

Financial Planning Matters – Introducing you to Financial Planning Topics

Julie Cole, CFP®, FLMI • wfla Conservation Analyst

New Year's Resolution #1 – Start the financial planning process

Happy New Year! As you reflect on the events that occurred in 2007, make a pledge to improve your finances in 2008. Right now is the best time to review 2007 and start the personal financial planning process.

Financial Planning is the process of planning your spending, financing and investing so as to optimize your financial situation. Financial Planning is an ongoing process. You will continuously document, update and analyze your plan. During the process of planning you will be able to make better financial decisions and over time increase your wealth, which will lead to more flexibility in decision making in the future.

Each month, after you read the *Fraternal Herald*, take 1 hour of your time to complete another step of the financial planning process. By the end of 2008, you will have spent just a few hours and will be making better financial decisions with much more information.

The first step in the financial planning process is to take an inventory of your assets and liabilities and create a PERSONAL BALANCE SHEET listing dollar amounts of your assets and liabilities as of 12/31/07. Start by listing your assets (things you own). These can be classified as liquid assets, personal use and household assets and investments.

1. Personal Use assets: residence, car, household furnishings and recreational equipment
2. Liquid assets include: checking and savings accounts
3. Investments: 401(k)s, IRA, real estate properties and land, mutual funds, stocks, bonds, certificates of deposit.

Then list your liabilities (things you owe). These can be classified as short term (less than 5 years) and long-term (5 years and longer).

1. Long-term liabilities: house loan, student loans
2. Short-term liabilities: car loan, credit card debt

Net Worth is the difference between the value of your assets and the value of your liabilities:

$$\text{Net worth} = \text{Value of Total Assets} - \text{Value of Total Liabilities}$$

Asset	Dollar Amount	Liabilities	Dollar Amount
Checking Account.....	\$1,000	Credit Card Debt.....	\$2,400
Savings Account	\$5,000	Car Loan.....	\$8,000
Residence	\$100,000	Loan on Life Insurance Cash Value.....	\$2,400
Auto.....	\$9,500	Home Mortgage	\$89,000
Household furnishings	\$10,000	Student Loans.....	\$11,500
Cash Value of Life Insurance	\$3,000	Total Liabilities	\$113,300
Roth IRA.....	\$1,000		
401(K).....	\$2,400		
US Savings Bond	\$1,000		
Total Assets	\$132,900		

Net Worth \$19,600

If you are a young family just starting out, you may experience a negative Net Worth. This is not unusual for a new college graduate with significant student loan debt. The important thing about starting the financial planning process is that you will be making a commitment to a better financial future.

When you update this snapshot of your wealth each January, you will be better able to make note of your progress toward your financial goals.

A Personal Balance form is found on the next page.

Personal Balance Sheet

Estimated Net Worth \$ _____ Date _____

Net worth is the difference between the value of your assets and the value of your liabilities:

$$\text{Net worth} = \text{Value of Total Assets} - \text{Value of Total Liabilities}$$

Assets	Liabilities
Estimated Value	Estimated Value
<p>Personal Items</p> <p>Home _____</p> <p>Vehicles _____</p> <p>Jewelry _____</p> <p>Artwork _____</p> <p>Furniture _____</p> <p>Electronics _____</p> <p>Antiques _____</p> <p>Other _____</p> <p>Cash or Cash Equivalent</p> <p>Checking Account _____</p> <p>Savings Account _____</p> <p>Certificates of Deposit _____</p> <p>Money Market Account _____</p> <p>Life Insurance (cash value) _____</p> <p>Other _____</p> <p>Investments</p> <p>Retirement account _____</p> <p>Bonds _____</p> <p>Mutual funds _____</p> <p>Individual stock shares _____</p> <p>EE Savings Bonds _____</p> <p>Real estate other than home _____</p> <p>Other _____</p> <p>_____</p> <p>Assets Total</p>	<p>Loan Balances</p> <p>Mortgage loan _____</p> <p>Home equity loan _____</p> <p>Car loans _____</p> <p>Real estate loans _____</p> <p>Student loans _____</p> <p>Other loans _____</p> <p>Other Outstanding Debt</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>Liabilities Total</p>

Assets Total _____ – Liabilities Total _____ = \$ _____ Net Worth