

Starting Your Financial Plan: A Beginner's Road Map





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Would you leave on a trip to a new destination without a map? What if your destination is a successful financial future? Without a map, would you know how to get there?

Financial planning provides a road map for your financial life. It can make the journey less stressful, more fun, and more successful. And, you can start right now — even if only a few steps at a time.

This guide, from the Financial Planning Association® (FPA®), will help you get started. We'll look at:

[Destination: Setting Goals](#)

[Starting Point: Where Are You Now?](#)

[Avoiding Potholes: Insurance, Debt, Job Loss, Taxes and Estate Planning](#)

[On the Highway: Saving, Investing, Retirement and Other Goals](#)

[Sharing the Drive: Working with a FPA Member and CERTIFIED FINANCIAL PLANNER™ \(CFP®\) Professional](#)

[Map: A Financial Planning Checklist](#)

[Find](#) more resources from FPA on many of these topics.

Destination: Setting Goals

Financial planning starts with setting goals. After all, you need to know where you want to go before you can decide how to get there. Your goals can be short-term — for example, paying a credit card in six months; medium-term — such as saving for a down payment on a house in two years; or long-term — such as sending your kids to college in 15 years. Write your goals on paper, including dollar amounts and dates. Keep the list in sight so you can refer to it for motivation as you keep working toward your goals.

Starting Point: Where Are You Now?

Next, get a realistic picture of where you are financially. List everything you owe (liabilities) and the value of everything you own (assets). Also, track your monthly income and expenses in a notebook or on a budget form. Even if it's not a pretty picture now, that's OK. You've faced your financial situation, and financial planning will help you improve the picture.



Avoiding Potholes: Insurance, Debt, Job Loss, Taxes and Estate Planning

Financial potholes will inevitably come your way — stock market downturns, recessions, losing a job, wrecking the car, paying for an illness. You may not be able to avoid these potholes, but you can minimize their financial impact. Here are a few suggestions:

- **Have adequate insurance.** Insurance prevents financial catastrophes, so don't put off getting it. Insure what you cannot comfortably afford to replace. For most people, that means having the following insurance: auto, renters or homeowners, liability, health, disability and life insurance (if someone depends on you financially). Take advantage of insurance offered to you at your job and supplement it with insurance you buy on your own. Shop for the best price, but make sure you buy from a reputable, financially sound insurance company. **Learn more:** [Choosing the Right Insurance for Your Life's Stages](#)
- **Control debt.** Having a lot of debt puts you at financial risk. If you're spending more than you earn, start using a budget to plug spending leaks, and make paying off your credit cards a top priority. If debt is overwhelming, get help from a nonprofit organization such as the [National Foundation for Credit Counseling](#).
Learn More: [Overcoming the Credit Barrier: Clearing the Way to Your Financial Goals](#)
- **Job loss.** You can't control the economy or a company layoff, but you can control how much time you invest in keeping your skills sharp and in meeting people who may help you find a job in the future. **Learn more:** [Losing a Job](#)

- **Taxes.** Computer software can help you find deductions on your tax return. However, if your financial situation is complex, you may benefit from working with a tax or financial professional who can suggest tax strategies and make sure you are getting all of the credits and deductions due to you. **Learn more:** [Saving on Taxes](#)
- **Estate planning.** Every adult should have these four basic documents: will, general durable power of attorney, medical power of attorney and a living will (also called a medical directive). A financial planner can guide you and refer you to an estate planning attorney to draft these documents. **Learn more:** [Estate Planning](#)

On the Highway: Saving, Investing, Retirement and Other Goals

Your goals likely will require money. Whenever you can save the money you need instead of borrowing, do it! That's how you will become financially independent.

Here are a few more tips:

- **Pay yourself first.** To get into the savings habit, automatically transfer a certain amount of money — for example, 10 percent of your paycheck — into a savings or money market account. Online banks often offer competitive interest rates, but make sure the bank is insured by the Federal Deposit Insurance Corporation (FDIC).
- **Have an emergency fund.** Most experts recommend that one of your goals should be a separate savings account to pay for emergencies, such as losing a job or having an unexpected medical bill. Work toward saving three to six months' salary in an emergency savings account at a bank. If you own a house, consider getting a home equity line of credit for emergency use only.
- **Fund your retirement plan.** If you have a retirement plan at work, take advantage of it or set up your own Individual Retirement Account (IRA). The earlier you start, the more time you have for your money to compound, or grow. If you can't put in the maximum amount allowed every year, at least fund your plan up to what your employer will match. Those matching dollars are like free money and immediately double your retirement savings. If you leave your job, avoid the temptation to cash in your retirement fund.

Learn more: [Saving for Retirement](#)



- **Invest the rest.** After you take care of the above priorities, implement an investment strategy. First, however, take time to educate yourself about investing, including investment risks, your risk tolerance, expenses and the importance of diversification. Never invest in something you do not understand.
Learn more: [20 Keys to Being a Smarter Investor](#)
- **Buy a house with care.** One of your goals may be to buy a house, and that could be the largest financial investment you will ever make. To gauge if you are financially ready to buy a home, ask yourself the following questions: Is my credit in good shape so I will get the best financing terms? Do I have a steady job history so the lender will have confidence that I can repay a home loan? Can I afford to make the monthly mortgage payments along with my other bills? Have I saved for a down payment? If you can't answer "yes" to each of these four questions, don't get discouraged. Just give yourself a little more time to get ready. **Learn more:** [Buying a Home](#)
- **Start a college fund.** Many people want to save for their kids' college education. That's a worthwhile goal, but make sure you take care of your own financial security first. Remember, there is help available to pay for your kids' college in the form of scholarships and student loans, and they will have many years to repay those loans. You don't have the same luxury of time to save for your retirement or reach your other goals.
Learn more: [Saving for College](#)

Sharing the Drive: Working with a FPA Member and CFP® Professional

You can do financial planning on your own, but there are many benefits of advice and coaching from a professional. A CERTIFIED FINANCIAL PLANNER™ (CFP®) professional is a financial planner who has gone through rigorous education and testing and has pledged to conduct himself or herself in an ethical manner that puts your interests first. CFP professionals know how to ask important questions about your goals, steer you away from financial hazards and suggest strategies for reaching your goals that you may not have considered.

FPA can provide a list of FPA members who are CFP professionals in your area. Go to www.PlannerSearch.org or call 800.647.6340. Interview at least three financial professionals to find the right person for you. Make sure you understand how they work and how they are paid — by fees, commissions, salary, or a combination. If cost is an issue, explain that to the planner. He or she may be able to suggest alternatives, such as free financial planning resources offered by FPA and other organizations. **Learn more:** [FPA PlannerSearch®](#)

Map: A Financial Planning Checklist

Financial planning looks at the big picture of your financial life. Use this checklist to get started:

Insurance	Yes	No
Do I have the following coverage:		
--Auto	☐	☐
--Homeowners or renters	☐	☐
--Liability	☐	☐
--Health		
--Disability		
--Life		

Income and Expenses		
Does my monthly income cover my monthly expenses, with some money remaining to put into savings and build an emergency fund?	☐	☐
Have I looked at where I can trim expenses, increase income, or both, to free up money to save?	☐	☐

Taxes		
Am I taking all of the tax deductions and credits to which I am entitled?	☐	☐
Am I keeping up with changes in tax laws that could affect me?	☐	☐

Estate Planning		
Do I have basic estate planning documents in place, including a will, power of attorney, medical directive, and a living will?	☐	☐
Do I, or my financial planner, know an estate planning attorney who can help me for a reasonable cost?	☐	☐

Retirement Plan		
Do I participate in my employer's retirement plan, or have my own IRA or other retirement plan?	☐	☐
Do I put money into the plan on a regular basis, even if it's only a small amount for now?	☐	☐

Investments		
Are my investments appropriate for my goals, timeframes, and risk tolerance?	☐	☐
Is my portfolio diversified and cost efficient?	☐	☐