



What You Should Know About...

Financial Planning

- ▶ IDENTIFYING GOALS
- ▶ CREATING A FINANCIAL PLAN
- ▶ ESTATE PLANNING



Financial planning is about the future—the secure and comfortable future you’d like to provide for yourself and your loved ones. When you plan for that future, you start with your goals, identifying the things you’d like to be able to afford, what they’ll cost and when you’ll need the money to pay for them.

The next step is creating a strategy for accomplishing those goals. You’ll discover that saving and investing are essential to financial planning—and that if you wish, you can find someone with professional experience to help you decide how to make the most of the money you already have.

Another part of planning is writing a will or perhaps creating a trust that lets you create a legacy by sharing the assets you’ve accumulated with the people or organizations you want to have them.

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What is a financial plan?

When you make a **financial plan**, you create a written record of your goals and the ways you plan to turn those dreams into realities. The way to start is by writing down all the things you want to achieve financially, arranging them in their order of importance.

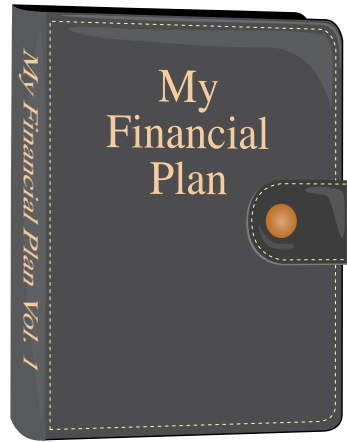
You don't have to choose just one or two: You can include as many as you'd like. Then you identify those that have the greatest importance or the shortest time frame and emphasize achieving them.

Getting what you want

A financial plan is more than a wish list. After you've taken the time to express what you want from your financial life, you'll need to create a strategy to help you achieve those goals.

One of the challenges is likely to be that various ambitions compete for your attention:

- Should you be making the down payment on a home or putting extra money into your retirement account?



- Will taking a vacation mean you have to put plans for going back to school on hold?
- Does it make sense to use the money you just inherited to start your own business?

Working out the ways you can accomplish many goals at the same time may not be easy, but the sense of control and power that making thoughtful decisions can give you will make it worth the effort.

TIP

Setting financial goals doesn't mean you're committing yourself for life. Your list of goals is likely to change many times in your life, as you accomplish some, add others and drop the ones that have lost their urgency.

Identifying your goals

Some people know exactly what their financial goals are. And maybe you do, too. Or maybe you're spending all your energy managing your current financial situation. If that's the case, it may take a special effort to concentrate on what you think is important for the future. But you'll find it's worth the time to consider the next 5, 20 and 40 years of your life to anticipate where you'd like to be when that time arrives.

There are some goals that most people share: staying out of debt, owning a home, and having a secure retirement. Others may be more

specific to who you are, such as paying for your children's college tuition or starting your own small business.

There are no right answers about what your goals should be—with the possible exception that most people have to be concerned about affording a financially secure retirement. That's why each person's plan is unique.

GOALS TIMELINE ROAD

Mid-Term Goals



- Paying college tuition for your children
- Buying a vacation home
- Taking a special trip

Short-Term Goals



- Paying for graduate school for yourself
- Buying a new car
- Saving a down payment for a house

Some questions to ask

As part of the planning process, you'll want to ask yourself some important questions:

- Do you have enough cash saved in an emergency fund in case you lose your job or miss work because of an accident or illness?
- Do you want to go back to school? Is more education a key to a promotion at work?
- Will you need to support your parents after they retire? Are there other people who'll need your financial help?
- Do you hope to buy a home or upgrade to a larger one?
- Do you have children or plan to? Do you want them to go to college?
- At what age do you want to retire?

Long-Term Goals



- Supporting yourself through retirement



- Contributing to your grandchildren's tuition costs

These questions are only starting points—you'll need to consider your unique needs and personal situation to determine the questions you need to ask—and answer. One of the things that may complicate your planning is that you may be starting a family, buying a home or changing careers at a different time in your life than your friends or family did. For example, if your youngest child will graduate from high school in the year you could take early retirement, your situation is different from someone who never had children or who had them very young.

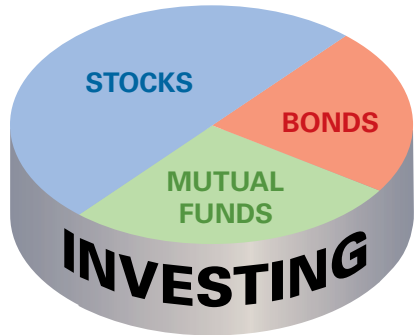
Saving for your goals

Once you've established what your financial goals and their time frames are, you need to decide how you can accumulate the money to realize them. Short of working around the clock, there are two possible ways to increase your wealth: saving and investing. You'll probably want to do some of both.



Saving, which means setting aside money for the future, may be the hardest part of financial planning, since you'll have less to spend on your current needs than you do now. But making regular additions to a savings account is the surest way to move forward toward your goals.

Ideally, you'll be able to save 10% or more of your pretax income. On an income of \$50,000, that's \$5,000 per year or \$417 each month. But if that seems out of your range, it's a good idea to commit as much as you can, beginning as soon as you can.



Investing, which means putting money into assets like stocks, bonds and mutual funds, can help you earn more on what you've already saved than simply leaving it in a savings account. That's because the return on most investments averages more over time than the return on savings accounts. The catch is that making any kind of investment means taking a risk that you could lose some of your principal, especially in the short term. But not investing carries risks too because money

TIP

One way you might be able to save more is by paying off your credit card debt and contributing an amount equal to your average monthly finance charge to your savings account instead of owing it to a creditor.

that's not earning more than the rate of inflation loses its buying power and can leave you short of your goals.

Investing and saving

Rather than making saving and investing decisions in a vacuum, with a financial plan you choose specific types of accounts and products within those accounts

401(k)

to meet specific goals. The most obvious is probably taking advantage of tax-deferred and tax-free retirement plans where you can invest for long-term growth and income. Your employer may offer a 401(k) or similar plan at work, and if you earn income or are married to someone who does, you can take advantage of an individual retirement account or individual retirement annuity. The abbreviation IRA is used to describe both.

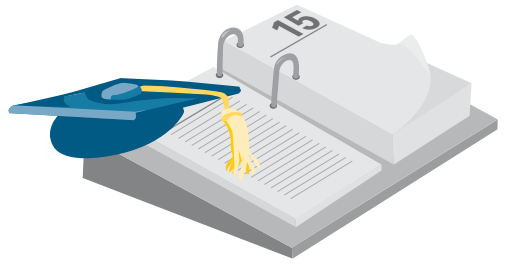
IRA

Creating a financial strategy

Once you've identified your goals and committed yourself to saving and investing, you're ready to put

together a strategy, or a series of strategies, to meet them. Suppose, for example, you have a child you expect will go to college or technical school.

1 The first step is pinpointing the amount of time before your child enrolls. Unlike some other goals, education tends to have a fixed time frame, as a majority of students attend right after high school. The time you have will help you determine whether you can afford to take some investment risk or if your primary concern should be preserving the capital.



2 The next step is calculating how much money you'll need. If you know what tuition costs today at the type of school your child is likely to attend, you can estimate how much it will cost by the time your child enrolls. Calculating that amount will help you determine how much you need to save on a monthly basis to help cover the costs.



3 Now, you'll be ready to decide where to put your money. When you're investing for education, as when you're investing for retirement, you can take advantage of some specific tax-saving accounts that are designed to make it easier to accumulate what you need. You may want to begin by investigating Coverdell education savings accounts (ESAs), the two types of 529 plans—savings plans and prepayment plans—and US savings bonds.



Of course, not all goals have the specific time frames or same potential costs as higher education does, but the process is always the same:

- Identify when you'll need the money
- Project how much you'll need
- Understand what decisions you'll need to make to have the money when you need it



Write your strategy down

It's important that you write down your calculations and keep a log of what you accomplish. You'll want to update your file every year, both to track whether your goals themselves are changing, and also to adjust the costs, time frames and practicality of each goal as you draw nearer to achieving them. Remember that in many cases, you have some flexibility on time. You can postpone buying a home for a year or two if you have to use some of your down payment money for an unexpected cost. And you can probably wait to retire—or take a new job—if you're worried about outliving your savings.

Putting your plan into action

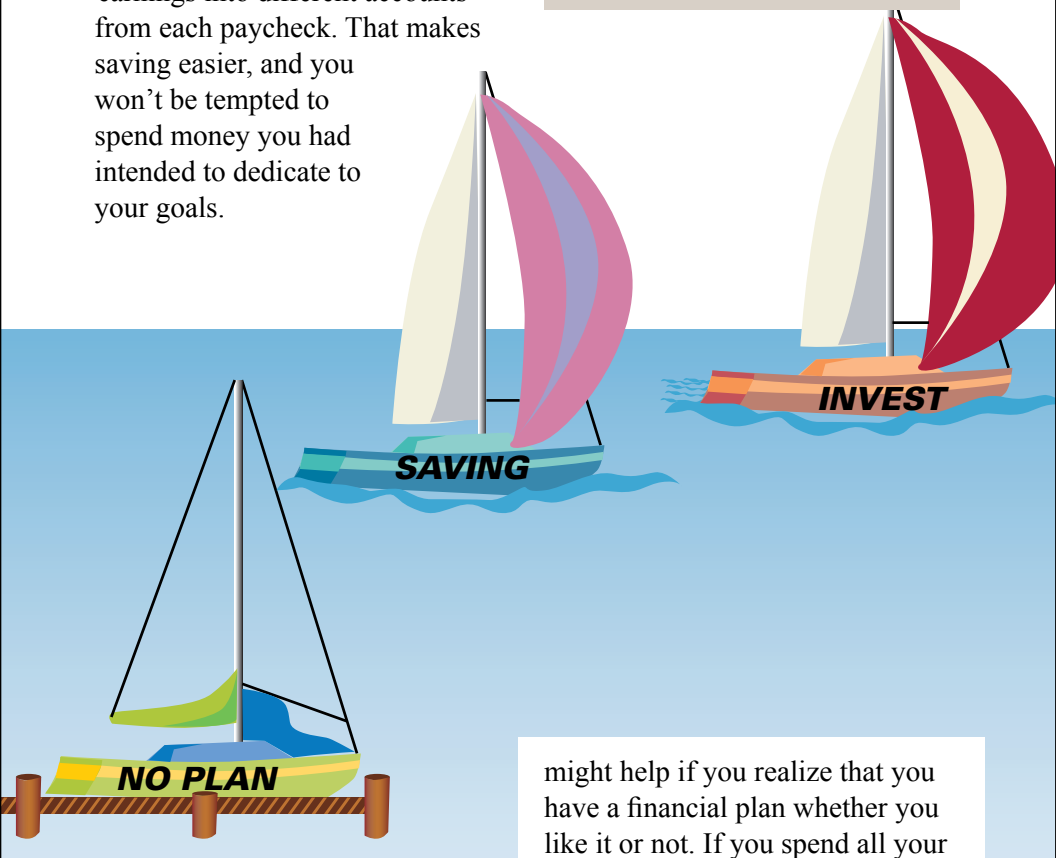
While coming up with your financial plan may seem difficult, the harder part for some people is actually putting that plan into action. You'll probably have to make changes in the way you live now, whether that means saving more, opening new investment accounts, or both.

You might consider creating a separate savings or investment account for each major goal. You'll

also need an electronic or paper file where you keep all account statements as well as your own paperwork and plans. It's also a good idea to find out if your employer or bank can automatically transfer a predetermined dollar amount or percentage of your earnings into different accounts from each paycheck. That makes saving easier, and you won't be tempted to spend money you had intended to dedicate to your goals.

There's no guarantee

Making careful plans and doing your research doesn't guarantee that you'll reach your goals, but it puts you in a much better position to do so.



Not planning is a bad plan

If you're feeling reluctant about putting your plan into action, it

might help if you realize that you have a financial plan whether you like it or not. If you spend all your money—or stuff it under your mattress—you're making financial decisions by default. But you're almost certain not to reach your financial goals that way.

Estate planning

Planning how your assets will be distributed after you die is also an important part of financial planning. You work hard for your money and possessions, and you want to make sure your remaining assets are distributed according to your wishes.

Wills

Unless you specify in a will, which is a formal legal document, who should receive the assets that are part of your **probate estate**, you can't be sure that your wishes will be followed. The important information you should state in your will includes:

- Your **beneficiaries**, or the people and institutions that you'd like to receive some portion of your assets
- Your **executor**, or the person in charge of carrying out your wishes
- A **guardian** for any minor children or children who are unable to be responsible for themselves



Trusts

Another way to leave money to your heirs is by creating a **trust**, or setting aside money that's controlled by a **trustee** who invests money in the trust and delivers it to the beneficiaries according to your directions.

You can establish and fund a trust while you're still alive, or instruct that one be created in your will.

There are two main types of trusts. **Revocable** trusts can be changed any time, but any assets in them will be included as part of your estate when you die. **Irrevocable** trusts can't be changed,

which means that once you create one it's permanent. The advantage is that assets in the irrevocable trust won't be included as part of your estate.

Beneficiaries and joint owners

There are other ways to plan for sharing your assets. You name beneficiaries for your retirement plans, insurance policies and annuity contracts. At your death, the beneficiaries inherit directly, without having to be named in your will.

If you own property with someone else, under an arrangement called **joint tenants with rights of survivorship (JTROS)**, your joint tenant inherits your share at your

Writing your own will

You might be able to write your will yourself using commercial software, but the requirements for a legally valid will vary from state to state. So it's a good idea to at least consult with a lawyer who can create a will for you or review one you've created yourself. And the larger your estate, or the more complicated your bequests, the more important legal advice becomes.

death. You can own real estate jointly, but also investments, bank accounts and other assets.

MULTIPLE BENEFICIARIES



Emergency planning

Another part of financial planning is anticipating the things that might go wrong and being prepared for them.

You'll want to build an **emergency fund** with enough money in easily accessible accounts to cover three to six months of living expenses if your income stream is interrupted. Having that money available can help prevent going deeply into debt if you're ill, disabled or out of work. In fact, having this fund in place may take precedence over working to meet your other goals.



Power of attorney

As unpleasant as the thought may be, you have to anticipate the possibility of a serious illness or accident that would leave you unable to manage your own financial affairs. You may want to give a family member or close friend a **power of attorney** to manage your money and make other decisions if you can't. You'll also want to get legal advice about



the advantages and potential drawbacks of this decision.

Healthcare

If you have strong feelings about the medical treatment you'd like if you were terminally ill or unable to communicate due to physical incapacity, you may want to get information about signing a **living will** that spells out your wishes and a **healthcare proxy** that authorizes someone to act on your behalf should such a situation arise. These documents, like wills, revocable trusts and powers of attorney can always be amended or revoked.



Planning with a professional

While it's possible to do financial planning on your own, many people feel more confident about making decisions when they have professional help. You can work with a professional during every step of the process, or you might choose to identify your goals on your own, but turn to someone for help choosing investments and organizing your legal paperwork.

You might find that working with a trained professional can also motivate you to make well-informed decisions and stick with a new spending plan—especially if you're paying for the input. There are many financial professionals who are qualified, and in some cases licensed, to offer help, including:



- A representative from your bank or financial institution
- An accountant, who may have a Certified Public Accountant (CPA) or Personal Financial Specialist (PFS) credential
- A financial planner, who may have a Certified Financial Planner (CFP) or other credential
- An insurance agent who has a state license and who may have a Chartered Financial Consultant (CFC) credential
- A stock broker who is licensed as a registered representative (RR) by NASD
- A registered investment adviser (RIA) who is listed with the Securities and Exchange Commission (SEC)

While credentials aren't essential in every case, they can indicate that the person has had specific training. It's also important to find someone you're comfortable working with, so don't hesitate to shop around and interview several potential advisers. You can also ask friends or relatives to recommend someone they trust.

Making a list

As part of your financial planning, you may want to draw up a list of all your investment and savings accounts, your retirement plans, insurance policies, the location of your safe deposit box and anything else your executor might need to carry out your wishes. You'll also probably want to include a list of your professional consultants, including your lawyer and tax adviser.



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