NEFE – Unit 1 - Your Financial Plan: Where It All Begins
It is possible for you to do all of these things if you get savvy about managing your money.
In this unit, you will begin your journey toward savvy money management by learning about the financial planning process. People who "have it all" didn't get there by accident. They made a financial plan and followed it. You will use what you learn in this unit to create your own personal financial plan. Later, we'll build upon this by discussing ways to follow it and other aspects of managing your money.

By the end of this unit, you will:
- Examine why it's important to have a plan for your money
- Know what SMART goals are
- Analyze how you get and spend money
- Use the decision-making process to create your financial plan
- Identify guidelines to implement your financial plan
- Learn how to monitor and make changes to your financial plan

> **Although he doesn't have his license yet, Josh has already picked out the sporty red coupe he wants when he turns 16 next year.**
> It's more than his parents want to spend though, and they've said it won't happen unless he can come up with the difference.
>
> **As Maria studies for her SAT tests, she is thinking about her first year of college.**
> She knows her parents haven't saved much money for her college expenses, so she decides to save at least half of her paychecks from a summer job as a lifeguard so she has money to spend when she goes to school.
>
> **Jaime, age 16, wants a new video game system to play with his friends.**
> He has saved two months' worth of pay from his part-time job and is ready to go to the store and buy it.

What do all these students have in common?
They're managing money to get something they want. And they may not realize it, but they're also using some type of plan to make it happen. That's what this unit is all about—how to make a financial plan that helps you meet your goals.

What Do You Think?
With a partner, indicate whether each statement is True or False:

__________ **Teens get most of their money from part-time jobs.**

__________ **Most teens who are 18 or 19 years old have a checking account.**

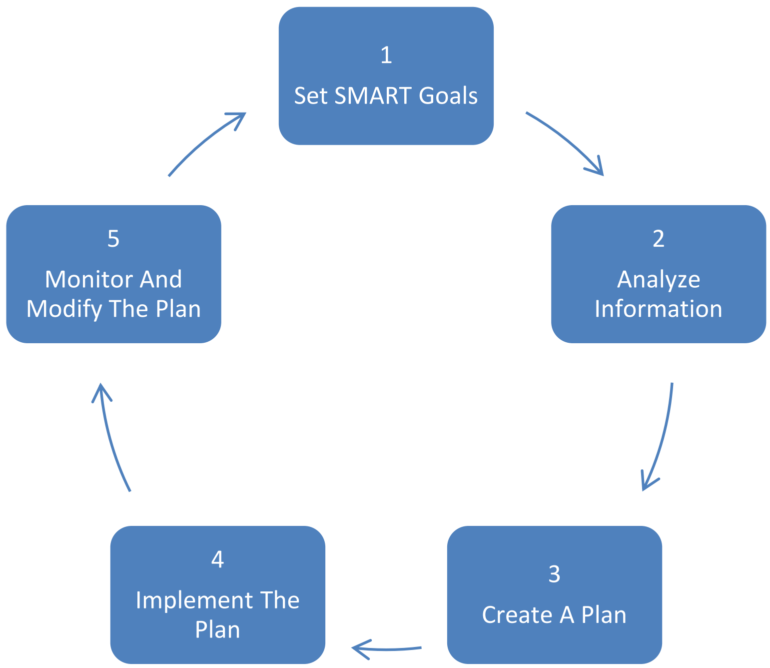
__________ **Ninety percent of high school students rely on their parents for information about money.**

__________ **On average, American teens spend more than $10 billion a year.**1

What's So Important About Financial Planning?

Financial planning is a process of setting goals, developing a plan to achieve them, and putting the plan into action. It's creating a roadmap for handling everything you do with your money—spending, saving, using credit, and investing. People who are good at making and following a financial plan are able to live comfortably and buy nice things without guilt or stress. But those who never learn to plan often worry about having enough money for the things they need and want.

Even though financial planning can have a big impact on the quality of your life, it is actually pretty simple to do. In fact, it boils down to five steps:



Step 1
Set SMART Financial Goals

If you're going to run in a race, don't you want to know how long it is? Of course you do! You certainly don't want to start off too gung-ho and then be unable to finish. If you know the race is a 10k and ends at the top of a steep hill, you can plan your pace and even your training accordingly. This is simply called ***beginning with the end in mind***—it helps you maximize your ability to reach your goal. Many athletes take this technique a step further by actually visualizing themselves crossing the finish line at a certain time. Visualizing a mental picture of your desired outcome can actually help you attain it.

It's rare that anyone has enough money to spend on every single want. Studies show that even multi-millionaires believe they need about twice what they have to feel worry-free.[1] So everyone has to make choices and set priorities—a good financial plan helps you through that process. For one, it makes you think about your needs and wants.

Do You *Need* It or Do You *Want* It?

Let's face it, sometimes we say we "need" things that we actually don't. ***Needs*** are the very basic things we must have to survive. ***Wants*** are the things that make life more interesting and fun, but you could live without them if you had to. You need food to eat, but you want to eat pizza out with your friends. You need a place to live, but you want a TV in your room. You need some clothes to wear, but you want those designer jeans. Everyone has wants, but when your wallet is looking thin, needs have to come first.

Complete the Needs vs Wants Worksheet.

Values are the beliefs and practices in your life that are very important to you. So many things can influence your values—your parents, other family members, friends, your religion, things you read, and experiences you have. Your values may even change over time as you learn and do new things. The point is that you have a set of values. And they affect all the choices you make, including your choices about money. Maybe you believe it's important to donate money to charity. Or maybe you'd rather have money in the bank than a new car of your own. These types of beliefs and practices reveal your values about money. Knowing what they are makes it much easier to create a plan for getting the things you really want.

Getting SMART About Your Goals

You probably know that a ***goal*** is something you aim for. It's something you want to be, do, or have at some future time. It points you in the direction you need to take. Achieving a goal gives you a sense of accomplishment, which spurs you on to setting new goals for even bigger and better things. So learning to identify and set clear goals is key to your success in life. If one of your *personal* goals is to go to college the same year you graduate from high school, you know you have to take the SATs, decide which schools to apply to, and mail applications by certain deadlines. Knowing what you're aiming for makes it a lot easier to map out a process to see what you have to do to meet your goal. But if you don't set the clear goal of going to college the same year you graduate from high school, you could easily miss some of the things you need to do to meet your goal.

Setting clear *financial* goals is also important. It's easier to find the money for a June trip to Florida if you decide in January that this is what you want, then make a plan to save for it, instead of trying to scrounge up the money to go at the last minute. One thing you need to know about your goals is how long you expect they will take to accomplish. Goals that you want to achieve within the next three months are called ***short-term goals***. Goals that are set for three months to a year are called ***intermediate-term goals***. ***Long-term goals*** are ones that it'll take you more than a year to achieve.

SMART Goal Examples

Short-term:

Save $25 by the 10th of next month to buy mom a birthday gift.

Intermediate-term:

Save $10 a week for the next six months to buy a dress for prom.

Long-term:

Save $2,000 from a summer job for the next three years for a down payment on a car.

How Long Will It Take?
Look at the goals below. Consider how long it will take to meet the goal—less than three months? Less than a year? More than a year? Categorize each goal by writing S (Short), I (Intermediate), or L (Long) next to the statement.

_______ Save money to buy a birthday present for one of your friends whose birthday is next month.

_______ Save money for your senior year school trip.

_______ Buy new tires for your car.

_______ Buy a new phone to replace your phone that is damaged.

_______ Set aside money to pay your first semester of college tuition.

With longer-term goals, you have to be willing to give up something you want now to get something even better in the future. That's called ***delayed gratification***. But so many Americans are in credit card debt because they opt for instant gratification—to buy something as soon as they see it. The problem with putting that new shirt on a credit card is that it will probably cost a lot more in the end, compared to saving money and paying for it in cash.

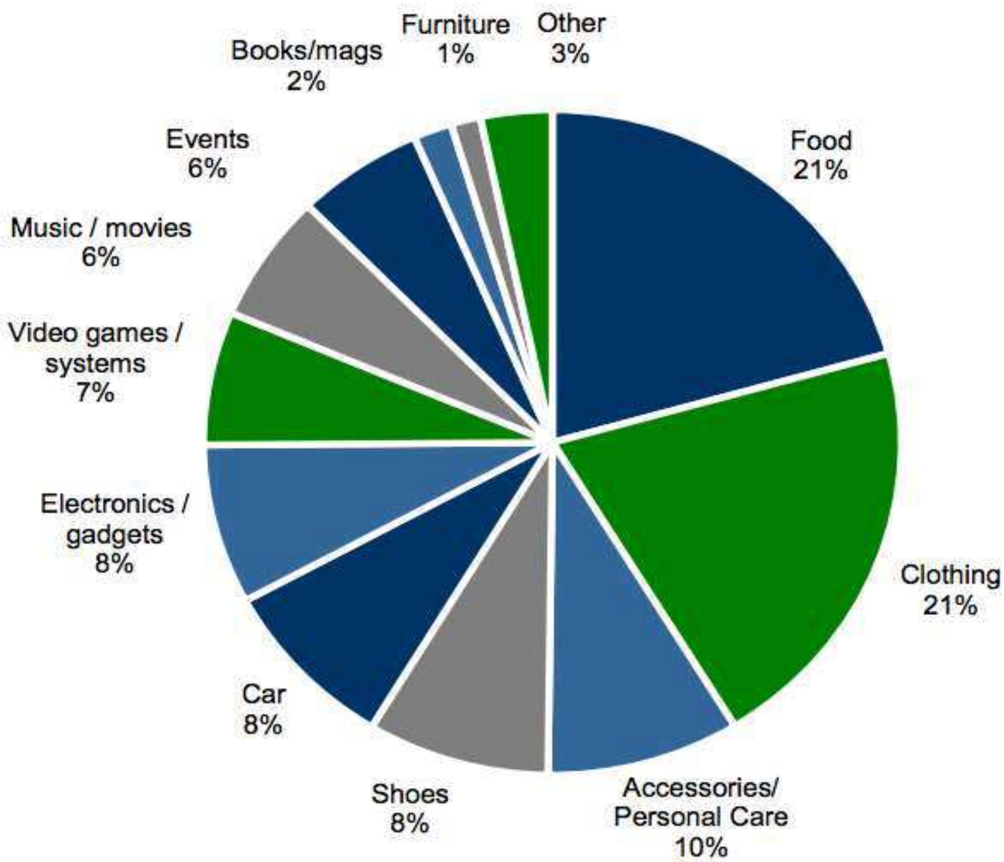
So there are other factors to consider when setting a clear goal. In fact, the best goals aren't just clear—they are **SMART**.

Specific	. "I want to go to Panama City for Spring Break" is more specific than "I want to go somewhere fun over Spring Break."
Measurable	"I'll need $150 for my share of the hotel room for the week" is measurable; "I want to save a bunch of money for the trip" is not.
Attainable	"I'll split the driving with my friends and take $200 more for gas, food, and other spending" is much more attainable than "I want $500 to fly there and $700 for spending money."
Realistic	"I'll save $60 a month from my paycheck for the next six months" is more realistic than "I'll buy lottery tickets every week."
Time bound	"I want to save all the money by March 1st" gives you a specific date from which to plan backwards, unlike "I want to save all the money by spring."

Step 2 – Analyze Information
Where Does Your Money Go?

The second step in the financial planning process is to find out where your finances currently stand, so you can see exactly how much money you're getting and how much you're spending or saving. Let's start with your income. Where do you get money from? Do you receive an allowance? Do you have a job or your own business? How much do you earn each week? Next, how much money do you spend each week and on what are you spending it? Do you owe money to anyone for the stuff you've bought? Whether you got a loan to buy your first car or you borrowed money from your parents to buy a new jacket, you owe money to others and need to be aware of that debt. Questions like these are critical because their answers have a direct impact on your ability to achieve your financial goals.

What teens spend their money on!



During this step, you evaluate your alternatives as part of the financial planning process. Use the many sources of financial information that are available such as Financial Specialists, technology, the media, financial institutions and high school and colleges courses. Look at your situation in life, your present financial situation, and your personal values. Consider the consequences and risks of each decision you make.

Consequences of Choices – When you choose one option you eliminate other possibilities. Suppose that you want to become a full-time college student. You also want the income you would earn at a full-time job. In choosing to go to college full-time, you give up the opportunity to work full-time, at least for the moment. An opportunity cost, or trade-off, is what is given up when making one choice instead of another. The opportunity cost of going to college would be the benefit of having a full-time job. While you are giving something up, you may also be getting something for your sacrifice. In this case, a better paying job is usually the result of a college education vs not going to college.

When you make a financial decision, you also accept certain financial risks. Some types of financial risks include:

- ***Inflation Risk*** – there is always the possibility that the prices may increase, costing you more money
- ***Interest Rate Risk*** – Interest rates fluctuate – that is they go up and down. This may affect the cost of borrowing or the profits you earn when you save or invest.
- ***Income Risk*** – You may lose your job due to unexpected health problems, family problems, an accident, lay-offs or a change at your job.
- ***Personal Risk*** – driving in a car might save you more money, but on an ice covered road, it may be more dangerous.
- ***Liquidity Risk*** – Liquidity is the ability to easily convert financial assets into cash without loss in value. Sometimes a long-term investment, such as a house, might be difficult to covert to cash quickly.

Step 3 – Create a Plan
Your Financial Roadmap

So what if the amount you need to save each week is more than you receive? It's a common situation that nearly everyone faces. The solution is to analyze the situation and make the best decision you can.

Making Decisions

Financial planning requires making many decisions, and making decisions about money can be particularly challenging because so many things come into play. For one, you have the facts of the situation, such as your spending log. But there are many other things that can affect your decisions as well—your mood, values, culture, habits, and opinions of your friends and parents.

Some decisions are easy, such as deciding which movie to see. Of course, others are more complicated and require more thought. But whether the decision is easy or hard, there's a basic process everyone follows—the six stages of decision making that you may not even realize you already go through. So let's see how this works by analyzing an easy decision. Pretend you're going to see a movie with your friends and it's sold out. What do you do?

1 **Identify your goal.** Yes, you still want to see a movie.

2 **Establish your criteria.** Consider what type of movie you want to see, when you want to watch the movie, and how much money you want to spend. By identifying your expectations in advance, you can eliminate choices that don't meet your wants and needs.

3 **Examine your options**. Think about whether you want to buy tickets now for a later showing of the sold-out movie, see another one that will be starting soon, or rent a movie to watch at home.

4 **Weigh the pros and cons.** Consider how your options meet your criteria. You really don't want to wait a couple of hours, and there's another film playing that you want to see.

5 **Make your decision.** Decide which option best meets your criteria. Decide to buy the tickets for the movie that is playing now.

6 **Evaluate results.** Afterward, talk with your friends about whether you liked it.

When it comes to the decision-making process, two of the most important elements are examining your alternatives and analyzing your outcomes. So let's look at these two elements a little further.

Say your friend Rob has two short term goals he wants to meet.

• **Goal A:** save $5 per week for the next four weeks to buy a new video game.
• **Goal B:** save $10 per week for the next nine weeks to buy a new pair of shoes.

However, Rob's Personal Spending Record shows that he has only $5 left over each week. So he asks you what to do—choose Goal A or B?

Because Rob's limited resources mean he can't accomplish both of his goals in the desired time frame, he has to make some kind of trade-off. Economists call this the ***opportunity cost*** of the decision. If Rob chooses to save for only the video game right now, it means that he's giving up the opportunity to buy those sneakers nine weeks from now.

Rob has several options for trying to reach his goals. In situations like this, making a decision chart can help. Just remember that many times there is no "right" answer. The best decision is simply the one that feels like the best choice based on your criteria and all the information you have.

Of course, not all decisions are created equal. Some are just a blip on the radar screen, while others will have a lasting impact on your life. In fact, some of the personal and financial decisions you make today will affect decisions you will make far into the future. For example, if you take out a loan to buy a car, you could be making payments on it for the next five years. So for the next 60 months, you will have less money to put toward other things you may want.

Often a major decision leads to several smaller ones, sometimes called ***satellite decisions.*** Once you've decided to buy a car, you have to decide what kind of car to buy, how much money to put down, what dealer to buy it from, and when to buy it. These are satellite decisions, which may lead to even more satellite decisions. Let's say you know which car you want. Now you have to decide which color and options package to get.

Step 4 – Implement the Plan
Making It Happen

With your plan in place, the next step is to implement it. Of course, knowing what you should do and actually doing it can be challenging. It takes discipline.

Did you make any New Year's resolutions this year? Have you broken them yet? If so, you know it can be tough sometimes to stick with your plans.

We'll talk later about some specific things you can do with your money to help you stay on target. But one thing you can do today is to find someone to encourage you to be accountable for your goals.

Being a Responsible Spender
When it comes to money, you have a choice. Life is a lot easier, though, if you handle it wisely and respectfully and take personal responsibility for your decisions and actions.

How are you going to make sure you stay on track to meet your financial goals? In later units we'll talk about specific things you can do with your money to help you stay on target. But one thing you can do today is to find someone, like a family member, to encourage you to be accountable for your goals. Your odds of success are much better if you have a "partner" to help motivate you—and it's almost always easier than going it alone.

Guidelines for Sticking With Your Plan

- ❑ Write your goals on an index card or find pictures of your goal and post them in a place you'll see every day.
- ❑ Tell other people about your goals. Also, ask someone to check in with you about your progress—knowing someone is going to ask about it is good motivation!
- ❑ When you're going to spend money, decide how much you'll need ahead of time and take only that amount so you're not tempted to spend more.
- ❑ Review your plan regularly so you know when you're starting to stray and can make adjustments quickly.

What might hold you back from meeting your goals? You need to consider any potential roadblocks that may affect your ability to meet your financial goals. Some roadblocks are beyond your control. For example, the concert tickets you want might be sold out, or your paycheck might be small because you weren’t scheduled to work as many hours as originally planned. Anticipate any roadblocks, and leave room for flexibility in your financial plan.

Step 5 – Monitor and Modify
Staying on Track

Once you start implementing your financial plan, you need to check to make sure that you’re staying on track. The best way is to decide to review your plan and your progress at regular intervals—like every two weeks or every month. The more often you do this, the sooner you’ll catch yourself if you start straying off course.

A plan isn’t meant to be written in stone. It’s a living document that should change as things in your life change. You may run into unexpected obstacles or expenses. Your goals may change, or your resources may vary. You may even receive money that you didn’t expect. That’s just life, and it’s totally normal.

Therefore, you should review your plan whenever you have significant changes in your life. This includes whenever your finances change, such as getting a promotion and a raise or quitting your job. But it also includes life changes as well. For example, you might start dating someone or move to a new city. All of these events can create a need to update your financial plan.

Adding It Up
Now you should be able to see how all these elements in the financial planning process work together: your values influence your needs and goals; the decisions you make affect your goals; spending money on your wants may limit meeting your needs; all of this is your personal financial responsibility.

These elements are the basics of financial planning—making money work for you so you can lead the kind of life you want. Don’t let money control you. Always remember that it is just a means to an end, not the end itself.

With a personal financial plan, your journey through life will be smoother. And when you come to forks in the road, you can move ahead with fewer hesitations. Rather than wandering aimlessly, you’ll know where you want to go and have a better chance of getting there.