Unit 2: Personal Goals and Budgeting

Topics:

- Creating a Recordkeeping System
- Setting Financial Goals
- SMART Goal Setting
- Budgets

Recordkeeping System

To protect your personal financial statements and important documents, keep them in a secure area such as a bank deposit box or fire-proof safe. Make a list and include the location of insurance policies and wills. You should include any information or documents your family will need if something should happen to you. Be sure to tell a trusted friend or relative where this information can be found in an emergency. Here are some suggestions:

- Keep a list of every family member and their personal information such as date of birth, social security number and any account(s) they may have.
- Document all credit card information including account numbers, account holder names, and contact information.
- Collect all insurance policies.
- If you have a financial planner, make sure his/her name, address, and phone number are listed.
- List all bank accounts, where they are located, and names listed on the accounts.

Setting Financial Goals

Financial goals can be short- or long-term and for large or small amounts. Financial goals will change periodically depending on circumstances such as marital status and age. Cash management, which is the day-to-day administration of currency by an individual or family, is essential to planning and caring for your finances. Cash management is also referred to as managing liquid assets. Managing how money is spent will increase your success in meeting financial goals.

As a first step, take a close look at your life both personally and financially. Decide if your current financial position will get you to where you want to go. Are you happy with the lifestyle that
your current financial situation supports? Would you like more or can you do with a lot less? What it boils down to is *what makes you happy in life* and how you will make decisions to achieve this happiness. Think about what it is that you value the most and then create a practical plan to get you there.

**What is your current financial status?**

Take a close look at your financial situation. Are you content with the amount of money you currently have and the products and services you can afford? Do you want a bigger house or a more expensive car? Do you have a child nearing college age? How about a vacation every year? If you answered yes to one or more of these questions (which is not an all-inclusive list), then you need to start planning to achieve your financial goals.

Begin by determining your biggest financial obstacle—the one that is keeping you from having financial security. Is it:

- Credit card debt?
- Insufficient income?
- Overwhelming loans?
- Excessive spending?

**Where do you want to be in the future?**

Do you want a more financially stable future? If so, you must make changes to your approach to life and money. Think about the job you are currently in; does it satisfy you both personally and professionally? If the answer is no, it is time for a change. If your job suits you, then you must plan your finances accordingly. As you grow older, your wants and needs change, as does your family life. There has to be a happy medium between work and family. You should consider your values because they influence everything you do as well as your happiness.

Values indicate what you deem important in your life. Do you value family time or work more? Those who would rather work tend to spend most of their time on the job. The family person may opt to work less and spend more quality time with family. Your values will affect the type of career you have and how far up the corporate ladder you want to climb. Ultimately, these factors will affect the amount of money you make in your lifetime.
Achieving your financial goals

How hard do you want to work to achieve your goals? If there is a career change in your future, is your current educational journey preparing you to make the change? Consider the costs of your education. Can you afford it? Will you have to take out student loans to cover the costs? How will attending school affect your family life? Will this career change put you in a better financial position for the future? Remember, there are always costs to be considered when making a career change. Think about how much more time your new job will take away from your personal time. Most important of all, make sure you love what you are doing. You spend most of your time working and if you are not happy it will affect all parts of your life.

Career changes may adjust income either through higher wages or employee benefits such as retirement funds. When you make a career change, you must reconfigure your finances, restructure your goals, and review your budgets.

SMART Goal Setting

Looking to the future

Everyone has dreams for their retirement such as an ocean front home, a bigger house, or sailing around the world. These may be attainable with the right planning. Your plan will help you secure a healthy financial future. Making good investments and saving money will keep you on track to reach your goals.

Setting goals the SMART way

Your goals should be precise and detailed. In addition, you should set a deadline for reaching any goal, especially if it is financial. Determine how much money it will take to reach your goals. One way to do this is to use the S.M.A.R.T. goal-setting method by making sure that your goals are:

- **Specific** (detailed and comprehensive)
- **Measurable** (you should be able to see the progress)
- **Action-oriented** (you must do something to make it happen)
- **Realistic** (do not overstate what is possible)
- **Time-oriented** (goals should have deadlines)
Smart Goal Example

If you have a goal to own a home in the next year, you might state this as a goal simply by saying, “I plan on buying a house sometime this year.” This is a good start for a goal, but to be a SMART goal it will need a little more work. For instance, this goal may not be specific enough and it is possible that it may not be realistic if you haven’t determined what you will need to do financially to reach the goal of buying a home.

Once you have looked at the process and have a good understanding of what it will take to reach a goal like this you can formulate your goal using the SMART elements. This means your goal statement will be specific, measurable, actionable, realistic, and time-oriented. Using this method you could state your goal like this: “In order to purchase a home in the $125,000.00 to $150,000.00 price range, I will put $275.00 monthly into a savings account to use for down payment and purchase costs by December 21, 2015.” As you can see, this goal is very specific and measurable. You will see your savings increase each month by taking these steps. It is realistic because it will take time to accumulate enough money for a down payment and costs of buying a home. You have also given yourself a deadline to achieve this goal. It is a good goal and a reasonable plan for a large purchase such as buying a home.

Budget

A budget is a detailed financial report which predicts income and expenses for a given period of time. The budget aids in controlling expenditures because by forecasting income and expenses, it helps you determine whether you have sufficient income to cover your expenses. Once you have taken your income and subtracted your expenses you are left with what is called discretionary income. Discretionary income is money left over after paying for housing, food, and other necessities. For people less than 25 years of age, discretionary income is usually less than five percent. For older people it can be as much as 40 percent of their income.

Many may ask, “Why do I need a budget?” Responses may include, “I have enough money to live comfortably.” Or, “I am able to meet my responsibilities each month and have money for vacations.” Determine how much you have in savings. If an illness kept you from working for six months, would you have enough to cover all of your expenses? If you lost your job tomorrow, how long would you be able to keep your home and feed your family? These questions are just a few of the life events that could hurt you financially. You need to take a closer look at where you would be if
a life event happened to you. You must prepare for life’s events so that you are not left standing with no financial back up.

So, why prepare a budget? Here are a few good reasons:

- A budget will help to monitor and control finances.
- A budget will help you to live within your means rather than living from paycheck to paycheck.
- A budget will help you control spending which will increase funds available for savings and investments.
- A budget is a tool to help you plan for your long-term financial goals.

**Summary**

To protect yourself and your family in case of unforeseen events, you should take time to gather and secure your important documents so that you are clear about your assets and expenses. Then you should set goals. Financial goals require that you know what you want out of life. Your decisions about career, spending, saving, and life circumstances now and later will all be affected by the decisions you make. Planning and goal setting are essential if you are going to control these aspects of your life. These are not things you should leave to chance. Take control and make wise choices.

**Resources**

**Key Web Sites for Planning:**

www.americasaves.org

www.irs.gov

**Key Web Sites for Spending:**

www.consumer.gov

www.autoweb.com
Glossary

Budget

A detailed financial report which forecasts income and expenses for a given period of time. Budgets aid in controlling expenditures.

Budget Control System

A summary that shows how actual income and expenses compare with the various budget categories and where variances (surpluses or deficits) exist.

Cash Deficit

An excess amount of expenses over income that results in insufficient funds as well as decreased net worth.

Cash management

The day-to-day administration of currency.

Cash Surplus

An excess amount of income over expenses that results in increased net worth.

Liquid assets

Cash on hand, cash in bank accounts, or any resource that can be quickly converted in order to cover immediate and emergency needs.