Rehabbing Your Retirement:

Getting Started On a Financial Plan

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You realize that you have not saved much for retirement and you don't know how much it really costs you to live. You'd like to get your finances in order, but where do you start?

Every financial plan begins with specific and measurable goals. Wanting to retire someday is not a goal, but a wish. Wanting to retire in ten years at an income level of $6,000 a month is a goal. You can measure it and plan for it.

Make a list of all your goals. We assume, if you are reading this article, that retirement is a primary goal. But you may have others, too. For example, many baby boomers are sandwiched between elderly parents and children not yet ready to leave the nest. Do you need to provide financially for children and/or parents?

Next, take a look at your net worth, consisting of your assets minus your liabilities, or what you own minus what you owe. Your assets are your house, your car, your retirement plans and anything else that has a monetary value. Your liabilities are your mortgage, student loans, and credit card and other debt. Your net worth measures where you stand financially.

Next, your cash flow shows how money flows in and out of your life, so you must measure your income minus your expenses. If you're unsure of where your money goes from month to month, keep a log of your spending for a month. Then add expenses that don't recur every month, like life insurance premiums or heating oil. Keeping track of your cash flow does not have to be complicated – you can note your outlays on the back of an envelope or on a 3x5 card. In fact, there are savvy savers who still use a pencil and a ledger book to keep track of their finances. Many people, however, like to use software, while others simply build their own spreadsheets.

Once you have completed these three tasks, it's time to sit down and take stock. Seeing numbers lined up on a page tends to sharpen ones' thinking, making some new patterns appear obvious.

First, look at your goals. Are they achievable? If not, what needs to be adjusted? Do your children, for example, need to be weaned from your support? To ensure you meet those goals, are you willing to work longer or get by with less? Are you happy with the number you see for your net worth? Without beating yourself up – which would be counterproductive – what things could you do differently in the future to help build it up?

You might want to focus a lot of time on cash flow. As you go through the records you've kept, ask yourself which items are in line with your goals, and which are not.

Many books and thousands of websites will tell you what percent of your income you should spend on housing, or clothing, or even chewing gum. But what makes us happy is also what makes us unique. Your personal formula differs from anyone else's. Above all, stop using your neighbors as a gauge. Keeping up with the Joneses is a recipe for frustration. Unless you are Bill Gates, there will always be someone richer than you. And even he has to worry about Warren Buffett and Carlos Slim. Let the Joneses keep up with themselves.

Unless you live alone, though, you do have to consider what your family thinks. Families come in lots of sizes and shapes nowadays, but for the purposes of retirement, we will define it as the people who will be living with you when you retire. You will have to come to agreement with this person or these people.

How to do it? Make sure you write down your goals, calculate your net worth and track your budget together, keeping a civil tongue in your head while you do it. The secret to coming to agreement is to show respect for other family members. To the best of your ability, keep emotion out of it. (And by the way, when you sit silently and grit your teeth, you are showing emotion.)

With those suggestions in mind, look at the items in your cash flow, to determine which items were or weren't aligned with your goals. Look at your cash flow with a critical eye, and reconstruct it in a way that better suits you and positions you for the future.

Take eating out, for example. Do you enjoy restaurants, or do you eat out because you are too tired to think about cooking? If it's the latter, perhaps there are things you can change in your routine. Maybe you could turn the cooking over to other family members, or perhaps prepare food ahead on the weekend.

Now is the time to assemble your three building blocks: goals, net worth and cash flow. That will provide you with a firm base upon which to build a financial plan.

About the Authors

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