

# What Do You Want?

**W**hen you dream, what do you dream about? Do you want to tour Europe or go fishing when you retire? Would you like your children to go to Harvard or to a state university? Do you want to leave millions to your favorite charity or give your stamp collection to your favorite nephew?

We all have different dreams, unique wish lists of what we want for ourselves and our families, for now and for later. In this chapter, I'll help you put your goals in writing, perhaps for the first time. Don't let my questions restrict you. If you want something that I haven't mentioned, write it down. This is your wish list.

Don't be afraid to dream big. We'll discuss the realities of how you'll get there. For now, focus on your wishes.

## Put It in Writing

You're a busy person. Why take the time to write down things that you already know?

- Writing down your dreams is the first step toward making them a reality. By putting words on paper, you turn dreams into goals. That's why you should be as specific as possible. Don't write, "I want to retire with lots of money." Define "lots of money" by assigning your goal a dollar amount: "I want to have an annual income of \$50,000 in today's dollars when I retire." Or list the things you'd like to do and the lifestyle you want to have, then assign a dollar value.
- Writing down your dreams brings to light any information gaps. How much insurance do you have? Where are your policies? What are the total annual costs today at the college your child might attend?

- Writing down your dreams and sharing them with your family opens communication and can keep everyone focused on the same goals. You may already have discussed your hopes for the future with your family. If not, you may be surprised to discover that your family members have goals that are different from yours. What if your spouse wants to retire near the ocean, far from your beloved mountains? It's better to discuss these things now than be unpleasantly surprised later.
- Writing down your dreams and informing your advisors helps them serve you better. The more they know about what you want, the more they can tailor their services to your specific needs. If you don't want to leave a large estate, for instance, your insurance agent shouldn't try to sell you extra life insurance. If you want your spouse to continue your business if you die first, your attorney should include that in your will and go over the paperwork with both partners.
- Writing down and regularly reviewing your dreams helps keep your goals current—and your other details up-to-date as well. Have you had more children since you last updated your wish list? Have some of your children become adults since you considered your overall financial affairs? Are your will and insurance coverage up to date? None of us is the same person today that we were five years ago. Our dreams change. Our financial plan should keep up, so those dreams can become reality.

## **Six Steps to Financial Freedom**

Now that you've written down your financial wish list, it's time to introduce the six steps you'll use in preparing your financial plan. Working through these steps and using the explanations and advice in this book will put you on your way to financial independence.

That might sound complicated, but it's not. In fact, the steps may seem familiar. You follow a similar planning process every day without

realizing it, whether you're painting the house or cooking a meal. Here are the six steps and two simple examples to show how they work.

### **Planning Process**

- 1.** What do you want? Identify your goal.
- 2.** What do you have now? Collect information.
- 3.** What's holding you back? Consider the obstacles standing between you and your goal. Brainstorm alternate solutions and ways to remove or work around your obstacles.
- 4.** How can you get what you want? Develop written recommendations.
- 5.** Choose a plan and put it into action.
- 6.** Is your plan working? Review your goal and strategies for reaching it at least once a year.

You use the same steps to paint a house:

- 1.** Identify your goal. Spruce up the house with a new coat of paint.
- 2.** Collect information. How many square feet need to be painted? Are there any spots that need primer? How many square feet?
- 3.** Consider the obstacles between you and your goal. Perhaps you don't like painting houses, or don't have time to do the job.
- 4.** Brainstorm possible solutions. You could put on primer, then paint. You could also paint next year, hire someone else to do the work, or install siding.
- 5.** You choose the first option. Overcome your distaste for the job. You buy primer, put it on, and then paint the house.
- 6.** The house looks great! Six months later, it still looks good. Pat yourself on the back.

The same process works as you prepare a meal:

- 1.** Your goal. Prepare lunch for four people.
- 2.** Gather information. What ingredients do you have?

3. Identify obstacles. You have only one pound of ground beef.
4. Brainstorm potential solutions. You could make small hamburgers and add side dishes to complete the meal, go to the store and buy more ground beef, make something else with the ingredients you have on hand, or go out for lunch.
5. You go out to eat.
6. Lunch was not that good. You might decide to go out for lunch again but at a different restaurant.

Obviously, preparing your financial plan will take a little more thought. Here is a description of each of the financial planning steps and how they will help you build your financial plan.

1. By now, you know that you should write down your goals.
2. What do you have now?

Collect information in the form of all your important financial data. Finding these documents may be a treasure hunt, and doing a thorough job will probably take some time. The following chapter has a document checklist, to ensure that you don't miss anything.

3. What's holding you back?

Consider the problem areas in your finances. What is preventing you from achieving financial independence? You probably have struggled with one or more of these common problems:

- High taxes
- Too little or too much insurance
- Inadequate cash flow
- Poor liquidity
- High debt
- Low rate of return

This book will help you tackle these problems and find workable solutions.

#### 4. How will you get what you want?

After you've documented your wishes and know what you have now, you must analyze your situation and develop specific ways to meet your financial goals. If your investment rate of return is too low to meet your goals, for instance, you might want to raise your rate of return. This book will teach you several ways to do that.

#### 5. Put Your Plan into Action

A good financial plan only works if you put it into action. If you want to raise your rate of return on investments, to continue the previous example, you must choose a particular investment that meets your need for a better return and then invest in it.

That sounds simple, but isn't for everyone. Many people are great at planning but put off taking action. (Others want to take action immediately, without putting a plan into place.)

#### 6. Review the plan. Is it working?

No financial plan should be carved in stone. Review it annually, being honest with yourself, your spouse, and your financial planner. You should also review your plan and its execution in unusual circumstances: a birth or a death in the family, an inheritance, a substantial professional shift, or a significant change in your or your spouse's health.

## Start Planning

Now that you understand the planning process, let's get started. Get out a pencil and at least five sheets of paper. Label the five sheets with the following headings:

1. Retirement plan
2. Education plan
3. Estate plan
4. Disability plan
5. Other needs

Here are some questions to get you started in each area. Remember to be as specific as you can. However, if you don't know how much something will cost, put down a guess and go on. Don't get too bogged down in details at this point. Later on you will fill in more details about each wish.

### **Your Retirement Plan**

- 1.** How old are you now and at what age do you want to retire? How about your spouse? You may want to retire at 40, but realistically expect to retire at 55. Go ahead and write down both numbers. As you prepare your financial plan, you will find out which age is better for you. (Do you think you're too young to be planning your retirement? If you're 21, prepare your plan according to the steps in this book, and put that plan into action, you probably can retire at age 40. It's never too early or too late to start your financial plan. Any planning for retirement, even if you have just retired, is better than no financial planning.)
- 2.** Do you want to retire all at once or gradually cut back your work hours? If you retire from one job, do you plan to start a business or work at a different job but for fewer hours? Will you earn more, less, or the same income? Do you plan to live at least in part on your income, or prefer to live on investments, pensions, and Social Security?

Remember that retirement doesn't have to mean rocking chairs. I know many retired people who put in full days managing their own money or continuing to work at what they enjoy. You don't have to put yourself in mothballs just because you retire.

- 3.** How much money will you need to maintain your desired standard of living? No one has a crystal ball, so this isn't an easy question to answer. For now, use this simple equation to estimate your costs:

**Costs that will increase, plus the most money you might need, minus costs that may be eliminated or reduced, equals the least money you might need.**

For example, if you plan to retire to a warm state and spend most of your time there, the amount you spend on heating and winter clothes will be reduced or eliminated. Air conditioning costs may be more than you currently pay. Because you are getting older, your health costs will eventually increase. Depending on your health insurance arrangements, you may need to add a large amount to your needs estimate to cover increased health costs.

You can beat inflation. In the chapter on investing, you will learn specific ways to make your investments grow faster than inflation. These techniques mean that you can estimate your retirement costs in today's dollars. Your money should have the same purchasing power, even years later.

4. How many years of retirement do you need to fund? Ideally, of course, you'd drop dead at a ripe old age, right after you spend your last nickel. To get a sense of how long from now that might be, use an insurance industry life expectancy table. Obviously, if your grandparents and parents all lived to 100, then you may want to add a few more years to your life estimate and congratulate yourself on picking the right ancestors.
5. What do you want to do when you retire? You may want to continue your life just as it is today, or you may plan some drastic changes. Maybe you're in between. Whatever you've dreamed of doing in retirement, write it down and consider taking the first steps toward making it a reality. If you want to paint but have never picked up a brush, take a beginning art course. You might love it, or you might be allergic to paint.

### **Your Education Plan**

1. How many children will you send to college? This question is more difficult than it may seem. You may hope your children become doctors or lawyers, but they may become plumbers (and probably make more money). If your children are young, college decisions are far in the future. For now, assume they will go and plan accordingly.

Do you want to return to college? Add yourself to your education plan.

2. What are your children's current ages? Will more than one attend college at a time?
3. How many years until your children start college? List years to enrollment for each child.
4. How many years will they attend college? There are two-year and four-year schools, graduate schools, and professional schools. How many years do you want to fund?
5. What is the current cost of college? Choose one or more possible colleges and find out the current cost for one year of tuition, room and board, books, lab fees, and personal expenses.

What is the rate of increase for tuition? At present, college tuitions increase faster than the current rate of inflation. Keep an eye on these increases as you reevaluate your financial plan each year.

What are the possibilities for scholarships, grants, and other financial aid? Obviously, you'll have a better sense of this for older children. Have you looked into these ways of paying for college? Do you want to consider them? Many colleges let visitors use a website calculator to get a rough estimate of the need-based aid they might receive.

### **Your Estate Plan**

1. Do you have a current will? Does your spouse?
2. What if you die first? How much you want to leave for your family may depend on whether your spouse works outside the home (and would continue doing so) and the ages of your children, if any.
3. If you were a full-time homemaker, what services, such as house-keeping, driving, childcare, cooking, and home management, would your family have to replace? If you work outside the home, what income, insurance, or other benefits would your family need to replace?



4. What if both of you die at the same time? What do you want to do with your estate?
5. Would your estate need to pay bills, mortgages, or business obligations?
6. How much money would your family need right away to handle day-to-day expenses? How long does it take an estate to be probated in your area? Will any other bills come due during this time?
7. Do you need a dedicated college fund? Look again at your education plan in light of your estate plan.
8. If you or your spouse dies, would the survivor want to sell the house immediately or stay there for at least a year?
9. Do you want to leave anything to family, friends, charities, or other organizations?
10. Will your estate include money, real estate, and/or personal property?
11. Who will get what? Do you want to divide things equally? Do you want to give percentages? Do you want to specify priorities for the distribution of your estate or direct that someone get a minimum amount, in case your estate is worth less than you anticipated?
12. Does any bequest come with conditions? Do you want to give a lump sum, a certain amount each year, or a bequest made only if certain requirements are met?
13. Do you want to exclude someone specifically?

### **Your Disability Plan**

1. What happens if you cannot work and have no income? What will you do if your income stops for a short time (less than two years), for more than two years, or for the rest of your life (permanent disability)? Where would you get money to live on?
2. What happens if your spouse's income disappears? Consider the same three scenarios.

3. What costs could you eliminate or defer for any of these scenarios? Do you have insurance to cover lost wages?
4. What percent of your current income could you live on in any of these scenarios? If you had to make do with a minimum sum, would you need 80 percent of your current income? 100 percent? More? Some people could tighten their belts and get by. Others might need more than their current income if their medical insurance did not cover the costs of the disability. What would be right for you?

## Other Goals

In addition to our basic needs, we all have other goals we would like to reach. Maybe you want a bigger house, a new car every three years, or a vacation every six months. Write down these goals.

We all need to plan for the future and its uncertainties, but it's important to maintain a healthy balance between tomorrow and today. After all, you live in the here and now. When you follow a good financial plan, you can enjoy today more, knowing that you've planned for the future.

## Review Your Plans with Your Family Members and Advisors

Sometimes this is the hardest part. You may find out you and your spouse have very different goals. It's better to know this now. Couples should agree on the general direction of their goals. If you and your partner have different goals, consider whether it's possible to attain both. After all, if I want a vacation every six months and you want a new car every three years, we may be able to make everyone happy. But if you want to leave our estate to our children and I want to leave it to charity, we have a problem. Talk honestly about your hopes and dreams until you resolve your conflicts. A financial planner can't help you reach conflicting goals.

On the other hand, you may be pleasantly surprised to discover that both of you have always wanted to try your hand at painting, but somehow it never came up in your conversations.

Discussing your plan with family members may uncover overlooked items. Perhaps a special relative should be included in your estate planning, for instance. You may want to discuss your plan with your children as well as your spouse, to explain the reasoning behind your decisions and eliminate any unpleasant surprises.

It's common sense to share your thoughts with your financial advisor, too. An advisor can only help you reach the goals that you reveal—and can be a valuable partner in ensuring that your strategies are in line with those goals. You may have instructed your stockbroker to invest conservatively. Does that fit with the dreams you've listed, or do you need to take a more aggressive stance? If you want to leave an estate of \$5 million, then you may need to make your insurance dollars work harder for you by buying more term insurance instead of whole life.

## You Know What You Want

As we've seen, a financial plan must start with a list of what you want. Before you go on to the next chapter, review what you've written on your five sheets of paper. You may want to adjust one set of plans in light of the others. These are your goals; revise them until they are right for you and your family.

Now it's time to add more substance to those dreams by filling in the details. We'll do that in the next chapter.

### Summary

1. What do you want out of life? You must write down your goals in order to achieve them, find information gaps, let your family know what you want, and help your advisors serve you better.
2. There are six steps to financial freedom. To prepare your financial plan, you and your spouse should work through each step.
3. Review your plan with your financial advisors. Consider their suggestions, but make the final decisions with your spouse.

