FINANCIAL PLANNING

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A complete financial plan includes six key components:

Budgeting and tax planning

Managing liquidity

Financing large purchases

Insurance

Investing

Retirement planning

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Budget planning, or budgeting, is the process of predicting future income, expenses and savings goals

Budgeting can help you estimate how much of your income will be required to cover your monthly expenses

This helps you to set a reasonable and practical goal for saving each month

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Typically, budgets are broken into two categories – Big Spender and Big Saver

Big Spender budgets save a little each much, but the main focus is on spending

Big Saver budgets spend very little and focus on saving

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The first step in budgeting is to assess your current financial situation

This means that you need to determine your income and expenses

It is also important to identify your assets (what you own) and your liabilities (what you owe)

Your net worth (your wealth) is the value of your assets less your liabilities

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Sticking to a budget that promotes saving, can help you increase your overall net worth

Budgeting can help you increase your net worth by reducing your liabilities, increasing your assets or both!

Income is the largest factor in budgeting

This can also be impacted by your current life stage

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There are roughly six phases of life when considering typical financial planning

0 to 22 Pre-Career

23 to 30 Early Earning

31 to 44 Mid Earning

45 to 59 Prime Earning

60 to 74 Retirement

75+ Post-Retirement

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Each stage of the financial planning life comes with varying obstacles and milestones

For example, someone in the Pre-Career stage may have a lower income and need to take that into consideration while budgeting

Someone in the Mid Earning stage would need to shift their financial goals to start more heavily investing in retirement funds or potentially begin investing in their child's future education

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The pay yourself first principle is vital to establishing good saving habits

The pay yourself first principle says that before you spend any of your income, you should set a portion aside as savings

Once you have paid yourself, you can then move forward with the rest of your budget items