

## **FINANCIAL PLANNING 101: PART 3**

This is the final installment in our three part series of articles dedicated to Financial Planning. As we get ready to conclude, it is important that new readers make an effort to obtain the two previous articles in order to complete the Financial Planning Worksheets. To all the readers from the last two weeks who have been completing their worksheets as prescribed, we will be concluding our lesson today with Estimating Your Funding Needs.

Again, I must stress that it is important to complete all the exercises in this series of articles and I am certain you will walk away as a much more financially savvy individual and be better able to take control and chart your financial future.

### **ESTIMATING YOUR FUNDING NEEDS**

Now that you have identified your financial goals and your financial situation, you are ready progress to the final stage of Financial Planning – estimating your funding needs. This represents the amount of added income that you will need to meet your goals.

A key tool for projecting your future needs is an expense plan.

#### **Preparing an expense plan**

An expense plan is a budget that estimates your income and expenses for the future, usually the next 12 months. An expense plan shows all of the income you expect to receive and exactly how you plan to spend it.

In order to prepare your expense plan simply follow these steps:

#### **1. List all expected income**

First, list the sources and amounts of your regular monthly income. Refer to your cash flow statement for dollar amounts. Then, list the sources and amounts of any irregular income such as gifts, service charges and so on, averaging each amount that you expect to receive into 12 monthly pay cheques.

Now enter the “Annual Total” for each source of income in the far right column.

#### **2. List all expected expenses**

Like listing your income over 12 months, it may help to first list your regular monthly expenses, such as food, utilities, savings, transportation personal care items and so on. Again, please refer to your cash flow statement for dollar amounts.

Now, begin listing your non-monthly expenses, averaging each expense that you expect to incur into 12 monthly bills. Some common non-monthly expenses include the following:

- Property taxes
- Insurance charges
- Vacation expenses
- Auto license, registration and maintenance
- Home maintenance

Now enter the Annual Total for each expense in the far right column.

**3. Compare your total expected income and expenses**

Add up the Annual Totals for your income and expenses and compare these figures. Your Total Income and Total Expenses should be approximately the same.

If your total expected expenses exceed your total expected income, this will indicate your immediate funding needs. Your next task is to project your future funding needs.

## **PROJECTING YOUR FUTURE NEEDS**

To estimate the funds you will need to meet your goals, assemble your Financial Goals Checklist and Expense Plans. Now it is time to complete the Funding Needs worksheet by following these simple steps:

In order to prepare your expense plan simply follow these steps:

**1. List your goals by priority**

Write in your financial goals in order of their importance.

**2. List the annual cost of each goal**

Now list the actual or estimated amount of funds you would need annually to meet each goal. Start with those goals for which you have actual dollar values. If your goal is to meet the property tax and insurance payments on your house, find the Annual Total expenses for these items from your Expense Plan.

Then, list the annual amounts for goals that require estimates, such as home modifications and medical care.

**3. Total the annual costs**

Add up the Annual Totals for your income and expenses and compare these figures. Your Total Income and Total Expenses should be approximately the same.



