

## Developing a Financial Plan Step 3 in the Financial Planning Process

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In Step 1 of the financial planning process, gathering information, a personal financial statement, and a cash flow plan were created to give you a “snapshot” of your current financial situation. In Step 2, you identified your goals, developed a Personal Investment Philosophy (PIP), and defined your expectations.

In Step 3, you will develop a plan using the cash available (identified in Step 1 of the financial process) and by prioritizing your goals that were identified in Step 2.

The cash flow plan identified both your non-discretionary (expenses that are fixed, such as your house payment, rent, utilities, property taxes, food, and income taxes) and discretionary expenses (things that you spend your money on that you want, but could do without, such as entertainment). After you identify your non-discretionary expenses, then you can budget the remaining cash flow to help you accomplish your goals.

Let’s use a married couple with two elementary school age children as our example for developing a plan. John is a plumber making approximately \$50,000 per year and Jane recently became a full-time 4th grade teacher. They have a monthly income of \$6,500 and identified \$1,200 as the amount of cash available each month to use toward meeting their financial goals. They have determined that they have 4 major goals, which are prioritized as follows:



- 1) Protect the remaining family members from financial and social stresses if one or both of them becomes disabled or if they die prematurely.
- 2) Retire at age 65 with an adequate retirement nest egg that will provide an income to maintain the same standard of living that they enjoyed prior to retirement.
- 3) Save enough for each child’s education while attending a local community college and completing a degree at a public university.
- 4) Provide a modest inheritance to their children, free from estate and income taxes.

This couple will need to make some decisions. They need to choose between spending time learning about financial products on their own or working with financial services professionals who have the expertise in insurance, retirement planning, educational savings, and the estate planning documents critical to meeting their goals.

In addition, they also will need to use some formulas to determine how much they need to save monthly to achieve their goals.

In the November 2009 Financial Planning Matters article, we will identify the methods available in determining the amount of life insurance you need to protect your family. In December 2009, we will identify how to determine the amount of nest egg you will need at age 65 to maintain the same standard of living during your retirement years. In the 2010 Financial Planning Matter articles, you will learn how to complete a financial plan.