Personal Financial Planning and Process

- Financial planning is a way to financial security and helps people to reach their personal goals.
- A financial plan sets a journey from present condition to the desired objective. The process of financial planning in general consists of five steps presented as follows;

Step 1: Gathering information and evaluating current financial situation

- A financial plan starts with a thorough evaluation of one's current financial circumstance.
- How much income does one have? How much expenses does one have? How is one's expenditure allocated? How much debt does one have?
- Before mapping out the steps, an individual has to see his or her whole financial picture, which demands him or her to keep track of spending carefully.
- **Net Worth and Balance Sheet**
  - To view one's entire financial picture, an individual must find out his or her general situation by applying the concept of net worth.
  - This concept helps individuals to categorize their assets and their liabilities. Asset is what one owns. It can be money, investments, real estates, cars, paintings, etc. Liability is what one owes, like mortgage, student loan, credit card debt, money borrowed from somebody, and so on.
  - By subtracting the sum of liabilities from the sum of assets, one will get one's net worth. **Net worth**= Sum of Assets - Sum of Liabilities

Step 2: Setting Financial Goals

- Financial goals can be anything, such as a phone, a trip, a wedding, a house, education, retirement etc.
- Individuals should know where they are heading before they set out.
- Besides defining a financial goal and attaching a price to it, individuals should also determine how much time they need to accomplish the goal.

- Every goal has its own time axis ranging from weeks to many years.

Step 3: Developing financial plan

- A decent financial plan is well-designed, which matches one's personal goals.
- Flexibility, liquidity, protection, and tax are all ought to be taken into account.
- For example, Antti lost his job all of a sudden, and yet, he still had a mortgage to pay. He had some saving in the bank. However, his saving is under a fixed-term investment. In this example, flexibility is about planning for the unexpected. Antti should prepare some saving for periods of interrupted income.
- Liquidity means the availability of one's money when needed. Although Antti did have some saving in the bank, he couldn't access it. In Finland, Antti has social insurance institution support, protecting him from unemployment.
- In many unpredictable events, insurance can protect people from financial security threats.
- A solid financial plan must contain sufficient insurance to keep off financial disaster.
- In the end, tax must also be considered in the financial planning. After all, part of one's income goes to the government.
- When individuals have made their financial plan, they should think about the following questions.
    - Do I have enough money when emergency occurs?
    - Can I fulfill my debt obligations, like mortgage or other loans?
    - Do I save as much as I expect?
- **Personal budget**
    - A personal budget is an excellent tool for monitoring if the actual financial activity is going as one has planned and how the expenses are allocated.
    - It can help individuals to spend less by arousing their awareness of additional spending.
    - A personal budget is a finance plan that determines the distribution of future income towards spending, saving, and investing
    - Identifying the income and expenses does not need to be too specific, a user should categorize more generally.

    - Flexibility is another tip that one should keep in mind. The variation in budgeting needs to be made accordingly.

Step 4: Implementing the plan

- Financial plan is more like a map than a goal.
- It is a tool that leads to the goal. It is important to follow the plan.
- During the journey, one should keep tracking his income and spending, and meanwhile pay attention to the long-term goal.
- Based on the changes occurred in the journey, one can renew the route to the final destination.
- What matters the most is that he keeps moving towards the goal, not giving up in the middle if something happens.

Step 5: Reviewing the implementation and revising the plan

- As time goes by, things change.
- At the age of twenty, one may concern about getting a job; whereas he turns thirty, he cares about housing, or starting a family
- Individuals must review their financial plans and re-evaluate their financial situation accordingly.