/Alimony	\$ _____
Life Insurance*	\$ _____
Other	
_____	\$ _____
_____	\$ _____
_____	\$ _____
Total Monthly Estimated Fixed Expenses	\$ _____

2b. Controllable expenses

Food	
Groceries	\$ _____
Food eaten out	\$ _____
Household Expenses	
Repairs & supplies	\$ _____
Furnishings & appliances	\$ _____
Outside upkeep	\$ _____
Transportation	
Gas and repairs	\$ _____
Other transportation	\$ _____
Personal/Medical Care	
	\$ _____
Education/Reading	
	\$ _____
Travel & Entertainment	
	\$ _____
Child/Elder Care	
	\$ _____
Charity/Gifts/Special Expenses	
	\$ _____
Clothing	
	\$ _____
Savings	
	\$ _____
Other	
	\$ _____
Total Monthly Estimated Fixed Expenses	\$ _____

* Monthly portion of premiums if NOT paid by employer OR automatically deducted from your paycheck OR listed with your periodic expenses on page 2.