

## Components of a Comprehensive Financial Plan

### Components and attributes of the plan:

- Plans depend on the style of the writer.
  - Some people prefer long, detailed plans with explanations for each recommendation while others prefer to get right to the point
- Whatever the approach, a plan must be descriptive enough to refer back to and be communicated to others.
  - Link recommendations to goals
  - Provide the advantages and disadvantages of advice
  - Stipulate the type of future events that could change these recommendations
  - Present a road map for implementation.
- An ideal financial plan should have:
  - An abstract at the beginning
  - Detail in each planning part
  - A summary (perhaps more oriented toward implementation) at the end
- Financial plans should also have a mix of:
  - Written information
  - Numbers through tables
  - Figures that illustrate and enliven the text.

### Keys to writing the financial plan:

- Include a statement indicating whether the goals are doable and the current household is financially consistent with those goals
- Separately disclose important assumptions in the plan such as salary growth, financial investment returns, cost increases, retirement age, and longevity.
- Weigh alternative solutions when appropriate
- Perform a review process that confirms the financial figures and recommendations make sense and are attainable, given the personalities of the individuals, before completing the process.

## Example components of the financial plan:

Parts of the Plan	Key Contribution
Description and scope of plan	Indicates what a plan does overall and what this specific one is to accomplish.
Statement of goals	Sets planning focus. Helps establish balance between spending for today and investing for the future.
Summary of plan recommendations	Summarizes the methods for achieving the household goals.
Balance sheet	Presents current resources available.
Cash flow statement	Examines past and often projected future household sources and uses of funds, typically on a yearly basis.
Cash flow planning	Provides reality check through its role as a funder for all activities.
Debt planning	Either as part of cash flow planning or as a separate section, it can generate extra cash flow for current use.
Educational planning	Maps out funding method for improvement in household human assets.
Tax planning	Indicates how to anticipate and reduce this major operating expense.
Retirement planning	Determines amount and funding schedule for period when work ceases.
Investments	
Nonfinancial	Correct capital expenditure process yields operating efficiencies for the household.
Financial	Determines appropriate financial asset allocation. Generates the return on funds saved for future.
Risk management	Establishes appropriate level of household risk. Focuses on reducing exposures through use of insurance and other tools that adjust and make more efficient household operations.
Estate planning	Determines who gets what in the most efficient way upon our death.
Special circumstances planning	Special requirements of all types for household members.
Employee benefits	Points to approach employees should take in deciding on employer-provided benefits (sometimes this section is included in other areas).
Integration	Looks at PFP from an overall point of view, establishing priorities between goals and needs leading to appropriate decision making. The calculation and discussion is sometimes combined with retirement planning.
Summary	Provides specific steps to be taken, often with implementation dates.
Appendixes	Present additional information, both written and numerical.

**Bottom line:**

- To be successful, a financial plan should incorporate, among other things:
  - Specific recommendations made after careful review procedures
  - State important assumptions
  - Weight alternative solutions
  - Periodic review can assure that initial plans remain relevant