

# Personal Financial Planning



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# Personal Financial Planning

### Sources of Income

- Teen years
  - allowance
  - gifts
  - part-time work
  - babysitting
  - seasonal work



★ What are other sources of income that might be available later in life?

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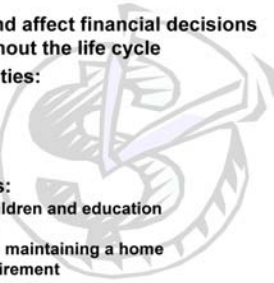
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### Effects of Priorities on Financial Decisions

Priorities change and affect financial decisions throughout the life cycle

- Individual priorities:
  - education
  - entertainment
  - transportation
  - living expenses
- Family priorities:
  - planning for children and education
  - living expenses
  - purchasing and maintaining a home
  - planning for retirement



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### Factors that Affect Financial Decisions



- Cultural
  - traditions
  - religious beliefs
  - family roles
- Demographic
  - family changes
  - income gap between educated and non-educated workers
- Societal
  - technological changes
  - impact of media and entertainment industry

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# Personal Financial Planning

**Factors that Affect Financial Decisions**

★ Given the following scenarios, identify the family life cycle stage and possible financial obligations each family faces:

- Family of 3: Mom is 25, Dad is 28, Yoshi is 1
- Family of 5: Mom is 48, Dad is 48, Sarah is 13, Jeremy is 17 and Jeff is 19
- Family of 2: Wife is 57, Husband is 60, children are married with children of their own

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**Obligations and Opportunities**

- Support of children
- Buying and maintaining a home
- Family vacations
- Investment opportunities
- Education of children
- Planning for retirement

★ What are some other financial obligations and opportunities that might occur throughout the life cycle?

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**Effects of Economics on the Family**

Throughout the life cycle, families are affected in different ways by economics

- When economy is good
  - unemployment is low and families have money to provide for their needs
  - prices are reasonable and increased consumer spending fuels the economy
- When economy is bad
  - unemployment is up, meaning less jobs and less money circulating
  - spending decreases, depleting the economy

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# Personal Financial Planning

**Changing Demographics and the Family Life Cycle**

As family demographics change, decisions throughout the life cycle change:

- Location changes affect family financial decisions—different areas have different costs of living
- As children grow older, financial obligations and responsibilities change
- As parents grow older, retirement planning must be anticipated

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**Living Costs Throughout the Life Cycle**

Cost of living throughout the family life cycle changes in many different ways as families expand:

- As children are added to a family, more space is needed in the home, sometimes requiring relocation
- As a family grows, cost of food will increase, as well as need for transportation and possibly additional vehicles—budget must accommodate the increased needs

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**Economic Impact of Crisis on the Family**

- In case of a crisis, a family must be ready and have a financial plan of action
- A family crisis can come in many forms:
  - loss of job
  - auto repairs
  - medical emergency
  - property damage
  - legal suits



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# Personal Financial Planning

### Coping with Financial Emergencies

**Strategies**

- Money set aside in a separate account for emergencies
- Responsible financial management to avoid financial strain

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### Four Tips for Rainy-Day Savings

- 1. Be a sleuth**
  - track your spending for 2-4 weeks
  - cut out frivolous expenses
  - set spending limits
- 2. There's no time like the present**
  - set aside money for savings immediately after receiving paycheck

CNN Money. [money.cnn.com/2002/03/04/saving/q\\_saving/index.htm](http://money.cnn.com/2002/03/04/saving/q_saving/index.htm)

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### Continued Tips for Rainy-Day Savings

- 3. Get creative**
  - there are many ways to cut costs
  - find cheaper alternatives to the things you like
- 4. "Keep the umbrella handy"**
  - there's no point having emergency savings, if you can't access it quickly
  - choose more liquid assets, such as money market accounts

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# Personal Financial Planning

**Insurance and Personal Risk Management**

- Insurance plays an important role in personal risk management
- Some types of insurance that contribute to successful risk management include:
  - life
  - health
  - home
  - car



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**Options for Investment and Retirement**

Other important factors in personal risk management are investment and retirement options:

- Options for investing
  - stocks
  - bonds
  - money markets
  - mutual funds
  - real estate
- Most common methods of saving for retirement are 401K and IRA



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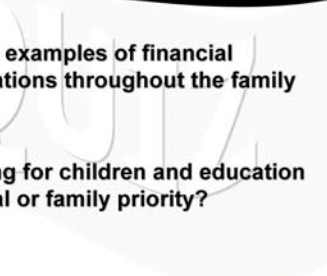
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**QUIZ**

1. List three examples of financial considerations throughout the family life cycle.
2. Is planning for children and education a personal or family priority?



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# Personal Financial Planning

**QUIZ**

3. Which is not a factor that affects family financial decisions throughout the life cycle?

- A. cultural
- B. societal
- C. investment
- D. demographic

4. Why is buying a home considered a family financial obligation?

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**QUIZ**

5. Why is insurance important to personal risk management?

6. What are the two most common options for retirement planning?

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**Acknowledgments**

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