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| CALIFORNIA STATE UNIV. LOS ANGELES |
| Completing a Financial Plan & Budgeting |
| Prepared for Financial Fitness Program |
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| **By Charles K. Danso, PhD** |
| **Fall 2023** |

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**Financial Plan Outline:** You will best know your situation and your goals. The steps are laid out to help with completing a working draft. Think through the following steps. Generate a draft of your plan by completing the tables after page 1. I understand you are not experts. Please do your best.

Gather information that will help determine your current financial position. You can generate/prepare financial documents.

Step1: **Determine your current financial situation.** This is where you will evaluate your assets and liabilities (debt).

These have to be realistic & measurable goals. They should have many action words. For example, I want to buy a house in X years. You can refer to your journal entries for guidance on what issues may be of importance to you in different areas.

Step 2: **DEVELOP FINANCIAL GOALS**. Develop some goals based on your financial priorities (short-term & long-term)

Examine what steps, tools, or processes can help you achieve the different goals you have listed. Then review these for alternative courses. For example, if you are saving towards a down payment, you could save cash or invest the amounts you are able to save to earn interest.

Step 3: IDENTIFY **ALTERNATIVE COURSES OF ACTION.** You decide whether your current position is good or you need to make adjustments to meet your goals

Step 5: **CREATE AND IMPLEMENT YOUR FINANCIAL ACTION PLAN.** You will select the options that best fit your financial goal(s) in the short-term and long-term.

Step 4: **EVALUATE YOUR ALTERNATIVES.** You will analyze the options you have in the changes you can make to your current situation. It is essential. It will include assessing risk, savings goals, and retirement goals among others.

Evaluate all alternatives. The goal is to select the ones that best fit your risk level, timeline, and capacity. For example, even if you prefer whole life insurance, can you afford it at this time? Other options include term & universal. Which one may be ideal in meeting goals & attainable if getting whole life is out of reach?

Select the best options out of alternatives that help you reach your goals within ability and the required timeline. You will then seek to actively pursue and implement aspects of this plan in your life.

This is an ongoing process over a lifetime. Review the process and determine if changes are required. Perhaps you have experienced significant life changes like marriage, childbirth, or promotion. Perhaps you have achieved some goals like paying of debt that changes your cash flows. Perhaps you have new short-term goals like save for a vacation or intermediate like pay off student loans in 10years after graduating.

**Step 6: REVIEW AND REVISE YOUR PLAN.**

Use the tables as a guide to building/generating a

There are a lot of “what” and “do you have” questions?

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| Step 1: **Determine your current financial situation.** | |
| Questionnaires |  |
| Income | 1. What is the amount you get yearly $60,000 120,0000 (5,000) 2. Do you have other forms of income? 3. Do you expect any big change to income in the future?    1. If yes, refer to 1-2 when you do reevaluation in future |
| Marital status | 1. What is your marriage status? 2. Do you foresee that to change in the future? If so, how?    1. If yes, refer to 1-2 when you do reevaluation in future |
| Short-term Debt | 1. Do you have any debt you have to pay within a year? If yes, what are they? 2. If you have any debt to be paid within the year, are they revolving or fixed.    1. Revolving is from credit cards    2. Fixed could be a family loan or paying some borrowed loan (e.g. 401K) 3. If you do not have any, do you foresee that changing win the future?    1. If yes, refer to 1-2 when you do reevaluation in future |
| Intermediate Debt | 1. Do you have debt that you have to finish paying between 1-6 years? 2. If you answered “yes”,    1. What are they?    2. What are the amounts?    3. What are loan characteristics? 3. If you do not have any, do you foresee that changing win the future?    1. If yes, refer to 1-2 when you do reevaluation in future |
| Long-term Debt | 1. Do you have debt that you have to pay between that matures after 6 years? 2. If you answered “yes”,    1. How much?    2. What are loan characteristics? Some features to pay attention to include:       1. Interest rate:          * how did your credit score affect that?       2. Pre-payment penalty       3. Type of interest (fixed or variable) 3. If you do not have any, do you foresee that changing in the future?    1. If yes, refer to 1-2 when you do reevaluation in future |
| Living Expense & savings | 1. What are your living expenses each month?    1. Which of your expenses are fixed vs variable 2. Are you able to save some money monthly? 3. Do you have savings account?    1. If so, what are they? 4. Do you have emergency savings    1. Savings amount in liquid assets that can cover living costs for 3-6 months |
| Assets (investment, real estate, alternate, tangible) | 1. If you have assets, what are they and their values? 2. Do you have or plan to have financial assets? |
| Risk Reduction/coverage (insurance) | 1. What types of insurance do you have? 2. What are the coverages for the insurance? 3. Are you still exposed to risk that you know of? |

Generate goals from the questions raised in Step 1 along the line of timelines. Here are some examples of how to approach this step.

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| Step 2: **DEVELOP FINANCIAL GOALS**. | | | |
| Questionnaires | Short-Term Goal | Intermediate Term Goal | Long-Term Goal |
| Income | 1. I want to get a second job | 1. I want to get income from own my company | 1. I want to have income upon retirement from investments |
| Short-term Debt | I want pay off 1 card out of 4 credit cards this year | I want to pay off all cards within 6 years. | I want to maintain having all paid cards. |
| Intermediate Debt | I want to make more than minimum payments this year on car payment | I want to have paid of all debts paid off within 6 years. | I want to be able to afford to pay of these debts with cash and/or higher down payment |
| Long-term Debt | I do not want to take on any long-term debt this year | I may need to take on long term for my graduate school | I want to have all debts paid 15 years upon graduating |
| Living Expense  &  Savings | I want to minimize living expense such that I have 5% of income to save |  |  |
| Investments |  | I want to save for a down payment to buy a house in 5 years |  |
| Risk Reduction/coverage |  |  | I want to have life insurance upon dying to pass on as inheritance. |
| Budgeting | I want to be able to save $100 every month for a year to build emergency fund. |  |  |
| Financial Assets | I want to start investing in Roth IRA, 401K, and a stock account this year. |  |  |

Step 3: Generate strategies from the goals developed in step 3 to help attain them.

Step 4: Evaluate the goals and the strategies developed. Are there other way you could attain the goals.

For example, A course of action for intermediate goal is that I need to take on debt to attend graduate school. An evaluation of alternative could be that I fund graduate school with some savings, or scholarship, or I work and pay for graduate school part-time.

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| Step 3: Identify Alternative Courses Of Action for *YOUR GOALS* Step 4: Evaluate Your Alternatives | | | |
| Questionnaires | Short-Term | Intermediate Term | Long-Term |
| Income |  |  |  |
| Short-term Debt |  |  |  |
| Long-term Debt |  |  |  |
| Living Expense |  |  |  |
| Investments |  |  |  |
| Risk Reduction/coverage |  |  |  |
| Budgeting |  |  |  |
| Financial Assets |  |  |  |
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Select the courses that you feel will fit your goals the best. This should align with the timeline of either short-term or intermediate term or even long-term. These are strategies or action plan you intend on following. You will hold yourself accountable to these actions.

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| Step 5: Create & Implement Your Financial Action Plan | | | |
| Questionnaires | Short-Term | Intermediate Term | Long-Term |
| Income |  |  |  |
| Short-term Debt |  |  |  |
| Long-term Debt |  |  |  |
| Living Expense |  |  |  |
| Investments |  |  |  |
| Risk Reduction/coverage |  |  |  |
| Budgeting |  |  |  |
| Financial Assets |  |  |  |
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Step 6: Review And Revise Your Plan. Continually review your plan to see if short-term goals have been achieved; if progress has been made for intermediate and long-term goals. If goals have not been achieved, perhaps a different path is required. However if goals have been achieved, examine the new financial positions. For example, if a debt is paid off, there is extra cash flow that may need to be diverted elsewhere.

**BUDGETING**

**What is a budget?**

Tracks spending (i.e. expenditures or expenses) along with income.

* Research shows a large number of people (about 20%-40% of US population) will struggle to meet a $500 cash emergency without using debt.
  + In your budget, have room for an ***emergency Fund (or savings)*** of 3-6months of living expenses

**How do people budget**

* Mental budgeting
* Formal budgeting

**What are some ways to create a budget?**

* Percentage of needs (X-Y-Z Method)
  + Needs (X) - Wants (Y)-Financial Future (Z)
    - 50/30/20 or 70/20/10
* Zero based budgeting
* Fixed vs variable
* Categorical

**What is the best budgeting approach?**

* The one that best works for you given your situation, goals and personality
* The goal is to track your expenses and have leftover money for investing/savings to grow wealth

How can one use a budget?

* To track income and expenses, which can help change and improve spending behavior
* To help build wealth as the path to wealth begins with having a positive cash flow
  + Excess cash flow can be channeled into income generating assets

**Behavioral Pitfalls during Budgeting**

* **Lifestyle inflation**: People tend to spend more with income increases.
* People think of debt as income (e.g. how credit cards are used)
* People spend thinking that the money or cash flow will always be there
* People do not account for unexpected events in spending