Life Cycle of Financial Planning

Family Economics and Financial Education

Financial Planning

Financial needs continually change throughout an individual's lifetime. Many people follow similar financial patterns during their life. However, everyone has an individualized financial plan that is dependent on many different factors in an individual's life. **Financial planning** is a tool used to achieve financial success based upon the development and implementation of financial goals. It is important to use financial planning to help a person avoid financial difficulties. By having well-written financial goals and implementing them into a financial plan, a person will have the means to achieve the standard of living they desire. An individual's values, goals, personal choices, major life events, lifestyle conditions, and life cycle needs work together to determine the details of an individual's financial plan. As these factors change, so does an individual's financial plan. Financial planning is an ongoing process that is affected by expected as well as unexpected events.

Factors that Influence Financial Planning

- Values, Goals & Personal Choices
- Major Life Events
- Lifestyle Conditions
- Life Cycle Needs

> Many people follow a similar financial pattern during their life, but everyone has an individualized financial plan.

Financial Goals

Financial goals are specific objectives to be accomplished through financial planning. Goals should be consistent with personal values and attitudes. Financial goals should be SMART goals.

Specific
State exactly what is to be done with money involved.

Measureable
Write the exact dollar amount.

Attainable
Determine how it can be reached,

Realistic
Do not set the goal for something unattainable or unrealistic.

Time Bound
Specifically state when the goal needs to be reached.

Lifestyle Conditions

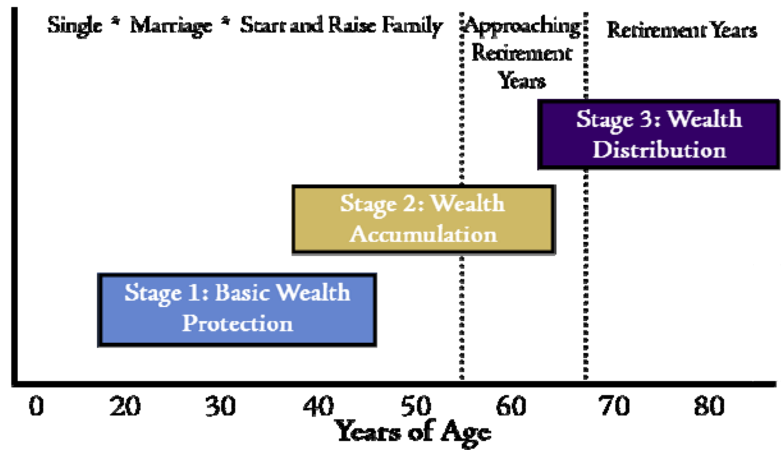
Lifestyle conditions are affected by an individual's values, goals, personal choices, major life events, and life cycle needs. Any lifestyle condition changes may require an individual to re-evaluate their financial plan. People may change careers, start careers, or start families late in life. For example, a single 40 year-old with no children will be focusing on different financial plans than a married 40 year-old with 2 children.

- Marital status: Single, married, divorced, widowed
- Employment status: Employed, unemployed, facing unemployment
- Income: Amount of income
- Age: Age of family members
- Number of dependents: Children, spouse, parents, other family
- Economic outlook: Interest rates, employment level, salary rates
- Education: Education level of family members, tuition needs for children
- Health status: Health of all family members

Funded by a grant from Take Charge America, Inc. to the Norton School of Family and Consumer Sciences Take Charge America Institute at The University of Arizona

Financial Life Cycle

Although everyone has a specific financial plan, there is a typical financial life cycle pattern that applies to most people. A **life cycle** is defined as a series of stages in which an individual passes during his or her lifetime. This life cycle pattern includes three stages . The amount of time it takes to move through the financial life cycle varies for every individual or household.



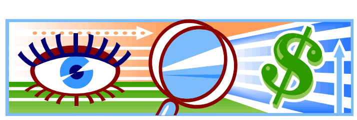
Stage 1: Basic Wealth Protection
The beginning of the curve is where a person 'quits giving money to others' and is the family formation stage for many people. This is when an individual may be beginning to earn money, continuing education, starting a job or career, and/or starting a family. The individual should be focusing on building financial security.

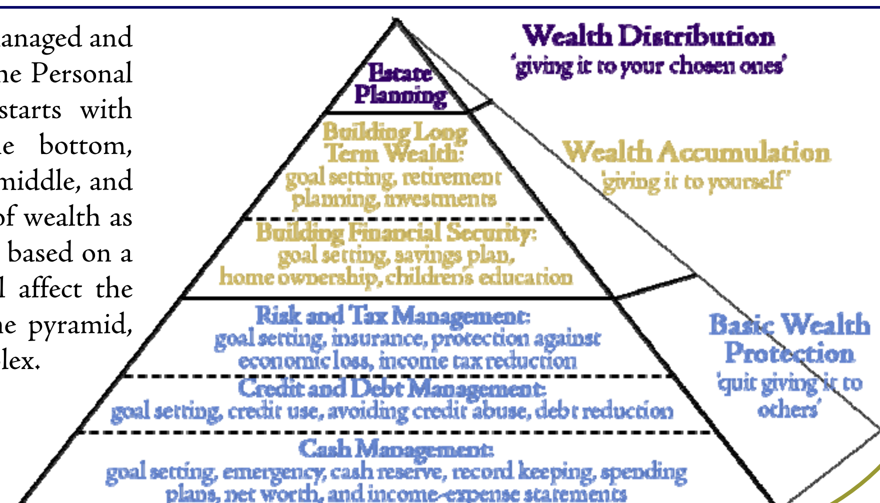
Stage 2: Wealth Accumulation
The second stage goes beyond financial security and is where a person is 'giving the money to self. The household head has reached peak earning years, is accumulating wealth, and approaching retirement.

Stage 3: Wealth Distribution
The last stage involves 'giving the money to your chosen ones.' This stage involves the consumption of wealth, usually during retirement.

Personal Financial Management Pyramid

The levels which contribute to a well-managed and balanced financial plan are shown on the Personal Financial Management Pyramid. It starts with basic financial requirements on the bottom, focuses on wealth accumulation in the middle, and moves up the pyramid to distribution of wealth as the final financial plan. The pyramid is based on a hierarchy where decisions at one level affect the other levels. As a person moves up the pyramid, their financial plan becomes more complex.





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Life Cycle Needs

Financial needs change throughout an individual's life cycle. Specific life cycle needs are affected by an individual's values, goals, personal choices, life events, and lifestyle conditions. However, people in certain age groups tend to have similar life cycle needs. The table below gives examples of life cycle needs (activities and events) which would require financial planning for different age groups.

High School: Ages 13-17	
Developing a plan for eventual independence Preparing for a career Evaluating future financial needs and resources	Exploring financial systems– banks, etc. Developing a personal system of record keeping
Young Adult: Ages 18-24	
Establishing a household Training for a career Earning financial independence Determining insurance needs	Establishing credit Establishing savings Creating a spending plan Developing a personal financial identity
Adult with or without Children: Ages 25-34	
Child-bearing Child-raising Starting an education fund for children Expanding career goals	Managing increased need for credit Discussing and managing additional insurance needs Creating a will
Working Parent or Adult: Ages 35-44	
Upgrading career training Developing protection needs for head-of-household Establishing retirement goals	Building on children's education fund Need for greater income due to expanding needs
Midlife: Ages 45-54	
Assisting with higher education for children Updating retirement plans	Investing Developing estate plans
Pre-Retirement: Ages 55-64	
Consolidating assets Re-evaluating property transfer (estate) Evaluating expenses for retirement and current housing	Planning future security Investigating retirement part-time income or volunteer work Meeting responsibilities of ageing parents
Retired: Ages 65 and Over	
Re-evaluating and adjusting living conditions and spending as related to health and income Adjusting insurance programs for increasing risks Finalizing will or letter of last instructions	Acquiring assistance in management of personal and financial affairs Finalizing estate plans

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