



Determining Goals & Expectations: Step 2 in the Financial Planning Process

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In the July 2009 *Fraternal Herald*, I explained Step 1—gathering information. This month I will start Step 2—determining goals and expectations. Step 2 is very critical to the financial planning process and is the most time consuming part. Because of this we will discuss step #2 in two articles. This month we will focus on goal setting and next month concentrate on expectations and determining a personal investment philosophy.

Determining your goals can be the beginning of a great period of financial growth. Mike Litman, coauthor of the bestselling book *Conversations With Millionaires* says that he went through a period where he was waiting for “the right time” to start planning for his financial future. Finally someone suggested to him, “You don’t have to get everything right, you just have to get going!” His change of attitude started with setting goals. Since he set his goals and developed a plan, he has enjoyed financial success and a “sense of well-being” about his future.

First things first. If you do not have an emergency fund or an adequate amount in your emergency fund, your first goal should be to build the fund. The minimum recommended amount for an emergency fund is three months of fixed living expenses. Expenses that will continue on regardless of other circumstances include: mortgage or rent payments, utility bills, other monthly fixed payments, health, life and property insurance premiums, property tax payments, and an allowance for food.

Determining your goals means writing them down. Many times this also means negotiating with your spouse and other family members and including them in the solution, as well. When you put a goal in writing, you increase the possibility of reaching it. It will also help you decide whether or not your goal is really important to you. Goals should:

1. Be an extension of your family and moral values and should be related to your beliefs.
2. Be specific and measurable. “Having lots of money when I retire” is not specific enough. “Having \$1 million dollars before I retire” is something you can measure.
3. Be reasonable and choose something you can expect to achieve with a reasonable amount of sacrifice. If you have only \$500 available for saving toward a goal after all of your living expenses are paid and you need to save \$1,000 per month to reach your goal, then you can’t expect to achieve the goal.
4. Have a target date. If you don’t begin with the end in mind, then you’ll likely never reach the goal.
5. Include the cost of resources needed to attain the goal. If you have a goal to pay off your car loan in three years (instead of the five year plan you signed up for) call your loan officer and find out how much more you need to pay each month to accomplish this.
6. Identify the barriers to reaching the goal. If a layoff is imminent in your line of work, be realistic and make adjustments.
7. Be communicated to spouse and family so that they can “buy-in” to the goal.

Limit your goals to a maximum of two or three short-term goals (under 1 year), two medium-term goals (1-5 years), and three long-term goals (over five years).

Use the following guide as a model:

Goal: _____
Target date to complete: _____ Cost/resource per month: _____
Actions needed to be taken to complete the goal: _____

Barriers to reaching the goal: _____

• Never have more than 8 financial goals, since too many goals can be overwhelming.