

Module 2

ORGANIZING YOUR

FINANCIAL LIFE

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Introduction

- Organization is crucial to the success of your financial plan
- We have already determined what is important to us
- We need to know where we are now



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Module Outline

- Section 2.1: What you own vs. What you owe
- Section 2.2: You Budget
- Section 2.3: Taking stock of your accounts
- Section 2.4: Getting a Grip on Debt

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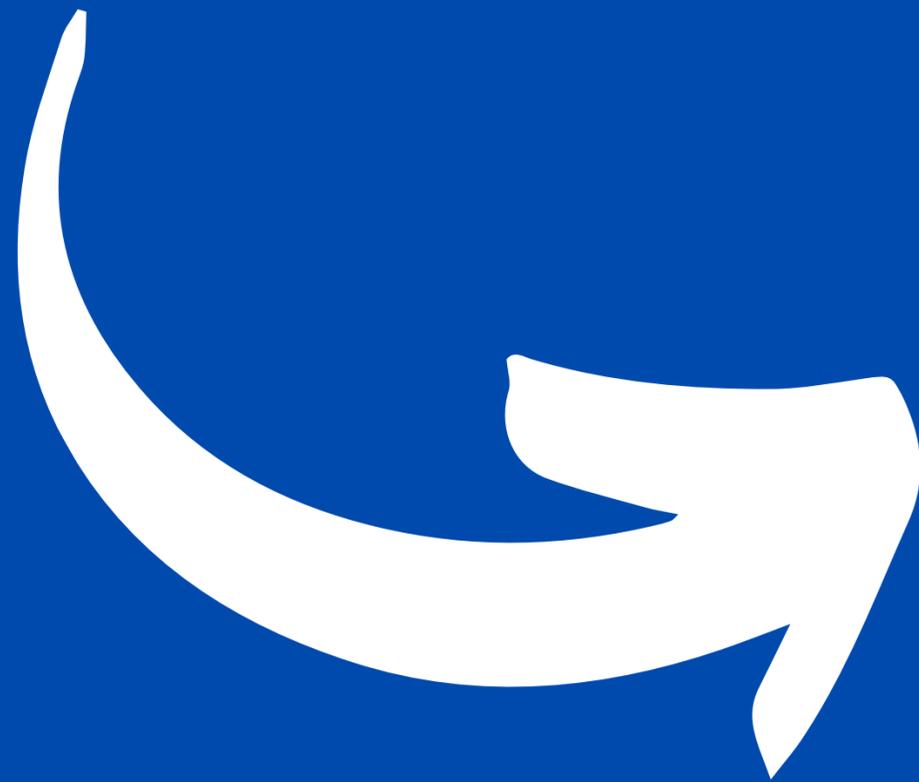
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Let's get started!



Section 2.1

What you own vs. What you owe

- Start with your assets or "what you own"
- What are the things that positively contribute to your overall finances?
- Home, bank accounts, investment portfolios, etc.

	Assets
Home	\$250,000
Savings	\$30,000
401(k)	\$100,000

Section 2.1

What you own vs. What you owe

- Next, add up your liabilities or "what you owe"
- What are the things that negatively effect your overall finances?
- Mortgage, credit card debt, student loans, etc.

	Assets	Liabilities	
Home	\$250,000	\$150,000	Mortgage
Savings	\$30,000	\$30,000	Credit Cards
401(k)	\$100,000	\$100,000	Student Loans

Section 2.1

What you own vs. What you owe

- Now, we can use this information to calculate your net worth
- You are going to subtract what you owe from from you own
- $\text{Assets} - \text{Liabilities} = \text{Net Worth}$

	Assets	Liabilities
	\$250,000	\$150,000
	\$30,000	\$30,000
	\$100,000	\$100,000
Total	\$380,000	\$280,000
Net Worth	\$380,000 - \$280,000 = \$100,000	

Section 2.2

Your Budget



- Where does your income come from each month?
- Where does it go? What are your monthly expenses?
- What is your monthly cash flow?

Section 2.2

Your Budget

	Income	Expenses	
Jack Income	\$1,400	\$1,500	Mortgage
Jill Income	\$2,400	\$850	Gas
Social Security	\$1,900	\$400	Groceries
Annuity	\$800	\$500	Utilities
		\$200	Eating out
		\$150	Concerts
		\$13	Netflix
		\$65	Internet
		\$1,700	Car Loans

Section 2.2

Your Budget



	Income	Expenses			
Jack Income	\$1,400	\$1,500	Mortgage	Monthly Income	\$6,500
Jill Income	\$2,400	\$850	Gas	Monthly Expenses	<u>\$5,378</u>
Social Security	\$1,900	\$400	Groceries	Monthly Cashflow	\$1,122
Annuity	\$800	\$500	Utilities	Annual Cashflow	<u><u>\$13,464</u></u>
		\$200	Eating out		
		\$150	Concerts		
		\$13	Netflix		
		\$65	Internet		
		\$1,700	Car Loans		

Section 2.2

Your Budget

- Identify your necessary expenses
- What are the things that you could spend less on?
- Revisit your cash flow statement



Section 2.2

Your Budget

- Tempting to go "all in" on investing
- Are my necessary expenses covered?
- Is my emergency fund established?
- Do I have any big expenses coming up?



Section 2.3

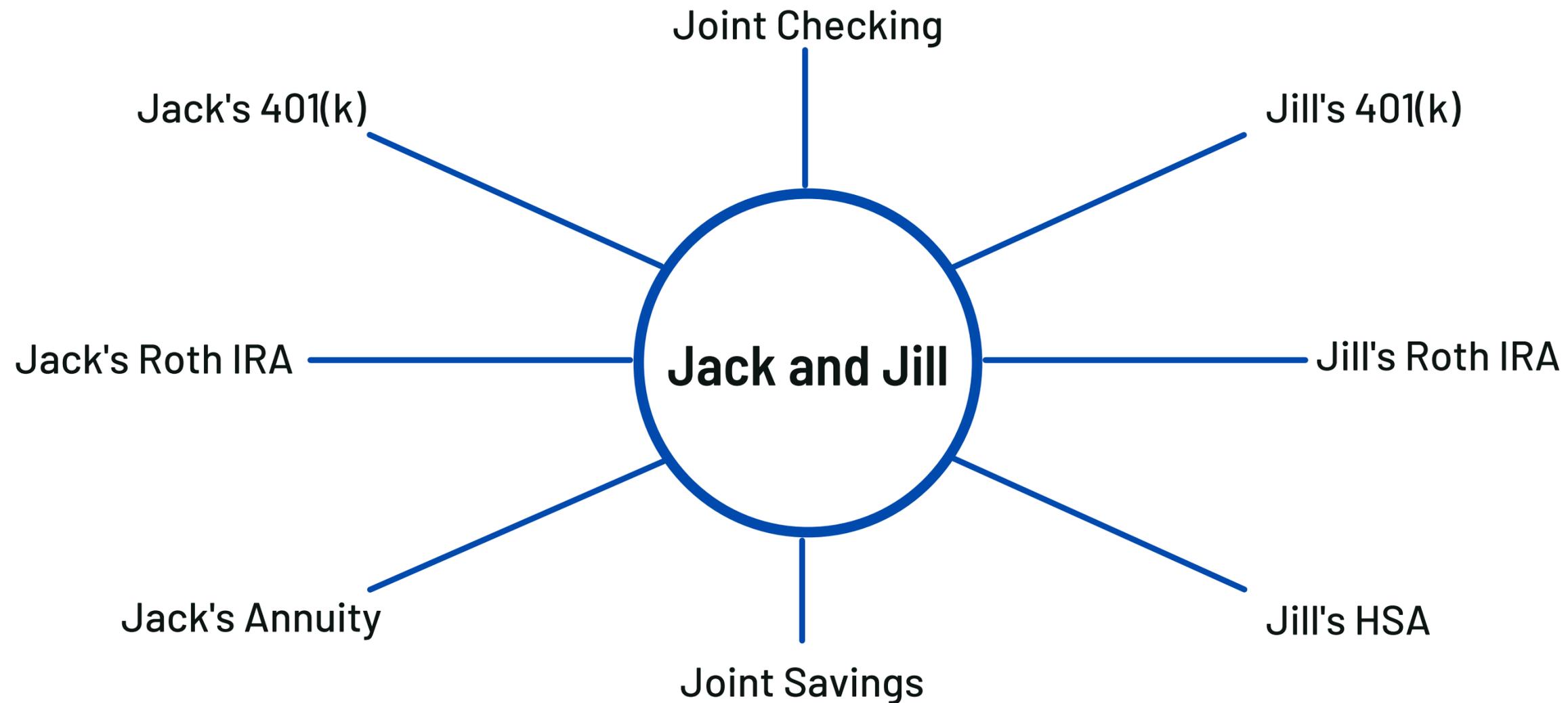
Taking Stock of your Accounts

- It is easy to forget which accounts you have
- Part of determining your assets and liabilities is knowing where your money is now
- Bank accounts, retirement and investment accounts, HSAs, 401(k)s, 403(b)s, etc.



Section 2.3

Taking Stock of your Accounts



Section 2.3

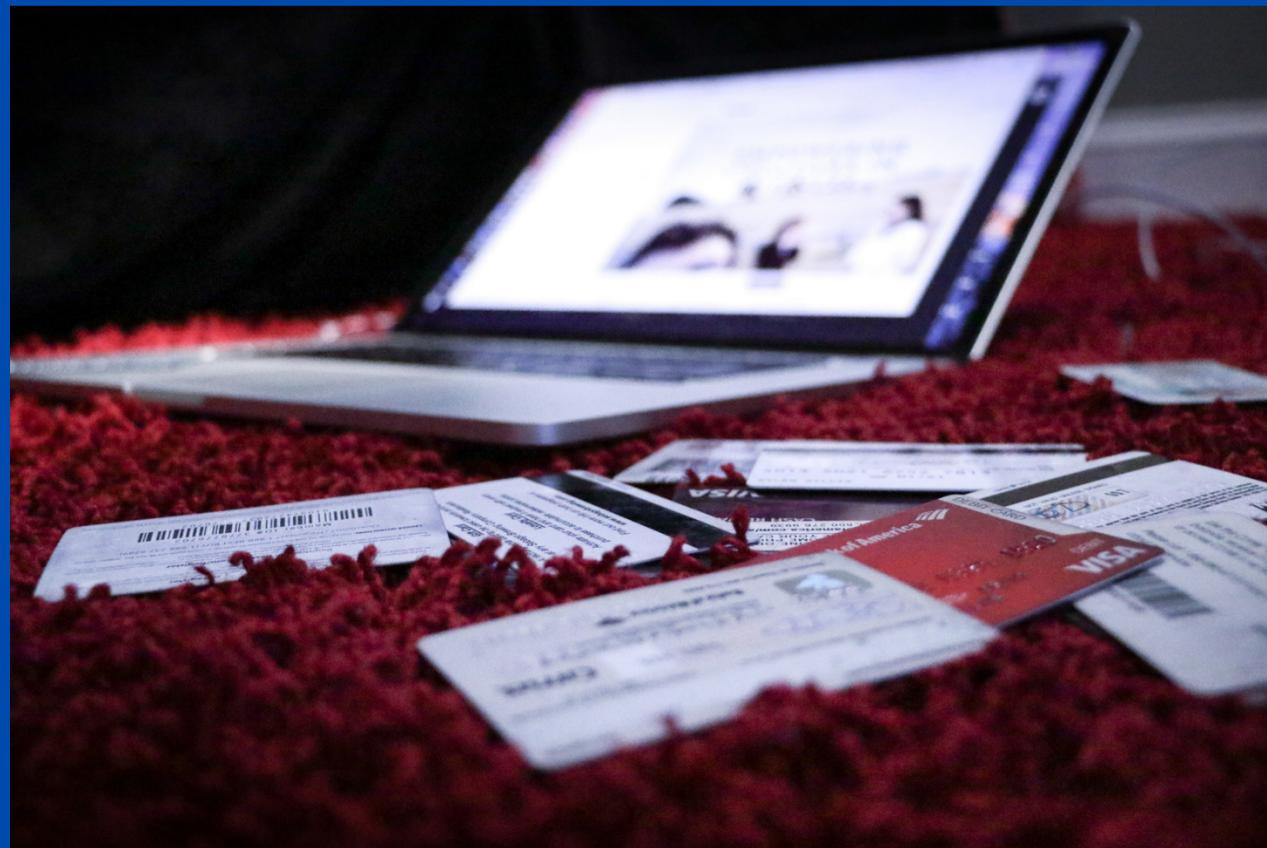
Taking Stock of your Accounts



- Don't lose track of your 401(k) or other employer sponsored retirement account!
- Know your options
- Pros and cons

Section 2.4

Getting a Grip on Debt



- Review the various types of debt that you hold
- Mortgage, car, credit card, student loans, etc.
- Should be reflected in your net worth

Section 2.4

Getting a Grip on Debt

- Ideally, your total debt does not exceed your total assets (i.e. you have a positive net worth)
- Monthly payments should be below 40% of your monthly gross income
- What adjustments need to be made?



Section 2.4

Getting a Grip on Debt



- Know the interest rates on the different types of debt that you carry
- What is the most "expensive" debt that you owe?
- Relieve the burden of debt on your finances

Conclusion

- Organizing your finances has the effect of giving you a sense of control and lessens your anxiety about your finances
- In practice, it also gives you a very real picture of your financial health
- Understanding where you are now is vitally important to the next step in the planning process: Your goals and how to get there

Congratulations on Completing Module 2!



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