Financial Planning *Family Goals*

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What would you do if you inherited or won a million dollars? How would you spend this wealth to gain the greatest happiness?

You say you'll never win a million dollars? Maybe not. But the chances are very good that, during your lifetime, you and your spouse will *earn* that much. Imagine it—a million dollars to spend or save. You spend hours and hours earning money; why not spend time planning how to use it? This publication can help you begin your family financial planning.

Family financial planning is concerned with today and tomorrow. It involves determining goals and arranging resources to reach these goals while living as comfortably as possible. Financial planning works best when you begin by considering your values. Then you can go on to set family financial goals. It means answering these questions:

- How does our family want to live?
- What activities are important to our family?
- What do individual family members need and want?
- What financial resources are available to us?

Values and goals are not the same

Values are your beliefs about what is "good" and what is "important." We don't achieve values; we express them through the accomplishment of our goals. Examples of values are safety, security, health, prestige, knowledge, and love.

Values influence how we use our time, energy, and money—and our use of time, energy, and money reflects the values we hold. Goals are influenced by the values of the whole family and also by the values of individual family members.

Goals are often described as long-term, intermediate, and short-term. Long-term goals are general and take a long time, sometimes years, to attain. Intermediate and short-term goals often are steps toward long-term goals.

For example, a long-term goal might be to have a satisfying retirement. Intermediate goals leading toward this goal might include developing interests and friends outside of work, providing for a certain level of income, and maintaining good physical health. A short-term financial goal might be to deposit a specific sum of money in a retirement account this year.

A clear knowledge of goals makes it easier to allocate resources to reach them. In other words, knowing your goals means you have a better chance of achieving them.

Successful managers think about and plan for the future. By setting goals, they attempt to shape events, rather than letting events shape them.

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Extension Circular 1267 / January 1988

Oregon State University Extension Service

Determining family goals

Each family is unique. Begin thinking about the goals of individuals in your family and goals for the family as a whole. As your family grows and develops, goals will change. Financial planning means thinking ahead and anticipating changes.

See figure 1 for a list of financial goals that are common to many families. You can use this list to open a discussion of the changes your family has experienced or may experience in the future.

- Provide for daily living expenses
- Establish a financial identity
- Establish a savings program
- Set up a fund for emergencies
- Establish a household
- Protect against financial risk
- Train for a career
- Plan for and make major purchases
- Plan for and take vacation(s)
- Save for down payment on a house
- Budget for repairs
- Protect against long-term disability
- Provide for the cost of having and raising children
- Provide for expanding household needs
- Maximize financial management skills of all family members
- Plan for change in life style
- Upgrade career/vocational training
- Build an education fund
- Plan for business opportunities
- Attain financial independence
- Establish and work toward retirement goals
- Maximize investments
- Secure reliable assistance for managing economic affairs
- Reevaluate and adjust living conditions and spending in relation to health and income
- Avoid excess taxation

Figure 1.—These financial goals are common to most adults at some stage of their family life. All of them require time and effort—and all of them require more than money.

There is no best procedure for setting goals; different individuals and families use different approaches. The following suggestions provide a starting point for developing of a goal-setting system.

Set aside definite times for goal setting. To begin, try setting aside some time each week to list ideas about possible goals. Then, devote a few hours at the beginning of each month to review progress toward goals, to revise some, and to set new ones. Once you feel comfortable with the system, an annual goal review is all that you may need. Try to involve the entire family in the goal-setting process.

Assess what you've done in the past. What were the major family decisions over the past 3 years? Write down the circumstances surrounding each decision. Try to recall the alternatives that you considered. This process forces you to examine what your goals were in the past. Would your decisions be different today? How have your goals changed?

Develop a list of short-term, intermediate, and long-term goals. Generally, a short-term goal is one you plan to attain within 1 year; an intermediate goal, 2 to 5 years from now; and a long-term goal, longer than 5 years.

Examine the relationships among these goals. Are they complementary, competitive, or independent? Will the achievement of one goal help, hinder, or have no effect on the achievement of other goals?

Have each family member develop lists of short-term, intermediate, and long-term goals. Then, as a family, discuss and identify the areas of agreement and disagreement.

Next, develop one list of family goals. List them in order of priority. Using worksheet 1 (page 3), list events that require financial planning, to see how they fit into a timeline.

No family can predict what will happen in 20 or 30 years. But you can predict when parents will reach retirement age and when children will reach college age. You can be specific about events in the next few years.

Your family's financial situation

Have you already begun saving toward a particular goal? What resources are available that you can put toward each goal? To answer these questions, it helps to be aware of your financial situation in general. A family net worth statement and an income/expense statement help you do this (see "For further reading," page 7).

Your net worth statement tells where you stand financially on a specific date. It gives a picture of assets (what you own) and liabilities (what you

Worksheet 1.—Future events requiring money and planning

Name ______________________________ Date ______________

List for the appropriate year, items or events your family would like that will cost more than you usually spend.

40 years

20 years

10 years

5 years

4 years

3 years

2 years

1 year

Now

Worksheet 2.—Family financial goals

Name ______________________________ Date ______________

List the goals with highest priority first. Use additional paper if needed.

Goals	Approximate cost	Amount of time or ending and starting dates	Action to take

Short-term:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Intermediate:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Long-term:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

owe). The net worth statement shows what financial resources you have. After looking it over, you may see that you have already taken steps toward meeting some goals.

The next step is to figure out how much more money you'll need to reach each goal. To find out how you are spending and saving money, refer to the income/expense statement, which gives a picture of where your income has gone in the past. By studying this statement, try to find ways to reallocate your dollars to satisfy these goals.

Then budget a specific amount of money to be saved on a regular basis to attain each goal. Since savings and investments grow over time, you need to estimate a rate of return on your investments. A conservative figure to use over the long run is two to three percentage points more than the inflation rate.

A special case: The family business

If your family owns and operates a business, such as a farm, ranch, or woodland, your family goals and family business goals are interrelated. For example, deciding when to thin or harvest timber will depend in part on business factors (stage of timber stand development; existing market situation), and in part on family factors (when family members involved in the business will be available to work; when the family most needs additional income).

Family business goals and family goals may be competitive, independent, or complementary. A farm family may have one goal of investing more in the farm business and another of increasing family consumption. With a fixed amount of money available, these goals are competitive, at least in the short run.

In a family business, the goals and their order of importance will differ among family members. This may result in conflict. To minimize or resolve this conflict, consider and discuss the goals of *all* family members. Family members should work together in setting the direction for the family business.

When the family business includes more than one family or more than one generation, it becomes even more important to consider and discuss the goals of all family members. Both business and family goals change with age. The ideas and concerns of a 30-year-old usually differ from those of a 65-year-old.

Putting it in writing

Transfer your list of financial goals to worksheet 2 (page 4), or make a worksheet of your own. Before deciding on a plan of action, try to answer two basic questions that are related to all goals:

1. How much will it cost to reach this goal?
2. How much time do we have to reach it?

Estimate the cost. The first question may be the most difficult to answer. You don't know how much a new car will cost in 3 years, let alone the cost of retirement or a college education in 10 or more years. A good starting point is to figure out what these would cost today.

The costs of attaining most goals are likely to rise in the future. Economists predict, on average, 4% annual inflation from 1987 to 1995. A 4% annual inflation rate will cause prices to double in 18 years (see "The Rule of 72," page 6).

To get an estimate of the future price, look into how much the price has increased in the last few years. Try to find out if continued price increases are likely to be the same. Talk to the experts—for example, those in college admissions offices or directors of retirement centers—to get an idea of future prices. Put this figure in column one. The figure may look very high, especially if it pertains to a long-term goal.

How much time do we have? Is it 6 months or 15 years? You have more time to save for long-term goals; so if you begin saving early, the amount you need to put away each year will be much smaller than if you wait. In column two, write the amount of time, or the expected starting and completion dates, for each goal.

The value of money increases or decreases over time. If you're planning a future expenditure, remember that a particular goal is likely to cost more than it does today. On the other hand, time can be an asset, because with time you can make your money grow.

With careful planning, you can almost always make your investment grow at a rate higher than the inflation rate. Many financial experts suggest a reasonable annual rate of return is 2 to 3% more than the annual inflation rate.

The rate of return, the amount of money available to invest, the inflation rate, and the length of time are all important factors (although not the only ones) in determining if enough money will be available to attain a particular financial goal.

You can use a pocket financial calculator to determine the present and future value of money. The workbooks that accompany these calculators are easy to understand and contain many examples. You can determine how much you need to deposit today or how many monthly deposits you'll need to have a specific amount of money in the future. You can also determine how much your current savings will be worth in the future.

Financial management books contain time value tables. These can help you figure the future or present value of a single sum, of an ordinary annuity, and of an annuity due.

An ordinary annuity involves a series of equal payments made at the *end* of each payment period (an installment loan, for example). An annuity due involves equal payments made at the *beginning* of each payment period (part of an investment program).

There's help available. Many people try to save a little each month for a specific goal rather than waiting for the lump sum initial investment to grow to the desired amount. To find out how much you need to save each month with or without the lump sum investment, use a financial calculator, time value tables, or talk with one or more financial advisors.

A banker, accountant, or financial planner can help you figure the amount you need. A financial planner can help you determine the amount *and* a way to save it while considering your total financial picture. For more information on financial planners, see *Financial Planners: Do You Need One?* ("For further reading, page 7).

There are many resources available to help you figure how much your goals will cost and how much you need to save to meet them. As you work through the exercise, you might find that determining the cost of your financial goals is the easier step—and that making the time and effort to put the plan into action is the more difficult step.

But don't delay: The biggest problem is procrastination. Remember, time is money.

Plan for action. Now you're ready for the last step, writing a plan for action. First, include any resources you can devote to, or any steps you have taken toward, each of your goals.

The Rule of 72

This simple, helpful rule illustrates how long it takes for money to double at a particular interest rate. To use this rule, divide the number 72 by the interest rate. The answer is the number of years it takes for money to double.

For example, it takes 12 years for a $1,000 investment to grow to $2,000 with a 6% annual interest rate (72 ÷ 6 = 12). In another 12 years, it will double again. With a 9% interest rate, the same $1,000 takes only 8 years to double (72 ÷ 9 = 8).

Let's say that you figure you'll need $6,000 for a down payment on a house. You have just inherited $3,000, and you think you can get an 8% annual return on your investment. How long will it take for $3,000 to grow to $6,000 without making other contributions?

Divide 72 by 8 (the interest rate), and we get 9. So the answer is: At 8%, $3,000 will double in 9 years. At 12%, the investment doubles in 6 years (72 ÷ 12 = 6).

(The Rule of 72 will also tell you how long it takes for prices to double at a particular inflation rate. Divide 72 by the inflation rate to obtain the number of years for the price to double.)

Then indicate your future steps. They might include statements like:

- "Begin saving $35 per month at 6% interest,"
- "Save 15% of next pay raise,"
- "By April 1990, start saving about $60 per month,"
- "Need to investigate savings and investment opportunities immediately," or
- "Use $500 from savings to buy a zero coupon bond for Jennifer's college fund."

Now evaluate worksheet 2. Is it realistic? Have you allowed enough time to attain your goals? If not, you might need to extend the expected completion date of one goal and/or defer the starting date of another goal.

It's important to evaluate your plan periodically as economic, personal, and family factors change. Remember that setting and reaching goals is an evolving process. As you reach some goals, new goals will develop.

The most important step is to begin. Start with the goals that have highest priority. There are many demands for your time, energy, and money. Writing down your goals helps you set financial priorities.

For further reading

These publications are available from Agricultural Communications, Publications Orders, Oregon State University, Corvallis, OR 97331-2119. Please add 25¢ shipping and handling for orders up to $2.50. *If you wish to order all three titles, use the order form below.*

Financial Planners: Do You Need One? by Jane Meiners and Alice Mills Morrow, Oregon State University Extension Service Circular 1225 (Corvallis, 1985). Single copy 50¢.

Financial Planning: How to Prepare an Income/ Expense Statement, by Jane Meiners and Alice Mills Morrow, Oregon State University Extension Service Circular 1229 (Corvallis, 1985). Single copy 50¢.

Financial Planning: How to Prepare a Net Worth Statement, by Jane Meiners and Alice Mills Morrow, Oregon State University Extension Service Circular 1230 (Corvallis, 1985). Single copy 50¢.

Three more on financial planning

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Please send one copy of copy of each of the following publications:

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Extension Service, Oregon State University, Corvallis, O.E. Smith, director. This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U.S. Department of Agriculture, and Oregon counties.