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Your Personal Business Plan

The Master Road Map

Setting Goals

You've probably heard it a hundred times or more. Depending on the grade you teach, you might even have told your students how important it is to set goals for themselves—being on time to class, making the team, achieving high school graduation, earning a university diploma, making career choices, or even landing a first job. We all talk about, and generally appreciate, the value of setting goals for our businesses and our careers, maybe even saving for the down payment on our next home. But how about financial goals as a pattern for your personal life and career? Considering the average salary of a teacher today, even though it has crept up in recent years, you need to make some serious choices if you want to live a full life and then enjoy a comfortable retirement. Choices made in our heads that don't get out of our heads frequently get lost in our heads, victims of the next thing on our endless to-do lists.

Goals work when we make them clear and visible and when we work them with discipline. In fact, there is an acronym I like that conveys the characteristics of goals that work for us. Developed for business owners and CEOs, it's just as relevant for you and your family. The acronym is *SMART* and it looks like this:

S = Specific targets—for example, an amount of money in the bank, an investment portfolio of $*X*, twice as much as I had on *Y* date, and so forth. Choosing a goal that simply says you want to "make more money" doesn't count.

M = Measurable—something you can actually track so you can keep a record of your progress. Money in the bank works; annual income earned works; "getting better" at your job doesn't work.

A = Achievable—a goal that is reasonably within reach, albeit a stretch, so your mind doesn't tell itself the goal is nonsense. If that happens, the mind shuts down, and perception becomes reality.

R = Relevant—relates to where you want to go financially. If your end objective is to have a retirement fund in place, setting a goal to take a European vacation each year might not contribute, while a goal to take up skiing might be fun but irrelevant to your financial goals. This is not to say you can't have those things, but they are incidental to meeting your goals, and that may say something about their priority in the grand scheme of things.

T = Time sensitive—Here's the date that goal will be met; the month or the day or the year doesn't matter as long as it's exact and it meets the other criteria.

While goals go by a lot of names—objectives, targets, goals, priorities, commitments—they are in their simplest form either things we hope to accomplish soon or those we hope to accomplish later on. So we'll try not to get hung up on terminology here. If you really want it, it's a goal.

Short Term Versus Long Term

I think of short term as being anything to be accomplished in the next 12 months, and a long-term goal is anything that I expect will take longer than a year. That helps us to organize our thinking.

Next concept: Short-term goals should be steps along the way to achieving long-term goals. For example, a short-term goal might be putting $500 a month into a savings account designed to become that first-home down payment. If the needed down payment is $20,000, then the long-term goal might be to buy that home in 3½ years, since $500 a month will become $20,000 in 3 years and 4 months.

As a general rule, I suggest that your short-term goals should directly support your long-term goals, as in my example, so that your day-to-day commitment is to the short-term goals. If you do that, the long-term goals will pretty much take care of themselves.

Keep this in mind: *You can't achieve a long-term goal;* you can only take small steps today in the direction of a long-term goal. Achieve all the small steps, and the long-term goal is handled. Five hundred dollars a month for 40 months is the down payment. Goal achievement is about the $500 for this month.

So how do we go about developing the ultimate financial goal-setting tool, a budget? Very early in my working life, before there was a computer or two in virtually every home, my wife and I developed a budget to help us save money for the down payment on our first home. We did it on paper, columnar paper on which I handwrote all the entries for the budget *and* all the amounts we actually spent money on. Each expenditure was counted—check by check—to produce the reports we used to see how we were doing on our plan. There was no bookkeeping software and no electronic spreadsheet to help, only a sharp pencil and a very big eraser. We were really dedicated in those days. While your budget doesn't have to be that labor intensive today, a budget still involves some work. By the way, we saved the money, and we got the house. Technology would have just made it easier.

How to Do It

I'm going to assume you buy the premise that a budget is the best tool for planning and achieving a financial goal, or you would have stopped reading by now. So the next big question is, how? Let's lay out a process for developing your financial plan.

1. Decide what your goal is and when you want to be there. Don't think about how you're going to get there for now, just put the goal down on paper so you can see it and feel comfortable that it's SMARTly stated. *Example:* You want to be living in your own home in 5 years, and the home will be a three-bedroom, two-bath home within 10 miles of your work and 2 miles of an elementary school.

2. Validate the data you need to clarify your goal from a financial perspective. Contact a real estate agent and ask him or her what you should expect to pay for such a home today. Never mind that the market will be different in 5 years. It will always be different, and today is all you have to work with, so use it. Your broker-to-be tells you the typical price for that type of home runs between $200,000 and $350,000, depending on the neighborhood, the age of the house, and whatever. You decide to shoot for $300,000 as the price you'll be prepared to pay.

3. Your broker-to-be also tells you to plan for a 20% down payment and closing costs of $3,000. That's $63,000 you'll need to have in the bank. Over 48 months, you'll need to save on average $1,312 a month. Yikes! That's never going to happen, you decide. You need to adjust the goal. This is a normal element of planning—the goal has to appear reasonably attainable for everyone involved to believe in it. Otherwise, you will not get there. "Stuff" will get in the way, other things will take a higher priority in the moment, and so on. We all find ways to sabotage goals we don't really believe in.

4. So you revise the plan. The time line is now 6 years, and you'll start out in the $275,000 range. Now the front-end money is only $58,000 over 72 months, and that works out to $806 a month. You decide you can do that. Your first goal has been established and reduced to a short-term goal that will lead to the long-term goal. Now you can get to work on your next goal.

Matching the Goals and the Money

Just as we did in the example, you will define each key goal you have, with details and a time line and an estimated amount. It doesn't matter if they're estimates that are likely to change. You work with what you have, and you adjust your course along the way. The key is to have a course and to keep on it until there is reason to change. Your family financial plan should outline each key goal that is meaningful for you and put them all down on paper. Your own mind—your logic, your feelings, your emotions—will tell you if the goal, the amount, and the time line are reasonable and attainable, really relevant to the life you want to create for yourself, and worth working for.

A key element of your plan, as you can see from the example, is that you have to put a dollar amount on the goal so you know what you're working toward in exact terms. How much money do you need to save this month? How much money do you need to invest this year? Is it worth shortening or even giving up the vacation trip you planned for this summer in order to meet this year's target in your plan? You may decide that it isn't, but at least you'll be making that decision consciously instead of accidentally. And that is a keystone of successful planning. It's not about drafting a plan that will never change. It's about drafting a plan that will change when we choose to change it and for reasons that we consider appropriate in the circumstances.

OK, now that your financial goals have been defined and you have a plan to get there (sort of), how do you make this into a month-to-month

management tool to actually reach the goal? How do you build a budget? Here's how to set up a budget and how to make it work for you.

Creating Your Family Budget

The next step is converting your list of goals into a budget. The budget is the working tool that you'll use to track your progress each month, and it is built around the simple idea that you define what you earn, and then you decide what you will spend that income on, line by line, month by month, including the amounts you will save or invest to reach the financial goals you've set for yourself. So let's make a list of all the income and expense items that will form the basis for our budget.

A fairly obvious assumption is that you can only spend what you earn. That really means what you bring home after income taxes and state employment-related taxes, because you don't have much leeway with taxes. So *income* is the first thing on our list. Depending on the practice in your school district, you will get one or two paychecks a month, maybe three a few times a year. That's the first item in your budget, just like the income statement of a big company. If you do some tutoring or have some savings income today, list those as well.

KEY POINT

If you work in a state where you don't get a paycheck over the summer months and you don't get work elsewhere, your challenge may be to save enough in the other nine months to make up for the dry summer when it may be impossible to save.

Next are *uncontrollable expenses,* the things you must spend money for and for which the amount is more or less fixed, like the following:

- The apartment rent or mortgage payment
- Life insurance
- The electric and gas bills and any other mostly uncontrollable utilities

Next we'll list all the things that your financial plan says you want to have money for—your goals. List them individually because we'll treat them individually in our budget. We put these ahead of the remaining expenses that you have every month for a reason. A critical concept: *You pay yourself first, not last.* If the goal is important, and if the timetable is important, then it must be considered something

akin to an uncontrollable expense. You do it first before you go shopping or to the movies or on vacation. And for those who would argue that shopping for food is not an option, I will ask you if you've ever had the experience that you could spend more or less for food depending on how much money you had to spend. If the answer is yes, then you know what I mean.

So now enter the items that are not so set in stone, about which you have some discretion or a lot of discretion. Yes, that includes food. We'll call these *controllable expenses* because they can vary and often do based on how much income we have to spend at the time. Groceries, clothes for the family, health insurance premiums (because you can adjust your benefits as your needs change), cable/satellite TV, household repairs, entertainment, and so on might all fall into this category.

All right, you have your list. Let's put it into a format that we can work with. If you have some familiarity with Microsoft Excel or any similar spreadsheet program, that's the best tool to use. Better yet, use the online Excel model created for you at www.corwin.com/financial mastery. Whichever method you decide to use, it's time to type your list into the spreadsheet. The list goes down the left column of your spreadsheet because you'll have time periods across the top in a matrix look, which spreadsheets are ideally suited for. See Table 2.1 for an example of what your spreadsheet might look like when it's completely laid out.

Even though you're making long-term plans with your finances, the budget example shows only a few months of activity. I recommend you set it up only for 1 year at a time, 12 months across the top, for two reasons:

1. It's difficult to work with a spreadsheet with too many columns across (especially your first one).
2. Your budget will be different next year just because life does that. You'll likely want to allocate your income somewhat differently, and it's simpler to set up a new spreadsheet than to try to adjust the old one to the new spending pattern.

"This is hard." One thing is true for obvious reasons: Something we've never done before is usually hard to do the first time. When you first consider a budget as a money management tool, especially if numbers aren't particularly your strong area, it may seem really hard, incredibly detailed, maybe even a little anal. No one you know does this. Why should you? You don't know what you spent on groceries last month, so how can you budget for it this month? You've never written details into your checkbook when you buy something; you just write the check. Now you need to remember what it was for so you can decide

Table 2.1 The Family Budget

	January	February	March	April	May	June
Income						
Paycheck after taxes	6,650	6,650	6,650	6,650	8,275	5,650
Private tutoring fees	300	300	300	300	300	—
Interest from savings account	25	26	27	28	29	30
Subtotal income	6,975	6,976	6,977	6,978	8,604	5,680
Uncontrollable expenses						
Rent	1,800	1,800	1,800	1,800	1,800	1,800
Electricity and gas	200	200	175	175	175	175
Child care	1,000	1,000	1,000	1,000	1,000	1,000
Life insurance premiums	400	400	400	400	400	400
Subtotal uncontrollable	3,400	3,400	3,375	3,375	3,375	3,375
Goals						
House down payment fund	900	900	900	900	900	900
401(k) contribution	350	350	350	350	350	350
Investment fund	500	500	500	500	500	500
Subtotal goals	1,750	1,750	1,750	1,750	1,750	1,750
Controllable expenses						
Groceries	350	350	350	350	350	350
Clothes	—	—	—	—	250	—
Medical expenses	200	200	200	200	200	200
Health insurance premiums	550	550	550	550	550	550
TV subscription	75	75	75	75	75	75
Dinners out and entertainment	200	200	200	200	200	200
Gifts for birthdays and holidays	—	—	200	—	—	200
Health club membership	75	75	75	75	75	75
School-related expenses	50	50	50	50	50	—
Vacation trip	—	—	—	—	—	500
Subtotal controllable	1,500	1,500	1,700	1,500	1,750	2,150
Cash left over, or short	**325**	**326**	**152**	**353**	**1,729**	**(1,595)**
Cumulative total during the year	**325**	**651**	**803**	**1,156**	**2,885**	**1,290**

if you want it in your budget or not. You will be tempted to toss the whole thing out the window. This is crazy! There has to be a better way!

No, actually, there's not. There are different ways to manage your money, but the ones that work best are all variations of a budget, incorporating the discipline to decide ahead of time what to spend money on and what not to and when. The good news is that it's not the end of the known world if you miss the budgeted target and overspend a few items in a month, because a budget enables you to make up for it next month or adjust the spending target for something else in your budget or adjust the timing of the goal a bit if necessary. It's a plan, not a monument. It doesn't have to be cast in concrete. But if you miss the target consistently, you can pretty much assume the ultimate goal is moving out on your time line, maybe beyond reach.

Once you have entered your list into the spreadsheet, and the monthly columns have been labeled as in the example, start entering numbers onto each line in the column that represents the month in which money will be spent. Rent money will go into every monthly column, while back-to-school clothes will likely be spent only in late summer. How much to enter? Start with what you spent last time, referring to your checkbook or past credit card statements. Later you'll have the opportunity to adjust your starting numbers to current reality.

Next, add up each column's income and expenditures and record the totals on the respective subtotal lines so you can see how much each section makes up of the whole.

Finally, add the income subtotals and subtract the expense and investment subtotals to tell you how the whole year should work out. Adding the monthly *cash left over* for all preceding months together on the last line as you proceed through the year will give you the cumulative totals as well, and your model is done. Sit back and look at what you've done.

Your objective is to try to make each month come out at zero or better, but they won't always—the vacation month, remember, or the holidays—so the next best thing is to make sure the cumulative totals come out zero or better or have some extra cash at the beginning of the year that will tide you over any negative months so you finish the year where you want to be.

OK, now a small realization will come to you the first time you do this. It won't come out right at the bottom. You'll have more money left over in some months than you think is possible, or you have spent more than you make, not a good plan for financial security. So you'll need to go back and adjust the numbers, plan to spend less here, more there, and less way over there until you get the right totals at the bottom. This doesn't mean you drop in numbers that you know are

silly and unattainable. You make changes that you can manage, usually in the section called *controllable expenses* (note the sheer logic of that label). When you're done adjusting your plan details, you will have a picture of your spending plan for the next 12 months.

This is now your budget, and the idea is to have something left over after all the expenses and your goals are covered to give you the opportunity to be truly frivolous without feeling guilty. Of course if the bottom comes out to zero, that's still a big win. You've provided for your long-term goals, paid the bills, and gotten another year closer to financial security. Hip, hip, hooray!

Watching It Work: Sticking to It

Let's take a look at a hypothetical budget for Ms. Sanchez, a career teacher with a family, who was an early buyer of this book. At the end of the first month living with her new budget, she'll have her first opportunity to see how well she's controlling her money. By a strange coincidence, Ms. Sanchez's budget is identical with Table 2.1. While she would plan her budget for the entire 12 months of the year, we've shown only 6 months here just to get it to fit on the page.

As you can see, Ms. Sanchez planned her expenses as she thinks she'll spend the money. She budgeted vacation money in the summer and gifts when the occasions come up on her calendar. This is a better approach than simply dividing each annual expense by 12 to arrive at an average monthly expense because she can really measure each month as it is expected to happen.

It's time to compare what she earned and spent with what she planned. She can do this in her head if she's better with numbers than I am, or she can do it on paper so she can study the result and decide what to do about it, if anything. Table 2.2 is the format I suggest for that analysis, and if you've visited the website that accompanies the book, www.corwin.com/financialmastery, you'll see that the Family Budget model has a year's worth of pages to enable you to create this comparison with relative ease. It follows the format of Ms. Sanchez's budget, and it allows her to see the impact of each line item on the bottom-line result.

The first column of numbers, labeled *Actual,* is what actually happened during the month—our teacher's actual take-home pay before insurance deductions, her actual expenses, and actual contributions to her goals accounts. The second column of numbers is the budget for that month, just as she developed it earlier. The third column is the difference between the *Actual* and *Budget,* representing the amount by which she overspent or underspent that month.

And that third column is the most important one. It's where she should do the studying. In my example, income and controllable

Table 2.2 Budget Variance Analysis

January 2010	Actual	Budget	Difference
Income			
Paycheck after taxes	6,650	6,650	—
Private tutoring fees	250	300	50
Interest from savings account	24	25	1
Subtotal income	6,924	6,975	51
Uncontrollable expenses			
Rent	1,800	1,800	—
Electricity and gas	185	200	15
Child care	1,000	1,000	—
Life insurance premiums	396	400	4
Subtotal uncontrollable	3,381	3,400	19
Goals			
House down payment fund	900	900	—
401(k) contribution	350	350	—
Investment fund	500	500	—
Subtotal goals	1,750	1,750	—
Controllable expenses			
Groceries	396	350	(46)
Clothes	200	—	(200)
Medical expenses	—	200	200
Health insurance premiums	548	550	2
TV subscription	75	75	—
Dinners out and entertainment	225	200	(25)
Gifts for birthdays and holidays	—	—	—
Health club membership	75	75	—
School-related expenses	55	50	(5)
Vacation trip	—	—	—
Subtotal controllable	1,574	1,500	(74)
Cash left over, or short	**219**	**325**	**106**
Cumulative total during the year	**219**	**325**	**106**

expenses came in nominally different from plan—a good result. Controllable expenses, by contrast, were saved only because the kids had no medical bills that month, thankfully. She might want to keep a closer eye on things like clothes shopping and entertainment until she gets some of that frivolous money in the bank.

If Ms. Sanchez goes through this little study exercise each month and modifies her spending patterns based on what she learns, it will

get easier and easier to keep within budget *and* to create the next year's budget. And her goals will be in the bag or the bank.

One final thought about process here: Once each year, you and Ms. Sanchez should revisit your long-range plan to see that it still makes sense to you. That is the opportunity to make any changes indicated in your plan and to prepare your next monthly budget based on that review. Such changes could include a salary increase, a rent increase, a shift from one health plan to another, and so on. So when you change your smoke alarm batteries, review your budget too.

Adjusting for Change Because There Always Is Some

Now that you have a plan and a budget, all you have to do is follow it to the goal, right? That's true in theory but easier said than done for a whole host of reasons, among them these:

- Investment risk, evidenced by the stock market and real estate volatility of the past few years, may cause you to adjust the timing or the amounts that will ultimately be available.
- Your spending and saving discipline: How many times can you cut corners on what you spend or what you save before you begin impacting the end goal?
- Unexpected emergencies truly require a readjustment of thinking because they demand an instant—often financial—response.
- You will make intentional changes in your plan because the situation has changed—the house down payment is in the bank; you need to adjust the plan for a (larger) monthly mortgage payment now.

This is a bit like *The Little Engine That Could.* (Do you still use that story?) Each time you look at your progress and wonder if you'll ever get there, or you've had an unexpected expense or change in your income, you have an opportunity to either throw the plan out or sit down and look at it with today's eyes. Ask yourself these three questions:

1. Have your goals changed?
2. Do you still want them as badly as when you first wrote them down?
3. If you were making a brand-new plan *today,* what would you do differently to get there?

Once you have answered those questions, you have just revised your plan to take into account all that has happened up until now. Write it down and begin following the new, revised plan, because without a plan, your chances of reaching your goals are truly up to chance. If you've been to Las Vegas, you know how that works out.

It's time to decide. This is where you separate yourself from all the folks who will years from now be lamenting how the system kept them from getting ahead, how they tried but just couldn't make the compromises and, yes, sacrifices that seemed to be needed to save enough for a good retirement. When you meet one of these people in the supermarket or at a social gathering, what will your story be? Will you be comfortably retired, with your children educated and on their way, or will you be sharing sad stories with the others who didn't quite make it. You get to write that story today. And tomorrow. And the next day. In fact, you get to decide one day at a time how your life will turn out, starting today.

Which path will you choose?

SUMMARY OF KEY IDEAS FOR CHAPTER 2

1. The SMART goals acronym helps us to define meaningful goals that we can actually achieve.
2. A household budget helps us to make carefully thought-out decisions about how we'll spend our income so we can avoid the more emotionally driven spending decisions we often make spontaneously. It also gives us a tool for keeping track of how we're doing on sticking with our budget.
3. When developing your budget, it's important to separately group uncontrollable expenses, goals, and controllable expenses, because you will assign different priorities to each group, depending on the income you have available. Uncontrollable expenses must be paid, goals must get priority if they're important to you, and controllable expenses come last.
4. A budget variance report compares what your budget said you'd earn and spend with what actually happened so you can see and find a way to manage the differences. A few items overspent are easily corrected; a pattern of overspending says you're not living within your budget, and your goals are likely to suffer as a result.
5. As time goes by, you are likely to find the need to change your budget to keep in line with reality. Adjust for needed changes and move on—that's a normal part of life. Deciding the system just won't let you succeed is self-defeating.