

Fifth Edition

Personal Finance

Turning Money into Wealth

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Chapter 18

Fitting the Pieces
Together

Learning Objectives

1. Understand the importance of beginning your financial planning early.
2. Understand that achieving financial security is more difficult for women.
3. Recognize the “10 Financial Life Events” and strategies to deal with them.

Learning Objectives

4. Understand and manage the keys to financial success.
5. Deal with all kinds of debt in the real world.

Introduction

- Your financial future starts now.
- Challenges include student loans, credit card debt, budgeting, spending, and saving, financial shocks of marriage and children.
- Take control now, or put it off and make financial management tougher in the future.

The Ingredients of Success

- Evaluate your financial health.
- Plan and budget.
- Manage your cash and credit.
- Control your debt.
- Make knowledgeable consumer decisions.

The Ingredients of Success

- Have adequate health, life, property, and liability insurance.
- Understand investing principles.
- Make investment decisions that reflect your goals.
- Plan for retirement.
- Plan for what happens to your wealth and your dependents after your die.

The Financial Life Cycle

- Look where a typical recent college grad is on the financial life cycle
- Recent graduates make many financial decisions in first decade after college.
- Set up an emergency fund, start saving for your goals, and begin a retirement account.

Women and Personal Finance

- Tougher to achieve financial security.
- Generally earn less
- Are less likely to have pensions
- Qualify for less Social Security
- Live longer than men
- Planning for financial independent more difficult for them than it is for men.

Women and Personal Finance

- Need to take charge of their money and financial future.
- Acquire knowledge.
- Make things happen—need a plan.
- See a financial planner about specific concerns.

Financial Life Events

- Life Event 1: Getting Started
- Life Event 2: Marriage
- Life Event 3: Buying a Home
- Life Event 4: Having a Child
- Life Event 5: Inheritances, Bonuses or Unexpected Money

Financial Life Events

- Life Event 6: A Major Illness
- Life Event 7: Caring for an Elderly Parent
- Life Event 8: Retiring
- Life Event 9: Death of a Spouse
- Life Event 10: Divorce

Life Event 1: Getting Started

- Step 1: Lay the Groundwork
 - Expenses and a budget
 - Control debt
 - Establish an emergency fund
 - Insure yourself
 - Control your credit score
 - Keep current on personal finance

Life Event 1: Getting Started

- Step 2: Identify Your Goals
 - Identify and prioritize financial goals.
 - Set a time frame.
 - Identify the costs of your goals.

Life Event 1: Getting Started

- Step 3: Begin Saving for Your Goals
 - Save more than you think you can.
 - Make savings automatic.
 - Avoid expenses whenever you can.
 - Don't procrastinate.
 - Catch your matches.

Life Event 1: Getting Started

- Step 3: Begin Saving for Your Goals
 - ROTH.
 - How much risk can you tolerate?
 - Asset allocation.
 - Put together a strategy.
 - Control your spending.

Life Event 1: Getting Started

- Step 4: Manage Your Portfolio
 - Monitor your portfolio.
 - Stay current.
 - Adjust to changes.

Life Event 2: Marriage

- Step 1: Get Organized
 - Work together.
 - Update financial records.
 - Consolidate your credit cards.
 - Gain control of your debt and your credit score.
 - Merge finances to make good decisions.
 - Set aside an area dedicated to your financial paperwork.

Life Event 2: Marriage

- Step 2: Revisit Your Financial Goals
 - Reexamine your financial goals.
 - Begin saving for new goals.
 - Make your saving automatic.
 - Make sure you have an emergency fund.
 - Begin working towards retirement.

Life Event 2: Marriage

- Step 3: Reexamine Your Insurance and Benefits
 - Review your beneficiaries.
 - Include all family members.
 - Review your insurance.
 - Disability insurance.
 - Coordinate your benefits.

Life Event 2: Marriage

- Step 4: Reexamine Your Taxes
 - Update W-4 form.
 - Take advantage of tax breaks.

Life Event 2: Marriage

- Step 5: Make a Will
 - Make a Will.
 - Review your beneficiaries.

Life Event 3: Buying a Home

- Step 1: The purchase fit your financial plan
 - Keep track of your credit score.

Life Event 3: Buying a Home

- Step 2: Consider Tax Implications
 - Take advantage of the tax benefits.
 - Build the tax benefits into your budget.
 - Reexamine your investments.
 - Update your employer records.
 - Know your state.

Life Event 3: Buying a Home

- Step 3: Take Care of the Details
 - Update your address.
 - Update your insurance policies.

Life Event 4: Having a Child

- Step 1: Survey Your Finances
 - Assess your current financial situation.
 - Reexamine your financial goals.
 - Revise your budget.

Life Event 4: Having a Child

- Step 2: Plan for College
 - Estimate the costs.
 - Automate your savings.

Life Event 4: Having a Child

- Step 3: Reconsider Your Insurance Needs
 - Review and update life, health, and disability insurance coverage.

Life Event 4: Having a Child

- Step 4: Update Your Wills and Trusts
 - Update or make a will.
 - Update your retirement account beneficiary designations.

Life Event 4: Having a Child

- Step 5: Take advantage of tax savings.
 - Social Security number.
 - Update your W-4 form.
 - Update your flexible spending accounts (FSA)

Table 18.

Some of What You Spent on Your Child			How You Might Have Spent That Money on Yourself	
Age	Expense	Cost	Expense	Cost
0	Average cost of delivery	\$6,400	7-day safari for two in Kenya	\$6,400
1	An au pair (live-in nanny)	\$30,000	New 2009 MINI Cooper convertible	\$30,000
3	Montessori preschool	\$4,000	Set of Ping G2 golf clubs	\$4,000
5	The "must-have" toy: the (very rare) original 8-inch "Buttercup" PowderPuff Girl	\$1,800	Mint copy of Beatles "Butcher Block" cover to <i>Yesterday and Today</i> signed by all the Beatles	\$1,800
7	After-school program for the gifted	\$3,564	2 box seat season tickets to the Baltimore Orioles	\$3,564
8-9	Private school	\$19,770	A 2009 Mazda Miata	\$19,770
10	Violin and lessons (3 times per week)	\$4,150	Membership in a health club with personal trainer (3 times per week)	\$4,150
11	Self-defense lessons (3 times per week) after being beaten up when going to violin lessons after school	\$3,750	One more year of a personal trainer (3 times per week)	\$3,750
12	Therapy to improve self-esteem (once a week)	\$5,000	Another year of personal training plus a week in Cancun (to show off)	\$5,000
13	Clothes from Abercrombie and Fitch (to help with self-image)	\$5,500	52" Sony Bravia XBR series LCD flat panel HDTV and home theater with home theater surround sound	\$5,500
14	Transportation to and from community sentencing for using fake ID	\$299	Apple iPhone with 16 MB	\$299
15	Bill from Mystic Tattoos	\$239	Navy SEALs watch from the Sharper image catalog	\$239
16	Laser tattoo removal	\$2,796	Executive massage chair from Sharper Image and 3 nights at the Plaza Hotel	\$2,796
16	Increased automobile insurance premiums	\$1,345	Orvis 2-day fly-fishing course and basic gear	\$1,345
16.5	Increase in auto insurance after two tickets and one accident (including lawyer fees)	\$2,250	Bose Lifestyle V30 home theater system	\$2,250
17	SAT prep course	\$600	CD-stereo system for your car	\$600
Total (not including college)		\$93,202	Total (not including college savings)	\$93,202
Now add in five years of college for your child or a Mercedes-Benz S600 at \$138,335 for you!				

Life Event 5: Inheritances, Bonuses, or Unexpected Money

- Step 1: Examine the priorities of your goals
- Step 2: Reexamine your goals
- Step 3: Consider estate planning.
 - Transfer of your estate.
- Step 4: Examine the tax implications
 - Plan for tax implications.
 - Consider estate taxes.

Life Event 6: A Major Illness

- Step 1: Reexamine Your Finances
 - Assess current financial situation.
 - Emergency fund – adequate liquidity.
 - Reexamine financial goals.
 - Reexamine investment strategy.
 - Revise budget.

Life Event 6: A Major Illness

- Step 2: Take Advantage of Tax Breaks
 - Understand the tax implications.
 - Explore flexible spending accounts (FSAs).

Life Event 6: A Major Illness

- Step 3: Alternatives to Finance Your Illness
 - Reverse mortgage.
 - Determine how much you can get with a reverse mortgage.
 - Life insurance.
 - Disability insurance.

Life Event 7: Caring for an Elderly Parent

- Step 1: Health Care and Estate Planning Concerns
 - Initiate a dialogue with your parents.

Life Event 7: Caring for an Elderly Parent

- Step 2: Oversee Your Parents' Financial Affairs
 - Organize the paperwork.
 - Gain an understanding of their goals and budget.
 - Develop a budget.
 - Protect your parents.
 - Durable power of attorney.

Life Event 7: Caring for an Elderly Parent

- Step 3: Discuss Long-term Health Care Options
 - Long-term health care insurance.
- Step 4: Estate Planning
 - Discuss estate planning.

Life Event 8: Retiring

- Step 1: Develop a Retirement Income Plan.
 - Mental preparation.
 - Financial preparation
 - Plan how you will use your retirement savings.

Life Event 8: Retiring

- Step 2: Manage Your Income in Retirement.
 - Withdrawal strategy.
 - Monitor your investments.
 - Emergency fund.

Life Event 8: Retiring

- Step 3: Review Your Insurance Coverage and Your Will
 - Employer retiree health care.
 - Medicare.
 - Medicare supplemental insurance.
 - Long-term health care insurance.
 - Homeowner's insurance.
 - Review your will.

Life Event 8: Retiring

- Step 4: Keep Track of Important Retirement Planning Dates
 - Apply for Social Security Benefits
 - Apply for Medicare Benefits
 - Receive distributions for your retirement accounts
 - Take mandatory retirement distributions
 - Become eligible for a reverse mortgage

Life Event 9: Death of a Spouse

- Step 1: Organize Financial Material
 - Assemble the papers.
 - The Will.

Life Event 9: Death of a Spouse

- Step 2: Contact Sources of Survivor Benefits
 - Insurers.
 - Social Security.
 - Past Employers.

Life Event 9: Death of a Spouse

- Step 3: If you are the executor, carry out your responsibilities.
 - Distribution of assets.

Life Event 9: Death of a Spouse

- Step 4: Change Ownership or Title to Assets
 - Insurance policies.
 - Automobiles.
 - Bank accounts, stocks, bonds, and safe deposit boxes.
 - Credit cards.

Life Event 9: Death of a Spouse

- Step 5: Review Your Financial and Retirement Needs
 - Determine if your benefits change.
 - Contact the employer.
 - Review your insurance.
 - Review your medical insurance.

Life Event 10: Divorce

- Step 1: Prepare for Divorce
 - Pay down debt.
 - Keep the costs down.
 - Remember Principle 1: The Best Protection is Knowledge

Life Event 10: Divorce

- Step 2: Avoid Credit Damage
 - Joint accounts.
 - Late payments and your credit report.
 - Late payments? Have your account “re-aged.”

Life Event 10: Divorce

- Step 3: Revisit Your Financial Goals
 - Reevaluate your goals.
 - Social Security and your ex-spouse's earnings history.

Life Event 10: Divorce

- Step 4: Revisit Your Insurance Coverage
 - Insurance coverage.
 - Child support or alimony—check out life insurance.
 - Your life insurance policy.

Life Event 10: Divorce

- Step 5: Rework Your Budget
 - Your budget.
 - Retirement savings.
 - Reexamine your expenses.
 - Emergency fund.
 - Tax breaks.

The Keys to Success: A Dozen Decisions

- Number 1: Become Knowledgeable
- Number 2: Don't Procrastinate
- Number 3: Live Below Your Means
- Number 4: Realize You Aren't
- Number 5: Protect Your Stuff (and Look Out for Lawyers)
- Number 6: Embrace the "B" Word (Budget)

The Keys to Success: A Dozen Decisions

- Number 7: Reinvent and Upgrade Your Skills
- Number 8: Hide Your Plastic
- Number 9: Stocks Are Risky, But Not as Risky as Not Investing in Them
- Number 10: Exploit Tax-Favored Retirement Plans to the Fullest.
- Number 11: Plan for the Number of Children You Want.
- Number 12: Stay Married.

Tying Things Together: Debt and the Real World

- The Trap of Too Much Debt
- Students and those with little capacity to repay are being given the opportunity to ring up debts at will.
- People are encouraged to borrow more than they should; borrowing is becoming part of culture.

Successful Debt Management

- Key #1: The Obvious: Spend less than you earn and budget your money.
- Key #2: Know the costs.
- Key #3: Understand the difference between good and bad debt.

Successful Debt Management

- Key #4: Make sure you can repay what you borrow – set your own standards.
- Key #5: Keep your credit score strong – it keeps costs down and is a source of emergency money.
- Key #6: Don't live with bad (and expensive) debt.

Getting Started: Just Do It

- Start today – don't procrastinate.
- Begin with budgeting and planning.
- Pay attention to managing your cash.
- Rid yourself of "bad" debt.
- Your safety net should be in order.
- Start investing.

Summary

- No substitute for starting early in financial planning and saving.
- It's tougher for women to achieve financial security—women must take responsibility for their financial future.
- Financial events like marriage and children complicate financial planning—be open with partners and plan ahead.

Summary

- To succeed financially, gain an understanding of personal finance, avoid procrastination, live below means, have adequate insurance, become an budgeter, keep skills fresh, avoid credit card debt
- Controlling debt is a challenge but spending less than your earn, budgeting, and knowing costs of debt are key deterrents against unnecessary debt.