

# **F1 – Project-Stage 4: Setting Personal Financial Goals**

TCHE322

Lawrence et al (2011). Chapter 1  
Thomas (2009). Chapter 3

# Personal finance planning

---

## *Personal finance planning process*

**1. Define financial goals.**



2. Develop financial plans and strategies to achieve goals.



3. Implement financial plans and strategies.



4. Periodically develop and implement budgets to monitor and control process toward goals.



5. Use financial statement to evaluate results of plans and budgets, taking corrective action as required.



6. Redefine goals and revise plans and strategies as personal circumstances change.

## Essential Information of personal financial plans \*

1. **A summary of the goals**
2. Significant assumptions and **justification**
3. Estimates
4. Recommendations
5. A description of limitations on the work performed
6. The recommendations in the engagement should contain qualifications to the recommendations if the effects of certain planning areas on the client's overall financial picture were not considered.

*\* Adapted from Paragraph .35, Statement on Standards in Personal Financial Planning Services No. 1*

# Schedule of lectures

---

## ***Project topic covered***

- Identify your income
- Identify your short term, medium- and long-term financial goals

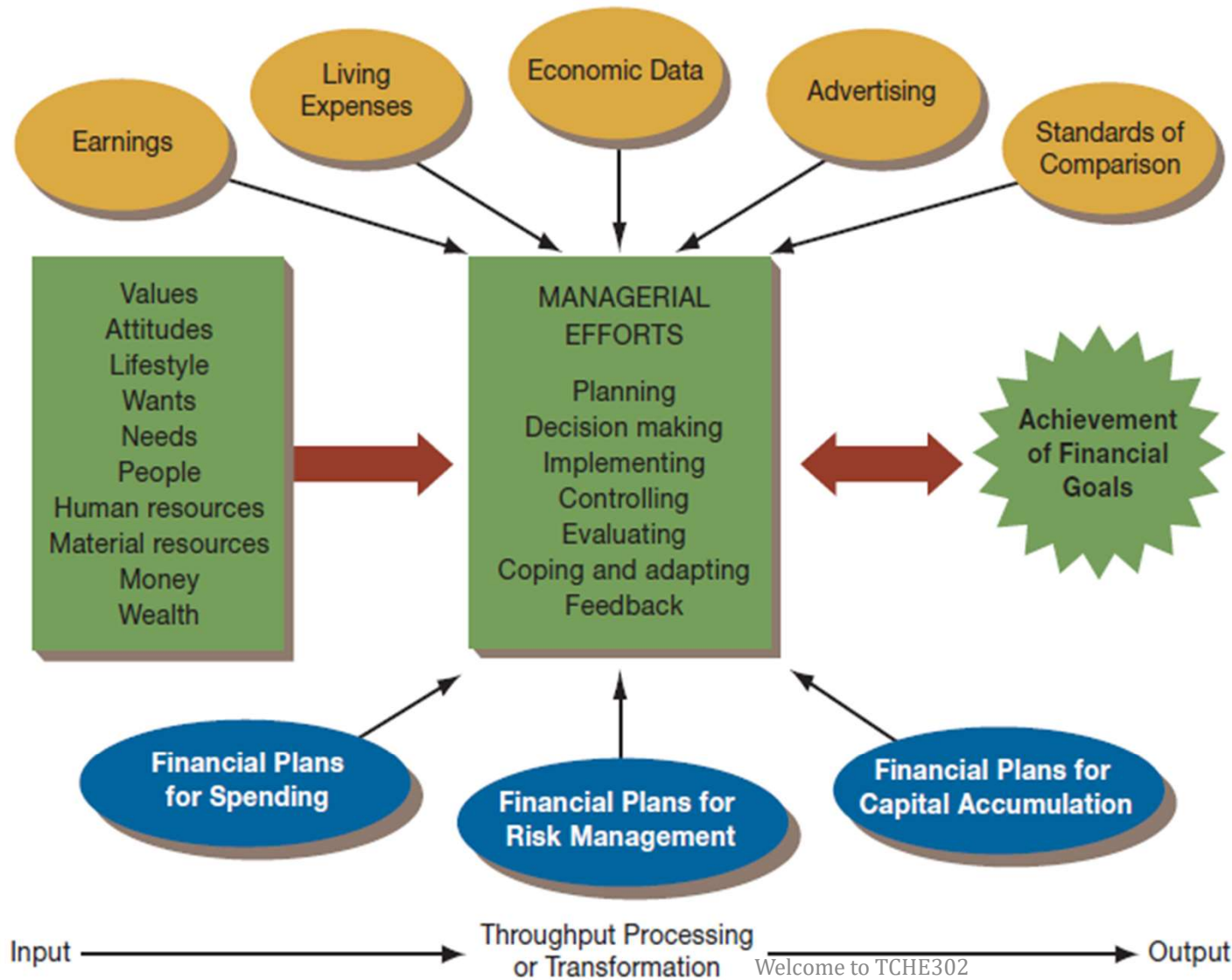
## ***Groupwork project activities***

- Identify what you want
- Setting short-term, medium- and long-term financial goals aligning with career goals

# Setting financial goals

---

- Setting goals helps you visualise the gap between your current financial status and where you want to be in the future.
  - Values identification
  - Financial goals follow values
  - Financial goals: specific objectives to be attained through planning and management effort.
- Examples of general financial goals:
  - finishing a college education, paying off debts (including education loans),
  - meeting financial emergencies, taking a vacation,
  - owning a home, accumulating funds to send children through college,
  - having financial independence at retirement.
- None of these goals, however, is specific enough to guide financial behaviour.



**Figure 3.1**

**How to Achieve Financial Goals**



## Financial Goals

- Results that an individual wants to attain
- Utility and cost are to be considered when evaluating alternative qualities of life, spending patterns, and forms of wealth accumulation
  - *Money and utility are linked to psychological concepts of values, emotion, and personality*
- Financial planning is an important part of the conflict resolution process

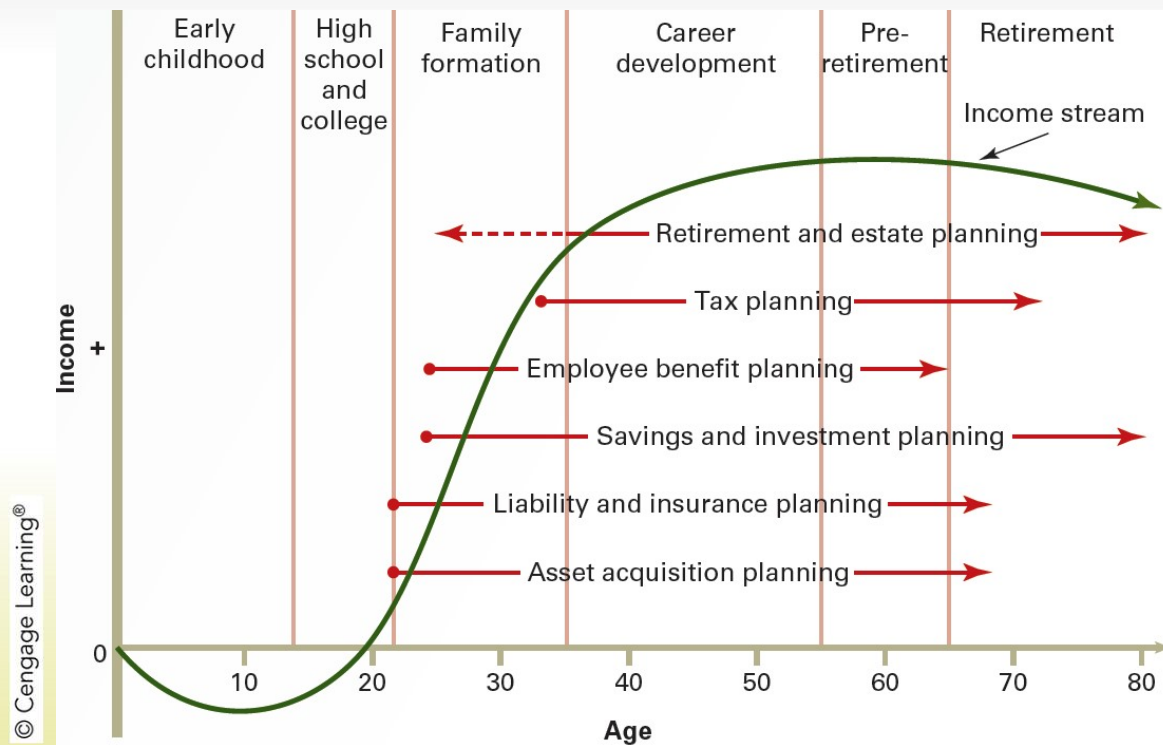


## Target Dates on Financial Goals

- **Goal dates:** Target dates in the future when certain financial objectives are expected to be completed
- Long-term goals
  - *Indicates wants and desires for a period covering about 6 years out to the next 30 or 40 years*
- Short-term financial goals
  - *Set each year and cover a 12-month period*
- Intermediate goals
  - *Bridge the gap between short- and long-term goals*



## Exhibit 1.4 The Personal Financial Planning Life Cycle



# Setting financial goals

---

An example of plans in 15 specific areas spread across three broad categories:

- Spending
- Risk management
- Capital accumulation.

**Table 3.1** Financial Plans, Goals, and Objectives for Harry (Age 23) and Belinda (Age 22) Johnson, Prepared in February 2008

Financial Plan Areas	Long-Term Goals and Objectives	Short-Term Goals and Objectives
<b>FOR SPENDING</b>		
Evaluate and plan major purchases	Purchase a new car in two years.	Begin saving \$200 a month for a down payment for a new car.
Manage debt	Keep installment debt under 10 percent of take-home pay.	Pay off charge cards at end of each month and do not finance any purchases of appliances or other similar products.
<b>FOR RISK MANAGEMENT</b>		
Medical costs	Avoid large medical costs.	Maintain employer-subsidized medical insurance policy by paying \$135 monthly premium.
Property and casualty losses	Always have renter's or homeowner's insurance. Always have maximum automobile insurance coverage.	Make semiannual premium payment of \$220 on renter's insurance policy. Make premium payments of \$440 on automobile insurance policy.
Liability losses	Eventually buy \$1 million liability insurance.	Rely on \$100,000 policy purchased from same source as automobile insurance policy.
Premature death	Have adequate life insurance coverage for both as well as lots of financial investments so the survivor would not have any financial worries.	Maintain employer-subsidized life insurance on Belinda. Buy some life insurance for Harry. Start some investments.
Income loss from disability	Buy sufficient disability insurance.	Rely on sick days and seek disability insurance through private insurers.

**FOR CAPITAL ACCUMULATION**

Tax fund	Have enough money for taxes (but not too much) withheld from monthly salaries by both employers to cover eventual tax liabilities.	Confirm that employer withholding of taxes is sufficient. Have extra money withheld to cover additional tax liability because of income on trust from Harry's deceased father.
Revolving savings fund	Always have sufficient cash in local accounts to meet monthly and annual anticipated budget expense needs.	Develop cash-flow calendar to ascertain needs. Put money into revolving savings fund to build it up quickly to the proper balance. Keep all funds in interest-earning accounts.
Emergency fund	Build up monetary assets equivalent to three months' take-home pay.	Put \$150 per month into an emergency fund until it totals one month's take-home pay.
Education	Maintain educational skills and credentials to remain competitive. Have employer assist in paying for Belinda to earn a master of business administration (MBA). Have Harry complete a master of fine arts (MFA), possibly a PhD in interior design.	Both take one graduate class per term.
Savings	Always have a nice-size savings balance. Regularly save to achieve goals. Save a portion of any extra income or gifts. Save \$26,000 for a down payment on a home to be bought within five years.	Save enough to pay cash for a good-quality DVD player. Pay off Visa credit card balance of \$390 soon. Begin saving \$400 per month for a down payment on a new home.
Investments	Own substantial shares of a conservative mutual fund that will pay dividends equivalent to about 10 percent of family income at age 45. Own some real estate and common stocks.	Start investing in a mutual fund before next year.
Retirement	Retire at age 60 or earlier on income that is the same as the take-home pay earned just before retirement.	Establish individual retirement accounts (IRAs) for Harry and Belinda before next year. Contribute the maximum possible amount to employer-sponsored retirement accounts.
Estate planning	Provide for surviving spouse.	Each spouse makes a will.

# Groupwork project activities - Planning Future Careers

---

- Identify what you want to do/ what fit you based on interest test
  - Self-Directed Search [Holland, Fritzsche, & Powell, 1994](#),
  - Vocational Preference Inventory [Holland, 1965](#)),
  - [Strong](#) Interest Inventory (three version) ([Donnay et al., 2005](#)) [Strong Sample](#)
  - Strong Vocational Interest Blank, and
  - Strong-Campbell Interest Inventory.
- Analyse the financial and legal aspects of employment in the identified career
  - Compare salary and living costs in different cities
    - assess how education level, experiences and age affect income
    - Compare using city indexes
      - City indexes: comparing wages and cost of living for various employment locations
- Research any prediction on high-wage and high-growth occupations in the years to come

## Groupwork project activities - **Setting Personal Financial Goals**

---

- Set your financial goals until the age of 80, aligning with
  - Your future careers planning
  - The Personal Financial Planning Life Cycle

## Exhibit 1.4 The Personal Financial Planning Life Cycle

