

## **Create Your Own Financial Plan**

Whether you consider yourself a savvy investor with money to burn or you feel as though you are struggling to make ends meet, the act of creating a plan to understand and manage your own personal finances is a necessity for anyone who hopes to gain and maintain control of their own financial situation.

Next to our health and our family, our finances are the next largest contributor or detractor to the quality of our life, but not for the reason you might think. Many of us associate having more money with having less stress. The fact is, stress comes from the unknown and we feel better when we manage our own lives in a way that minimizes what we don't know. Creating and following your own personal financial plan will reduce stress and it works regardless of how much money you have. If you believe that you are better off not knowing the status of your finances, you are kidding yourself. If you do not have a good handle on your finances, the bottom line is you are paying more for your money and achieving less with your money. Ignorance is not bliss when it comes to your finances!

No matter what shape your finances are in, you will benefit from the peace of mind to be gained from understanding your own financial situation and developing a plan that works for you.

So, let's get started. The following ten steps form an outline for your personal plan and the details that follow will give you a basis for determining where you are and what you are capable of achieving.

### Ten Steps

1. Discuss your financial situation with your spouse
2. Choose a financial mentor
3. Complete a list of your assets and liabilities
4. Obtain a copy of your credit report
5. Detail your monthly income and expenses
6. Review and balance your checking account
7. Review all associated rates and fees
8. Set your own financial goals
9. Shop for rates, services, and a financial institution that will support your goals
10. Commit to your financial plan and repeat steps as necessary

1. Start by sitting down with your spouse or anyone else who is either influenced by your financial decisions or who will impact your financial situation. Inform them of your plans to take more control of your finances and start a conversation with them about their thoughts, ideas, and concerns. It is important to begin this process by setting proper expectations and ensuring that everyone involved understands the importance of these steps.

2. Once you have put your thoughts and expectations together, choose a financial mentor. When you start a new job, someone who is already experienced in that role typically trains you. It is always to your benefit to learn from someone who will provide you with the benefits of what they have learned and experienced. The same holds true when you set out to learn and follow new financial habits.

Financial mentors are often family members or friends who have demonstrated sound financial decision-making. Your local credit union is also an excellent source for financial mentors. Credit unions are service oriented not-for-profit organizations and they are often staffed with people who pride themselves in providing personalized attention at little or no cost. To what extent you choose to utilize this person will depend on you and your own individual needs.

3. After you have selected your financial mentor, gather all of your statements reflecting what you owe as well as what you own and what you have saved. From these statements, draw up a list of your liabilities (debts owed) and your assets (amounts owned and saved). Common liabilities include your mortgage, home equity loans, credit card balances, car loans, and student or tuition related loans. Common assets include the value of your home, savings account balances, savings bonds, insurance and other investments.

Once you have completed the list and added-up your assets and your liabilities, subtract your liability total from your asset total in order to determine your net worth. This number represents a starting point and a basis for setting your personal financial goals.

4. The next step is to contact the three major credit bureaus and obtain a copy of your credit report from each of them. Their contact information is as follows:

Trans Union  
[www.Transunion.com](http://www.Transunion.com)  
(800)888-4213

Experian  
[www.Experian.com](http://www.Experian.com)  
(888)397-3742

Equifax  
[www.Equifax.com](http://www.Equifax.com)  
(800)685-1111

If you have been denied credit for any reason within the last 60 days, you may obtain a free copy of your credit report from one of the above. Otherwise, charges for a copy of your credit report and score range from \$8 - \$15. Taking this step is important for a number of reasons. It will provide you with a comparison between what your creditors are reporting about you and your payment history and your own records and statements. If information is inaccurate, you can establish an avenue for correcting it. It also

provides you with another valuable starting point in determining your financial standing and understanding the importance of good credit. If you have not previously read your credit report, ask your financial mentor to explain the terminology used, the scoring methods, and the importance of each.

5. Now that you have started looking at your overall financial picture, break it down further by detailing your monthly income and your monthly expenses. Start by adding up your take home pay and any other sources of income, i.e. side jobs, rental income, etc. Next, add up your monthly expenses. It is sometimes easier to start with your largest expenses and work your way down the list. Your list should include everything that you regularly spend money on each month such as your mortgage or rent payment, other loan payments, credit card payments, utilities (gas, electric, water, cable, telephone), typical grocery bills, and spending money for entertainment and dining out. When you are finished, you should know exactly how much income you bring home each month and have an excellent estimate as to the expenses you incur in a typical month. Are there any surprises? Take a close look at these numbers and determine if you need to make any adjustments.

6. Review and balance your checking account. If it has been awhile since you have done this, or you have never done this, retrieve your last checking account statement and sit down with your financial mentor. Doing so will remove the grief, intimidation, and aggravation you would likely experience in trying to complete this step on your own. Ask questions and commit to learning this process so that you will be able to complete this task on your own going forward. Once you have completed this task, repeat this process at least monthly to ensure that you keep your account in balance.

7. Review all associated interest rates and fees that you pay and earn on your assets and liabilities. Determine whether or not the interest that you pay on your loans is at a fixed rate or a variable rate. If you pay variable rates on your loans, understand what factors cause the rate to vary so you are prepared if and when your rate increases. Review your statements for any monthly maintenance fees, annual fees, and other fees that you may not have been fully aware of and be sure to understand fully why these fees are assessed. If you have been charged NSF fees, you may now be in a position to avoid those going forward after having balanced your checking account. Once you have gained a better understanding of these rates and fees, you will be in a better position to minimize and potentially eliminate them where applicable.

8. You have now completed the initial review and consultation. The next step is to set financial goals for yourself, such as a savings target you would like to reach or debts that you would like to payoff. Setting financial goals for yourself is possible now that you have gained an understanding of your personal financial situation. Ask your financial mentor to help you set realistic targets or to confirm the validity of the goals you set. At this point, you will begin to realize the many benefits associated with creating your own financial plan.

9. The personal financial industry is very competitive. Recent changes in regulatory laws have made it possible for credit unions, banks, insurance companies, and credit card issuers to provide virtually all of the same types of products and services to consumers. Use the competitive nature of the industry to your advantage. Research service and rates and shop for the financial institution(s) that will be right for you and help you to achieve your financial goals.

10. Finally, make a commitment to repeat these steps as often as is necessary for you to maintain control of your own personal finances.

Someone once said that knowledge is power. By following these steps, you will gain and maintain the knowledge that you will need to create financial choices for yourself, reduce stress, and take control of the financial side of your life. Knowledge *is* power.

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