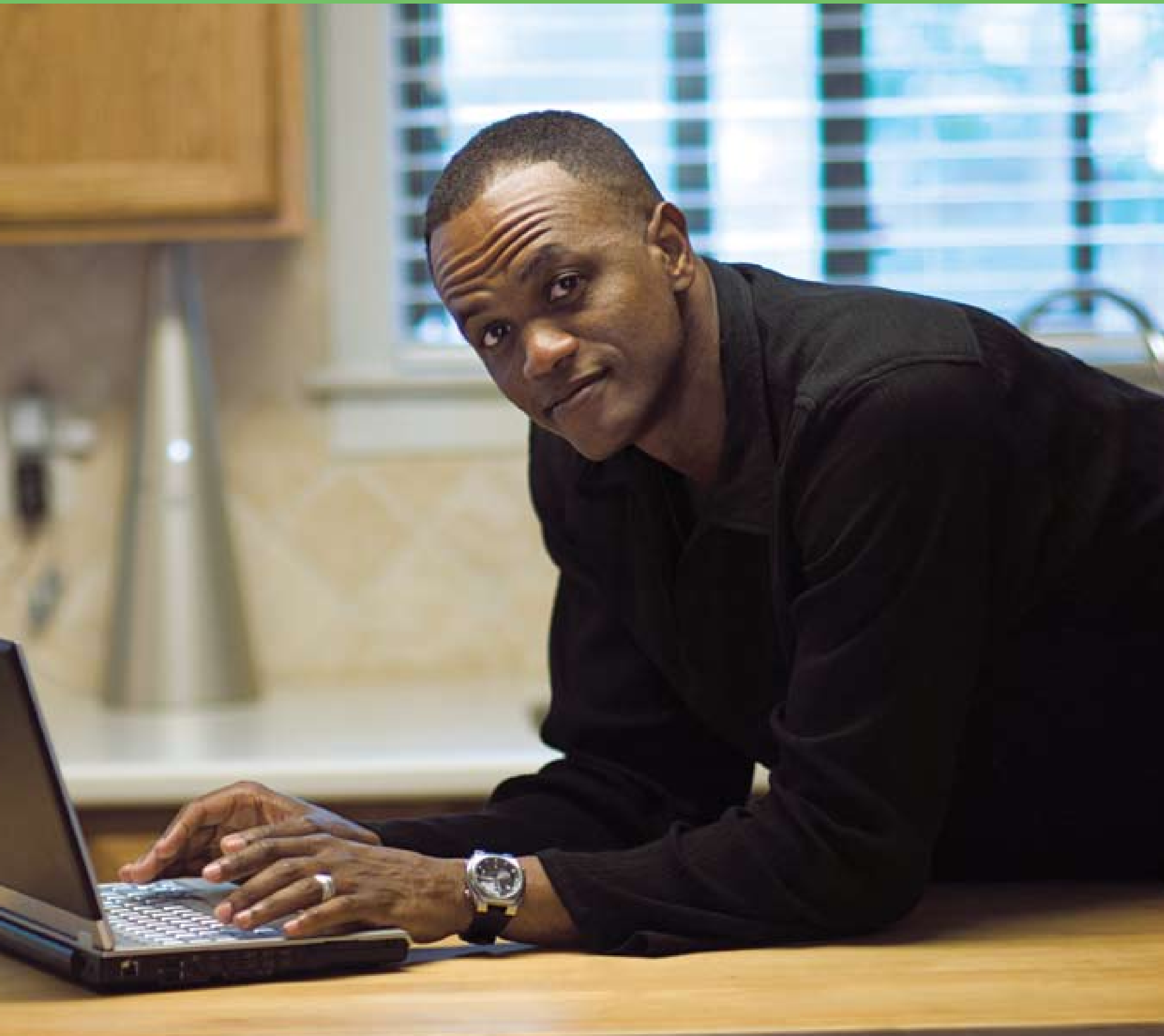
THE USAA EDUCATIONAL FOUNDATION®

Good Information for Good Decisions.®

FINANCIAL PLANNING

FINANCIAL PLANNING AND GOAL SETTING



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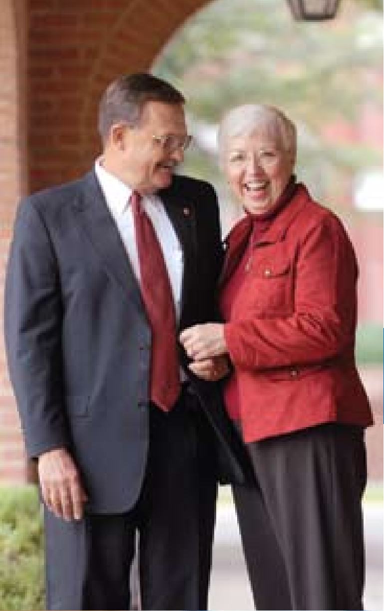
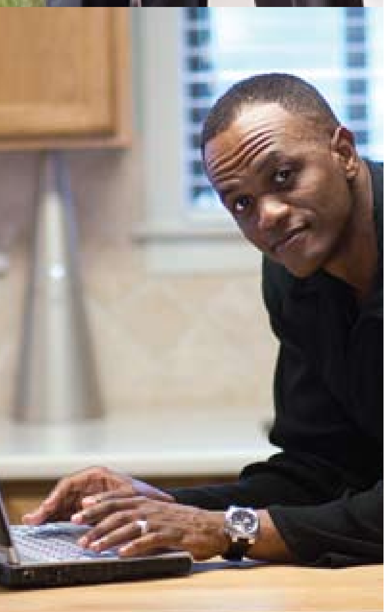
OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.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July 2008

2 THE POWER OF PLANNING

KNOWING WHERE YOU ARE NOW FINANCIALLY, WHERE YOU WOULD LIKE TO BE AND WHAT RESOURCES YOU HAVE TO MAKE THAT POSSIBLE, WILL HELP YOU FACE THE FUTURE WITH CONFIDENCE.

Planning for your financial future demands that you stay ahead of the financial factors that shape the economy.

Today, individuals are living longer and healthier lives. However, ensuring that you can enjoy a longer and more active retirement makes it imperative to establish financial goals and plan ahead for a secure future.

Rising health care costs, changes in employer-sponsored benefit plans and potential future changes in Social Security benefits can affect the quality of your retirement.

Ironically, financial worries derive not necessarily from lack of money, but often from lack of planning. Solid financial planning can take the uncertainty out of your financial future.

This publication will help you begin the process of establishing financial goals and structuring your financial plan. Once you understand the basics, you may want to seek the advice of tax, legal or financial planning professionals.

Knowing where you are now financially, where you would like to be and what resources you have to make that possible, will help you face the future with confidence.

List your life goals that will require financial resources beyond what you will be able to provide from your current income.

For example, if your goal is a new home, you may list "new home down payment" as your goal. Next, set the target date by when you would like to achieve the goal. Finally, determine the amount you will need. Allow for inflation, which has been rising 2 percent to 3 percent annually during the past decade.

When you complete the "Financial Goals Work Sheet," you are ready to proceed to Step 2.

FINANCIAL GOALS WORK SHEET

	3 Years Or Less		4–6 Years		7 Years Or More	
Goal	**Time**	**$ Needed**	**Time**	**$ Needed**	**Time**	**$ Needed**
Example: New home down payment			4 years	$20,000		

4 STEP 2: CALCULATE YOUR NET WORTH

Once you have established your goals, the next step is to determine the resources you will need to help you achieve those goals.

Complete the "Personal Financial Statement" to calculate your net worth — the value of everything you own minus the value of everything you owe. Use actual market values — what your property would be worth today if you decided to sell it and what your loans would cost you today if you decided to pay them in full.

PERSONAL FINANCIAL STATEMENT

Assets (What You Own)		Liabilities (What You Owe)	
Cash		Mortgages	
Checking accounts			
Savings accounts		Personal loans	
Emergency fund			
Money market accounts		Vehicle loans	
Certificates of deposit			
Cash value of life insurance policies		Credit card balances	
Retirement plans		Education loans	
Pension/Profit-sharing plans (money owed you if you leave your employer today)		Investment loans	
IRA		Life insurance loans	
401(k)			
Keogh plans		Other	
Money owed to you			
Stocks/Bonds/Mutual funds		**Total Liabilities**	**$**
Real estate investments			
Your home		Summary	
Other investments			
Rental or vacation property		Total Assets	$
Vehicles			
Furniture/Appliances		Less Total Liabilities	$
Jewelry/Furs			
Collectibles/Artwork		**Net Worth**	**$**
Miscellaneous property			
Other		As of (date):	
Total Assets	**$**		

What You Earn And Where You Earn It

Once you have completed your personal financial statement, you should be able to identify the resources available to help you achieve your goals. Do not be concerned if you have less than expected. Net worth is just one aspect.

Income from resources such as salary, investments and retirement are important in helping you to achieve your financial goals. Determine how much is coming in, how much is going out and where it is going. When calculating your personal finances, be sure to include income from all of these resources.

Use the "Income And Expense Summary" on the following page to estimate your current monthly income and expenses. It may help to use your bank statements and credit card statements. Record your expenditures to analyze your spending habits and make adjustments to help you achieve your financial goals. Every financial plan should include a savings and investment goal, target at least 10 percent to 15 percent of your net income. Generally, the best way to achieve this goal is to pay yourself first, by automatically withdrawing this amount at the beginning of each month or pay period.

When you have completed the "Income And Expense Summary," you are ready to move on to Step 4.

TO ACHIEVE YOUR FINANCIAL GOALS YOU SHOULD RECOGNIZE THAT YOUR INCOME FROM RESOURCES SUCH AS SALARY, INVESTMENTS AND RETIREMENT ARE IMPORTANT IN HELPING YOU REACH YOUR GOALS.

INCOME AND EXPENSE SUMMARY

MONTHLY INCOME

Pay (before taxes) ______
Interest and dividends ______
Investment income ______
Social Security ______
Retirement plans ______
Other income ______
Total Monthly Income $ ______

MONTHLY EXPENSES

Savings/Investments (target at least 10%–15% of net monthly income) ______
Charitable donations/Gifts ______
Taxes
- Federal ______
- State ______
- Local ______
- Sales ______
- Social Security ______

Shelter
- Mortgage/Rent payment ______
- Property taxes (1/12 of total annual expense) ______
- Homeowners/Renters insurance ______
- Electricity ______
- Gas ______
- Phone/Cell phone ______
- Water ______
- Trash collection ______
- Home maintenance ______
- Furniture ______
- Home security ______

Transportation
- Vehicle payments ______
- Auto insurance ______
- Gasoline/Parking/Tolls ______
- Vehicle maintenance ______
- Registration/License fees (1/12 of total annual expense) ______
- Public transportation ______

Food
- Groceries ______
- Outside meals ______
- Snacks ______
- Other ______

Personal health and grooming
- Clothing ______
- Medical and dental care ______
- Hair care ______
- Toiletries ______

Recreation
- Hobbies ______
- Vacation(s) (1/12 of total annual expense) ______
- Entertainment/Dining out ______
- Newspapers/Magazines/Books ______
- Physical fitness ______
- Cable/Satellite television ______
- Internet service ______

Financial
- Professional services ______
- Banking/Credit card fees ______
- Life insurance ______
- Health insurance ______
- Disability insurance ______
- Other insurance ______

Education/Professional Development
- Child-care expenses (babysitters, child-care center) ______
- Tuition ______
- Allowances ______

Other
______ ______
______ ______

Total Expenses $ ______

SUMMARY

Net Monthly Income $ ______
Less Total Monthly Expenses (Actual) $ ______
Net Cash Flow (Deficit) $ ______

Now that you have identified your goals and your resources, the next step is to analyze your resources and begin your plan.

Emergency Funds And Insurance

This analysis should begin with a look at your financial foundation. That foundation helps protect you against unexpected losses that might otherwise keep you from meeting your goals.

A strong foundation begins with an emergency fund of easily accessible savings. Most experts recommend this fund should equal 3 months to 6 months of basic living expenses to help protect you from unexpected bills or unemployment.

If you do not already have an adequate emergency fund, consider making it a priority on your list of goals. Keep your emergency fund in a liquid, easily accessible account such as a savings or money market account.

Unfortunately, even an emergency fund cannot prepare you for catastrophic loss or illness. Most individuals buy insurance for these costly emergencies.

The most common types of personal insurance include:

- Auto
- Personal property
- Homeowners
- Health
- Life
- Disability
- Personal liability

It is important to review your current coverages at least annually to determine whether you are adequately covered. Remember to factor in group coverage provided by your employer and government coverages such as Medicare, Social Security Disability Insurance and Workers' Compensation. You should also contact your attorney regarding your estate planning including a will, durable power of attorney and health care directives.

THE USAA EDUCATIONAL FOUNDATION PUBLICATIONS, *BASIC INSURANCE COVERAGES*, *AUTO INSURANCE*, *HOMEOWNERS INSURANCE*, *HEALTH INSURANCE*, *LIFE INSURANCE* AND *LONG-TERM CARE*, OFFER MORE INFORMATION. SEE "RESOURCES" ON THE INSIDE BACK COVER OF THIS PUBLICATION TO ORDER FREE COPIES.

STEP 5: SAVE FOR YOUR GOALS

Once you have established a solid foundation with an emergency fund and insurance, you are ready to begin saving for your goals. For this next exercise, you will use the "Savings Goals Work Sheet" on the next page to identify the gaps between your financial goals and your resources. Then you will look for ways to combine the two.

Completing The "Savings Goals Work Sheet"

Goals — Record the goals you listed on the "Financial Goals Work Sheet" on page 3.

Target Dates — Record the target dates of your goals.

Amount Needed — Estimate the amount needed for each goal using today's dollars. Example: If your goal is to make a 20 percent down payment on a home valued at $100,000 today, you would need $20,000 for the down payment. You would enter $20,000 as the cost of the goal — even if your target date is several years away.

Current Assets — Identify any assets on your "Personal Financial Statement" on page 4 you are willing to commit to your goals. Then, indicate how much you would like to allocate to each of your goals. Example: If you have $10,000 saved in a money market account, you may decide to allocate half of it to the down payment. In this case, you would write $5,000 under Current Assets.

Gap — Indicate the gap between the cost of each goal and the assets you have allocated to it.

Number Of Years To Target Date — Enter the number of years between now and your target date.

Amount To Be Saved Each Year — Divide the gap by the number of years to the target date. That amount will be what you need to save each year to reach your goal.

Total — Add all the amounts to determine the total amount you will need to save annually to reach your goals. This amount does not account for any interest or appreciation/depreciation on the assets identified.

SAVINGS GOALS WORK SHEET

Goals	Target Dates	Amount Needed	Current Assets	Gap	Number Of Years To Target Date	Amount To Be Saved Each Year
Example: New home down payment	June 2011	$20,000	$5,000	$15,000	4	$3,750

Total $ ______

Finding The Gaps

Now look back at the savings and investments line on your "Income And Expense Summary" on page 6. How does the amount you are currently saving compare to the amount you have determined you should save each year to reach your goals?

Some individuals discover they are saving more than enough to meet or exceed their goals; but for many, the conclusion is much different.

The "Savings Goals Work Sheet" encourages you to work on your goals today. It assumes your pay increases and returns on investments will only keep pace with the rate of inflation. You should review your entire financial plan at least annually or whenever you experience a major life event.

Adjusting Your Plan

Here are some questions to ask yourself if the amount you are now saving falls short of the amount you need to save to reach your goals.

- Are you paying yourself first with a disciplined savings and investment program that puts away at least 10 percent to 15 percent of your net income?
- Could you increase the amount you are saving?
- Could you earn more and/or spend less?
- Are you spending too much on impulse purchases and neglecting long-term savings goals?
- Are your goals too ambitious?
- Could you change or eliminate any of your goals?
- Could you delay any target dates of your goals?

With these questions in mind, take another look at your "Savings Goals Work Sheet" and at your "Income And Expense Summary." Make adjustments in both until your actual savings is equal to your goal savings. When you are finished with your adjustments, you should have a savings plan for this year and a forecast for your future.

Remember to repeat this exercise annually. If your income increases, or you receive unexpected bonuses or find ways to accelerate your savings, then you will accelerate your progress toward your goals. Be prepared to modify your goals if you suffer a setback. The key is to remain flexible.

Now that you have completed your analysis, it is time to create your action plan for next year.

Your Savings Plan

You can begin by developing your "Savings Plan," including the amount you plan to save and the method you will use to save it. An effective savings plan begins with these basic elements.

- Start saving early. The earlier you begin, the more money you can potentially accumulate.
- Save your pay increases. Either put the money into your retirement plan or into another savings plan.
- Establish an automatic savings plan. Have money deducted from your pay or your bank account and automatically deposited in a savings or investment account.

SAVINGS PLAN

For the year beginning ________ / ________ / ________ and ending ________ / ________ / ________.

Amount to be saved this year: $ ______________________________

Amount to be saved each month: $ ______________________________

Description of savings methods: ______________________________

____

____

Your Investment Plan

Next, examine each of your goals to determine whether it is a short-term (3 years or less), intermediate-term (4 to 6 years) or long-term (7 years or more) goal. This will be determined by the length of time you have until the goal's target date, or until you will need the money allocated to that goal.

For each of your goals, consider how much investment risk you are willing to take for the goal. Generally, the riskier an investment, the more it fluctuates in value. Its potential return is greater, but so is its potential loss.

To determine how much risk you are willing to take for each of your goals, consider the following.

- How essential is the goal?
- Can you afford to lose any or all of the money you are investing?
- Do you want to protect that money — even if it means potentially lower returns?

STEP 7: UPDATE

Review your plan at least once each year and at significant life events — such as graduation, marriage, birth or adoption of a child or purchase of a home — so it accurately reflects your changing goals and financial situation.

Re-evaluate your life-long goals and anticipate economic factors that affect your plan.

- Rate of inflation.
- Your federal income tax bracket.
- Interest rates.
- Overall economic conditions.

Re-inventory your resources and update your work sheets, so you can see what adjustments you need to make to your financial plan.

Consider Professional Assistance

Many dependable, expert planners are available to assist you. A Certified Financial Planner™ (CFP®) practitioner must pass rigorous tests, meet high standards of professionalism and abide by a strict code of ethics.

You may want to consider working with a Certified Financial Planner™ (CFP®) practitioner if:

- You want to improve your overall financial situation but do not know where to start.
- You would like a professional to evaluate your existing financial plan.
- You need specialized advice about investment strategies, risk management, estate planning or adapting your savings plan for changing family circumstances.
- You have experienced a specific life event, such as a job change, wedding, the birth or adoption of a child, retirement or the death of a loved one.
- You simply do not have time to build your own financial plan.
- You have multiple goals, such as saving for college and retirement and need help balancing these goals.

Selecting The Right Planner

Make sure you find the right planner for you and your family.

- Ask individuals you respect for names of financial planning professionals they have used.
- Ask about the planner's background and work experience.
- Ask as many questions as you need to understand and feel in control of your financial future.

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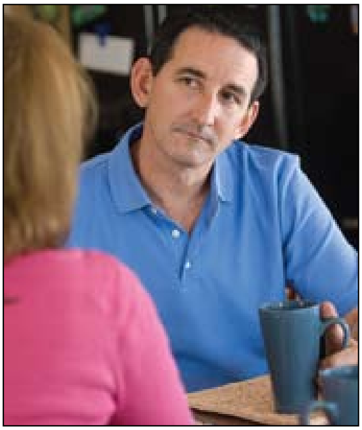
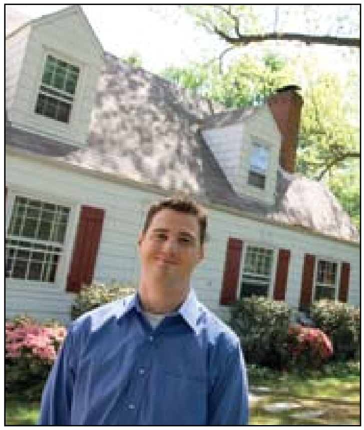
RESOURCES





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