Take Control: Financial Planning

Taking control of your financial life involves having and using the knowledge and skills needed to effectively manage your financial resources. Whatever your situation, there are things all consumers should know and be able to do. One of the most basic things you can do is to start improving your understanding of financial products, services, and concepts, so that you can make informed financial decisions.

Having financial success does not come naturally, it comes about through planning. Financial planning is a continuous process of creating and implementing financial plans for achieving financial success. It helps you to:

- Identify different ways to use your money
- Compare financial options
- Use the money you have to obtain the things you want
- Prevent wasteful spending
- Organize your financial resources
- Avoid money worries

Use the following steps for successful financial planning.

**Step 1: Get to Know Your Financial Situation**
Determine how much money is coming in and how much money is going out of your household. This involves you doing a bit of record keeping. Keep a record of all money you receive (income) and all the money you spend (expenses).

**Step 2: Know What You Want to Achieve (Goals)**
Write down your financial goals or visions. Determine the cost of each goal and the amount of time it will take to accumulate the money you will need to attain each goal. Be committed in achieving your goals.

Test your basic financial knowledge by answering the following questions:

1. It's always smart to send in the minimum payment due on a credit card bill each month and stretch out the card payments as long as possible instead of paying the bill in full.  True  False

2. Your credit record—your history of paying debts & other bills—can be a factor when you apply for a loan or a credit card, but cannot affect noncredit decisions such as applications for insurance or an apartment.   True  False

3. While one or two late payments on bills may not damage your credit record, making a habit of it will count against you.   True  False

4. There’s no harm in having many different credit cards, especially when the card companies offer free T-shirts and other special giveaways as incentives. The number of cards you carry won’t affect your ability to get a loan; what matters is that you use the cards responsibly.   True  False

5. A debit card may be a good alternative to a credit card for a young person because the money to pay for purchases is automatically deducted from a bank account, thus avoiding interest charges or debt problems.   True  False

6. It makes no sense for young adults to put money aside for their retirement many years away. People in their 20s should focus entirely on meeting monthly expenses and saving for short-term goals (such as buying a home or starting a business) and not start saving for retirement until their 40s at the earliest.   True  False
7. If you receive an e-mail from a company you’ve done business with asking you to update your records by reentering your Social Security number or bank account numbers, it’s safe to provide this information as long as the e-mail explains the reason for the request and show the company’s official logo.

- True  - False

8. The best way to avoid a “bounced” check—a check that gets rejected by your financial institution because you’ve overdrawn your account—is to keep your checkbook up to date and closely monitor your balance. Institutions do offer “overdraft-protection” services, but these programs come with their own costs.

- True  - False

9. All checking accounts are pretty much the same in terms of features, fees, interest rates, opening balance requirements, and so on.

- True  - False

10. Let’s say you put money in a savings account paying the same interest rate each month, and you don’t take any money out. Even though your original deposit and the interest rate remain unchanged, the amount of money you will earn in interest each month will gradually increase.

- True  - False

Step 3: Develop Strategies for Achieving Your Goals
Develop strategies or a plan of action for achieving your goals. Create strategies for maintaining a program for spending, saving, investing, and protecting the money you earn. Be sure to consider flexibility (allowance for changes), liquidity (easy access to your money for unforeseen events) and protection (insurance to prevent financial disintegration due to catastrophic events) when developing a plan for achieving your goals.

Step 4: Implement your Plan
Put your plan into action. Use it to assist in achieving your financial goals. Your plan is the tool that can help you determine how to best utilize your financial resources. Remember, a tool can only be effective when used. So, stick to your plan.

Step 5: Evaluate and Revise Your Plan
Various changes in life (e.g. marriage, children, or death) will necessitate the need to reevaluate the effectiveness of your plan. Don’t be afraid to revise your plan if you determine it is no longer effective in helping you achieve your financial goals.

In summary, take control of your life by taking control of your finances. Begin today by putting a plan in place that identifies your financial goals as well as strategies on how to achieve those goals.

References

