

Making Your Financial Plan

The Citi Commonsense Money Guide recognizes that your time is short and your money is tight, and that there are lots of ways to solve a financial problem. You might have one, two, or even more financial challenges. Maybe you're overextended on your credit cards. Or perhaps you've missed a few payments on your car or mortgage loans and are overwhelmed by the prospect of catching up. Maybe you're not sure how you really spend your money. You think what you need is more money, which may be true, but even more, you need a new system for spending your money. You need a plan, and you need to figure out how to make that plan work.

When it comes to money matters, most people lack a plan, even though they may have carefully thought through other aspects of their lives, such as their careers or how they want to raise their children. A financial plan provides a map and a sense of direction. No matter what your money challenges are, even if you don't think you have any money challenges, a plan is the one tool everyone can use. You can write it out on the back of an envelope and stick it on your refrigerator with a magnet, or you can more formally type it up and distribute it to members of your family and financial advisers. Paste it inside your checkbook, or

make it into a screensaver for your computer. It costs nothing to put it together, and it can mark the start of a whole new financial life for you.

This first chapter offers guidance on setting your goals, and making your plan.

Opening the Door to Discussion

Kay's childhood included private music lessons, summer camps, her own car when she turned 18, and a fully paid college education. After she graduated, she found a job as an office assistant at a nonprofit theater company. There, she met Marc, who had grown up in a working-class family. He liked to boast that he had put himself through college on steak sauce, because he had financed his education with restaurant jobs, including dishwasher, waiter, and ultimately maitre d'. Kay and Marc were immediately attracted to each other and, after a few months, decided to move in together. They felt no pressure to get married, though they thought they might like to start a family—someday.

The couple's salaries were modest but sufficient to support their lifestyle. Kay was quite determined to make it on her own, without additional support from her parents. Sharing the rent, utilities, and food costs with Marc helped a lot. The first summer they were living together, they rented a small cottage for a week's vacation in a beach town about an hour's drive away. It was there that they had their first serious discussion about their future together.

Kay's older sister had sent Kay a magazine article about marriage between people from economically and socially diverse backgrounds. It predicted a bleak future for pairs in which one partner had grown up in a wealthy environment and the other hadn't. Kay took the article along on vacation, and after she finished reading it, she gave it to Marc to read. She was ready to dispute it point by point.

Marc didn't say much about the article for a day or so, so Kay decided to initiate a discussion, asking what he thought about it. Marc was quiet for a minute. Then he said that when he designs a set, he doesn't start by

nailing wood together. He starts by reading the play and talking with the director and stage manager. Then he does some research and makes several sketches. Next he shows the designs to the team and asks for their reactions before building a model that incorporates their suggestions. He develops a budget, investigates sources for materials, and draws up a step-by-step plan for actually building the set. And even once the set is done, it might need some adjustment when rehearsals for the production begin. It's a process, he said. The best thing about the process, Marc said, was that every time he builds a set, he learns a little more about the play, about his craft, and about himself.

By the same token, Marc explained, he wouldn't want to start a life with someone without making a plan. This would involve creating a list of goals and discussing them with Kay to find out how important those goals were to her and whether she had any to add to the list. Then he'd want to figure out how to achieve those goals. So in the end, Marc said, where they'd come from wasn't as important to him as where they were headed.

Kay liked this answer. She felt lucky to have found Marc, and she looked forward to being the exception to the article her sister had sent.

Commonsense Considerations

Marc and Kay might have used the following goal worksheet as a tool for starting their money conversation. If you are single, it can help you draft a list of your priorities. For couples, it can be an enlightening exercise for learning more about your partner's priorities. Without consulting each other, rate each goal as low, medium, or high importance. Add three unique goals of your own, and compare your answers to those of your partner.

GOAL	LOW	MEDIUM	HIGH
Starting a family			
Saving for retirement			
Travel			

Saving on taxes			
College tuition for children			
Paying off debt/Staying debt-free			
Saving a predetermined amount			
Buying a new car			
Buying a home			
Supporting elderly parents			
Passing on an inheritance			
Buying designer clothes			
Buying expensive electronics			
Paying off student loans			
Paying off medical bills			
Building an emergency fund			
Buying a vacation home			
Personal goal 1 _____			
Personal goal 2 _____			
Personal goal 3 _____			

A Man, a Van, and a Plan

George worked in a luxury apartment building, where he was required to live—rent-free—because of his job. His wife, Zola, and their 5-year-old daughter, Myra, lived in the apartment as well. Zola was a stay-at-home mom because she didn't feel comfortable leaving Myra with baby-sitters, and none of the family's close relatives lived nearby.

George was a real Mr. Fix-it, both on the job and at home. He owned a panel van of which he was very proud, and in his time off he often helped his friends with carpentry chores, hauling 2 x 4s and Sheetrock in the back of the van. For many years, the family lived comfortably

enough within their means. Zola, who laughingly called herself “math-phobic,” handled all the domestic chores except for the family finances and bill paying, which she left to George.

Then trouble came knocking. The owner of George’s building hired a new management company, and the agent assigned to the building did not get along with George. It seemed to George that this agent was collecting evidence in order to fire him, and he was paralyzed with panic. He was so consumed by the thought that he was going to lose his job that he let more than a few bills slip by. The overdue notices quickly followed. George shoved them in a drawer. He developed painful migraines and had to lie down for several hours in a dark room every afternoon, unable to work.

Zola was unaware that George was not paying the bills. She saw there was more money in their bank account and assumed it was hers to spend. She bought Myra some new clothes and expensive toys that ordinarily she might have thought twice about purchasing, and she put some money down on a leather chair as a surprise for George’s birthday.

George continued to try to do his job as best he could. Finally, he couldn’t stand the pressure anymore and contacted his union representative. The representative told him there was not much he could do as long as he was still employed, but suggested that George might want to look for another position if he felt unhappy where he was working currently. He also gave George the name and number of a financial consultant who was contracted by the union to help members get their financial houses in order. George made an appointment.

The financial consultant, Roy, asked George whether he had any particular financial goals in mind. George told him that he was very worried because if he lost his job, he would also lose his home. Rather than reassure George that this would never happen, Roy asked him what options he thought he might have if this happened. George replied that he didn’t think he had any. Without any savings and with the pile of unopened bills in the desk drawer and no idea where the household money was going, George felt like he was in the path of an oncoming train.

The consultant then explained to George that he was happy to help him, but that the first thing George was going to have to do was help himself. This meant facing up to the possibility that he might soon be out of a job and home. Rather than running and hiding, George had to

consider not just the consequences, but also the potential solutions to this setback. Then George should pick the most attractive option and pursue it. Roy was sure that with George's experience and skills, he would be able to find a similar position. But George also had to consider whether this was something he wanted. Maybe it was time for a change. Roy urged George to discuss the situation with Zola and to make a list of possible outcomes. Then Roy would discuss with him how to implement the ones that seemed most favorable.

George returned home with a firmer sense of confidence and sat down that evening with Zola to confess to her what was happening. She reminded him that one of his best friends from high school had more than once asked George whether he was interested in starting a handyman business that they could run out of George's van. It might be tough in the beginning while they were building a client list, but the prospects were promising. Through his friendships with other superintendents of neighboring buildings, George thought he would be able to get many referrals. It was something he could start right away on weekends and evenings and, over time, grow into a full-time business. He already had the van, after all.

Zola also said that now that Myra was in full-time kindergarten, she would be willing to look for work, perhaps in the school system so that she could still have time with her daughter over school vacations. And she didn't really mind moving—maybe they could get an apartment with a little more light. George then went to the drawer where he had been putting the bills and notices and pulled them all out. Zola's eyes grew wide when she saw them, but she told George she would help him open and sort them all so they could try to figure out how much they owed.

George went to bed that night feeling better about his future than he had in a long time. Looking ahead and making a plan seemed to be a better medicine for his migraines than anything his doctor could have prescribed.

Commonsense Considerations

As George found out, the best way out of a financial dilemma is to make a plan that lays out your options. It's easy to make a financial plan. Here is how you do it.

- **Start as soon as you can.** Tomorrow is good. Now is better.
- **Set realistic goals.** Identify what you want, when you want it, and how much it will cost.
- **Divide your goals into short-term and long-term.** Anything that you think can be accomplished in a year or less is short-term. Everything else is long-term. For example:

SHORT-TERM GOALS	LONG-TERM GOALS
Pay all bills on time	Set up a retirement fund
Take a nice vacation in six months	Buy a house
Reduce debt on credit cards Consolidate credit cards when feasible	Improve credit rating
Buy a new computer	Learn something about investing

The “Short and Long-term Goals” worksheet on page 000 can help guide you through this process.

- **Devise strategies.** This is where your financial education comes into play. You need a workable plan to reach every one of your goals. You may have to do some research to figure out your options. Or ask for some help.
- **Budget your plan.** This means you have to figure out how much each goal is going to cost and find a way to fund it. It may cost nothing, or it may be substantial. It may take a short time to find the money or a lifetime. However, you will need to commit to putting away a certain amount of money on a regular basis to fulfill your plan. How much will that be, and how does it break down? Do you want to throw all your resources toward one goal at a time until it is achieved and then move on to the next, or split your resources and work simultaneously on all your goals? It’s up to you to make these choices.
- **Review your plan regularly.** Do your goals need revision? Be disciplined but flexible. Think ahead and be creative. You may want a pie-in-the-sky goal that you can aspire to achieve, but don’t have so many that you will feel discouraged if you can’t attain all of them.
- **Put your plan in writing** and keep it in sight.