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Financial Planning: A Good Start!

Amelia and Joe have been married six months. Joe, 25, is working nights at a hotel and going to school. His goal is to get an associate degree in hospitality services management, eventually obtain a college degree and advance in management positions with a large hotel chain.

Amelia, 24, just got a full-time job as a customer service representative with a bank. They both want two or three children, preferably in about three years. They currently rent a small but cozy apartment; they want to own home as soon as it becomes affordable and practical.

They are having a difficult time managing their money. It seems that every penny that goes in goes right out, with bills always there before the first paycheck. They do not charge many items, but their one credit card balance is beginning to mount; they try to pay a bit more than the minimum required payment each month, but sometimes they just cannot.

Their parents have always stressed the importance of setting aside a portion of their earnings in savings every month, even if it is just a few dollars. Amelia and Joe would like to save, but they do not see how they possibly can. Sometimes toward the end of the month, when money is especially tight, their frustration leads to squabbles over money.

Name________________________________Period________________Date__________________

Lin, an investment advisor and friend at the bank where Amelia works, suggested that Amelia and Joe develop a financial plan. Lin explained that, to start, they could simply follow three steps:

- Take a personal inventory of their resources
- Clarify what they need and want – both short-term and long-term
- Decide how they can best use their resources to achieve their goals

Lin suggested they jot down some specific actions they can take regarding spending, saving, borrowing, investing and protecting themselves. Lin said she learned from experience that if you do not look ahead, you will end up years down the road wondering where your money went and not having some important things of which you dreamed.

Amelia and Joe set aside three evenings the next week to try out Lin's advice. They each took a sheet of paper and wrote down the resources they currently have.

They included such things as monthly income earned by each, their vehicles, the items of furniture they have accumulated, their laptop, the $500.00 CD Joe's grandmother gave them for their wedding and the $1250.00 IRA account Amelia's uncle started for her last year. They also wrote down their human resources, like Joe's education and Amelia's job experience. After comparing their lists, they prepared a neat list of their resources on the computer, dated it, and labeled it "Our Personal Inventory." Amelia obtained samples of forms used to determine "net worth," and they filled in their assets and liabilities. They discovered their net worth was not much on paper yet, but they laughed and told each other that by starting now – before they have accumulated much – they can win the prize in a few years for "most improved net worth."

The next evening Amelia and Joe did some dreaming. They took index cards and wrote down the things they want and need. They started with short-term wants and needs, like a more reliable used car, Amelia's upcoming wisdom teeth extraction, Joe's tuition and books for two more semesters and a few home furnishings items. They expanded into longer-term goals like a camping trip to Colorado next summer, having (and paying for) their first child, and owning their own home. They put some price estimates with each card and talked about what items they had to finance soon, which were "wants," and which were long-term goals. Again, they ended by preparing a printed, dated copy of "Our Financial Needs and Goals." The next evening, they got down to the action aspect of their plan by asking themselves, "How can we best use our resources to achieve our goals?" They talked through each category Lin suggested and came up with some great ideas!