WHAT SHOULD GO INTO A FINANCIAL PLAN?

Many people know they need a financial plan to help them set goals and manage their money in these complex and unsure financial times. But what exactly is a financial plan, and what should go into one?

Think of a financial plan as a road map you would use to lay out your vacation trip. A financial plan marks where you are now, where you want to go and what you want to do along the way, the best route to get there, and how *fast* you want to get there.

What goes into a plan will depend on what you want the plan to accomplish. A focused plan hones in on a single area, such as funding a college education or an insurance needs analysis. You might want two or three focused plans bundled together. Or you may want a comprehensive plan that covers the broad spectrum of your finances.

Let's assume you want a comprehensive plan—whether it's one you construct yourself or one that you develop with a professional advisor. A good plan—even just a focused plan—starts with the complete and accurate gathering of facts about your financial life. If you don't know exactly where you are on your financial map, you won't be able to chart a route to your destinations.

Most Certified Financial Planner professionals will start with a fact-gathering questionnaire. They want a clear picture of your income sources and expenses, amount and types of investments, debts and assets, insurance, retirement accounts, tax situation, estate planning, and family status (married, children, etc.). They want to know your general attitude toward money, financial fears, level of financial knowledge, risk tolerance and value systems. These facts should be summarized in the plan.

The plan should articulate personal goals that require financial strategies. These will come from the questionnaire or in conversations with the planner, or what you've written out yourself. Do you want to start or buy your own business, buy a home, fund a wedding, reduce taxes, put children through college or retire? Be specific. Do you want to retire early (how early), take a normal retirement or phase into retirement? How important is each goal? These goals are the destinations on your road map. They affect the route and how fast you want to travel.

Once your financial data is clarified, and your goals identified, a good plan develops and recommends specific strategies and objectives to meet your needs. This is the route on the map. It might be an investment plan, estate planning tools and some tax strategies. These recommendations should be *customized for your needs, resources and abilities.* The plan might say you need to accumulate X dollars for retirement and recommend a route that fits your risk tolerance. It gives you objectives along the way to mark your progress ("On day three of our trip, we want to be here").

A plan needs to balance your various goals and financial resources. You may need to consider alternative strategies (a route) for the same goal. You may not reach your destination as soon as you'd hoped. A particular goal may not appear realistic and may need to be modified. You may have to trade off some goals for other, more attainable, goals.

The plan should include resources for emergencies—the financial equivalent of a spare tire, extra belts and hoses, flares and a flashlight. What if you lose your job or become disabled? These financial setbacks—delays and detours on our trip—can ruin a well-laid-out plan. Resources might include an emergency fund and the right amount of disability and life insurance, medical insurance and perhaps long-term care insurance. The plan might recommend, for example, buying more life insurance *before* starting an investment plan.

Ultimately, a good financial plan should be clear, realistic, doable and inspirational. It's less about numbers than what those numbers can do for you. It also needs to be monitored and flexible. Life has a way of changing the best of plans. If one stretch of the route or a goal becomes unrealistic, the plan should be capable of altering it.

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