

SETTING FINANCIAL GOALS FOR YOUR FAMILY

Presented by Dick Bell to the National MS Society "Relationships Matter"
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In this session, I'm going to talk about the importance of setting goals for what you want to accomplish in life financially. It's been said that there are three kinds of people ... those who make things happen, those who let things happen, and those who wonder what happened. I think in all our lives we fit into one of those three categories at various times. But when it comes to personal finances, we really want to be in control ... we want to be the group that makes things happen.

I'll turn back the clock to when my wife and I got married 41 years ago. We were just out of college, had very little in saving and very little in liabilities (a modest student loan). I think our first financial goals were just to survive ... to be able to pay our rent and buy food and pay for cars. Neither of us was making much money. Fortunately, credit cards as we now know them did not exist. It was virtually impossible to get in financial trouble by living in excess of your means because nobody was going to let you do that. There was no pressure to keep up with the Joneses next door because they were in the same boat. If you wanted something, you saved up until you could buy it. What a revolutionary thought!

Now the good news is that you can't get hurt falling out of a basement window. And we certainly did not have money to indulge hobbies like golf before we got married so we didn't feel like we were giving anything up by getting married.

We never talked about financial goals. I knew my wife wanted to have a house eventually, and so did I. Our parents did. And we'd eventually have children and she would probably quit working but we figured my income would increase along the line and we would handle it.

Now, let's fast forward to the present. Couples are getting married later in life. This means they have had time as single individuals to develop their own lifestyles, spending money as they wanted, without regard to others. Now they get married. And, unlike 40 years ago, one may bring alimony and child support payments into the marriage while the other brings in significant student loans. And both may have credit card debts. And, in many cases, spouses have conflicting money styles. What we have seen is that when money opposites attract ... and they get married anyway ... financial chaos ensues.

The bottom line is that if a couple does not have a shared vision for their finances, they behave in financially kooky ways. One is watching her expenses, trying to save to buy a house. The other goes out and buys a new truck without any discussion.

A couple simply needs to commit to get on the same page financially. If both aren't on board, there's a real chance the one who feels shut out of a decision is going to sabotage the outcome.

One money guru says that in most relationships there is a money nerd and a free spirit. You might be the detail person seeking to understand your flighty spouse or the "go with the flow" individual trying to make peace with a financial drill sergeant. Either way, it helps to know the role you play ... and that each person brings strengths and weaknesses to the table. My advice is to always look for and respect your spouse's strengths.

Another money guru says that most money arguments come down to selfishness. When approaching money matters with your spouse, let go of the idea that one of you will end up "right". The point is to agree, first and foremost, that you both want to cooperate in finding a solution for your financial problems that will feel comfortable and workable for all.

It's important to talk about what you mean. If you both want a "better life", don't assume your definitions are identical. What does each person mean when they say "I want to live comfortably" or "let's get organized".

Also, keep money discussions short. Limit your talk to no more than 17 minutes. Most partners benefit from some breathing room between rounds ... I mean, meetings.

Also, explore each other's values. Rather than argue about how often you should eat out or how quickly you should pay back loans, you can avoid a financial stalemate by exploring what your experiences are about spending, budgeting and owing. This is not a conversation about whether it's right to pay off loans or to use the money to enjoy the present. It's about why these courses of action are important to each partner or why they are difficult.

The idea is to negotiate a solution. Ideally, you should arrive at a plan that involves a common course of action and support for each other. Try out a solution for a month or two or three. Then revisit the decision. For example, you may decide to eat out less frequently while putting more money into savings or debt reduction.

Most couples find that though the process of setting financial goals can be challenging, it brings them closer and reduces tension over money.

Question: Do your visions of a financial future match your spouse's? Do you both plan to retire to a cabin in the woods or does one of you want a sailboat while the other has sights set on a condo at the beach?

OK, let's get into some specifics about setting goals. What are goals? Goals are what you want to do or achieve. Goals will give your life direction. Financial goals will help you to determine where your money will go.

Goals should be an extension of your values. If your goals are not related to your beliefs about what is good and important in life, the possibility of achieving the goals is unlikely.

While setting goals, you may find it helpful to separate goals across different time horizons, either as a means to spur discussion or to clarify exactly what you're shooting for ... and when.

Goals need to be specific. You can't just say: "I want lots of money in the bank". Is "lots of money" \$5,000 or \$50,000? Write each goal in specific terms. Write the goal in terms you can measure.

Let's start out with general financial goals. List some things that will require financial resources. If you are setting financial goals for the family, each family member should write a list of wants requiring financial resources. Make a list with room for eight entries. Call the list "Things I Want That Require Money". Don't start filling it in now, but you should both do it separately. That's your starting point.

Goals focus on "what" ... what you need or what you want. Some goals can be achieved in two years or less. These goals are referred to as short-term goals.

From the list you made of "Things I Want That Require Money", list the short term goals ... those that can be accomplished in two years or less.

Long Term Goals relate to what you want to accomplish in five or more years. Long term goals usually require more resources for achievement. From your list of "Things I Want That Require Money", write down your long term goals. Include the long term goals of all family members.

Now, it's likely that several but not all of your goals will overlap. You and your spouse or partner should have two lists now ... one for short term goals and one for long term goals ... that incorporate the wishes of each party. In other words, your lists should be combined. It's quite possible that your partner has something on his or her list that you just forgot.

The next step is to prioritize the goals. If you're like most of us, there will be more goals than there are resources available for reaching them. You must now prioritize the goals you have. Most financial planners agree that it is almost impossible to work toward more than two or three goals at once. So identify the goals in the order you want to reach them. To identify possible conflicts, each family member should prioritize the lists separately.

OK, each of you has a separate listing of the goals you feel are most important, perhaps numbered one through five.

When the individual lists are completed, hold a family discussion to resolve potential conflicts. As a family unit, decide on which individual and family goals are important enough to use family resources to achieve. Now, you may find that there is a conflict among goals. That's especially true if you are working on goals for the family when each family member has a variety of goals. Open, honest discussions with family members can reduce conflict over the use of resources to reach family and individual goals. Goal setting and allocating resources to meet goals will require compromise among family members. Family members will need to treat each other's goals with respect. Really listen to what others say about their goals and allow each person to state opinions, needs and feelings without fear of criticism.

Another area of conflict may exist between short term and long term goals. Short term goals often serve as bridges for moving you from where you are to where you want to be. However, if too many short term goals are not related to the achievement of long term goals, progress toward reaching long term goals may be slowed down or even stopped. To reach long term goals you may find it necessary to give up something you would like to have now. You may have to drop some short term goals.

To resolve conflicts, examine each goal by asking these questions:

1. Is this a goal that must or ought to be reached?
2. Does the goal contribute to what you want to do as an individual or a family?
3. Will the goal help you to get what you really want?
4. Is it a goal that could be delayed?
5. Is the goal important to the wellbeing of the whole family?
6. Is the goal so important it should be reached even though it would prevent reaching other goals?
7. Will this short-term goal delay or defeat reaching long-term goals?
8. Can the goal be reached with the resources you have?
9. Is this a realistic goal?

Once you all agree on the goals and their priorities, you need a game plan for achieving them. Remember, if you're serious, you will want to work on only two or three goals at a time. A successful plan for reaching your goals will include four basic parts:

1. Your plan should include a specific, measurable statement of the goal.
2. When you want to reach the goal. A goal without a deadline is just a wish.
3. Which resources you will need.
4. The specific steps you will need to take to reach the goal.

In establishing your game plan, you need to determine your actual cash flow. Knowing your cash flow is the foundation for step two ... making a budget. By learning where you and your spouse spend your money, you can quickly identify ways to reduce your spending in order to save more money for your short term and long term goals.

Most people hate the word “budget” ... and I am no exception. I hear things like: “Oh no, you mean I have to keep track of every nickel I spend?” Of course not. But you really have to know where your money is going now to be able to evaluate if you are getting the most value for your expenditures. Are you spending money in ways that is helping you reach your goals?

I find a good way to categorize expenses is by the expense type you incur, whether compulsory or discretionary.

Compulsory expenses have three general categories:

1. Obligations: these are large, regularly occurring fixed commitments that are largely a function of your lifestyle. Examples are house payments, rent, property taxes, insurance, daycare or childcare, car payments
2. Necessities: these are consumable items that maintain your lifestyle. Examples are groceries, utilities, phone, medical expenses, home maintenance, pest control, cable TV, kids' school lunches
3. Pocket expenses: these are small incidental expenses that occur throughout the month ... gas, snacks, newspapers, street parking and fast food. For the most part they are necessary but too small to budget individually.

Discretionary Expenses have two general categories:

1. Family allowance: this is a budgeted amount for discretionary expenses such as entertainment, recreation, outings, photo finishing and gifts. These expenses are incurred for the family ... not individual members.
2. Personal allowance: this is a family allowance for each family member. Like an allowance received as a child, it is an amount that each family member can spend as they please ... in a given time period ... but no more.

Finally, to achieve your goals you must START NOW. No one but you can put your plan into action.

1. You must be committed to it.
2. You must practice discipline
3. You must be willing to defer things that would be nice to have now for the things you really want.

Goal setting is a dynamic activity. Goals will be in various stages of development. As you are going along, life will happen! Events you did not foresee will occur so you must make your plan flexible. Be ready to adjust to change. Part of planning is evaluating your progress so you will know when or where changes need to be made.

Be positive about the outcomes you expect and describe the outcomes as clearly as you can. Keep sight of the goal you want to achieve. Monitor your plan on a regular basis and make changes as needed. And once you achieve a goal, move on to your next one.

In closing, remember ... with self motivation, commitment and discipline, you can achieve your financial goals and take control of where your money goes. A goal, like an idea, only has value when you act upon it.