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MANAGING IN TOUGH TIMES INITIATIVE

# FAMILY FINANCIAL MANAGEMENT



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## Financial Planning for Life Events: From Young Adult through Retirement Years

As you prepare for a long road trip to an unfamiliar location do you find yourself pulling out a map or your navigation system to find the best route to your destination? Financial planning is very similar to preparing for a long road trip. Regardless of a person's age, family status, or income level a solid financial plan is important in achieving personal and family financial goals. Yet just like a long road trip there may be detours, unexpected events, and stops along the way before reaching the final destination.

The basic concepts of saving, investing, and retirement planning are important parts of any financial plan. However, a one-size-fits-all financial plan does not exist. Individuals and families should develop their own unique financial plan based on their current life situation, including relationship and family status, age, health, and employment status, as well as future goals.



## Financial Goal Setting

The first step in developing a financial plan at any age or life stage is to identify clear financial goals. A financial goal can be viewed as the end point on your financial road map; it lets you know that you are working toward financial success. A SMART financial goal is:

- **Specific**
- **Measurable**
- **Attainable**
- **Relevant**
- **Timed**

A specific goal states exactly what you want to accomplish, such as reducing your credit card debt by a certain amount or saving money towards a down payment. A measurable goal allows you to evaluate progress. An attainable goal is realistic. For example, many individuals may set a goal to win the lottery to help with debt reduction; however, winning the lottery is not attainable for most people. A relevant goal is im-

portant to you or your family. If your goal is relevant you are more likely to work hard to achieve it. Finally,

you should establish a time frame to achieve the goal. If you want to reduce debt by \$1,200 in the next 12 months you know exactly how much you need to put toward debt reduction each month to achieve your goal.

As part of the financial goal-setting process, you should consider setting short-term, mid-term, and long-term financial goals. A short-term goal can be accomplished within one year; a mid-term goal is normally accomplished within one to five years; and a long-term goal may take six to ten years or longer to accomplish. Once you have established your financial goals, it is important to write them on paper and place them in a visible location (such as the refrigerator door) where



you will see them on a regular basis and not forget your goals.

## Financial Life Stages

Individuals in their early twenties often spend differently than individuals in their late fifties. In their early twenties individuals may be concerned about establishing themselves in their career, reducing student loan debt, and possibly purchasing their first home. Whereas, individuals in their late fifties may be more focused on fully funding their retirement accounts and assisting their children with education expenses.



## Launch

Launch is a term often used to refer to young adults who are entering the work force and establishing themselves as a separate household from their parents. Often individuals in the launch stage have recently graduated and are now solely responsible for their own finances, without any financial assistance from others. During this life stage individuals should be focused on limiting debt accumulation. To prevent or reduce debt accumulation individuals should establish a monthly budget, which accounts for all income, expenses, and financial goals. Expenses to consider when establishing a monthly budget may include: rent and utilities, student loan payments, other debt payments, major purchases, emergency savings account, insurance, food, entertainment, clothing, personal items, and financial goals. It is important to make certain there is enough income to cover expenses and financial goals

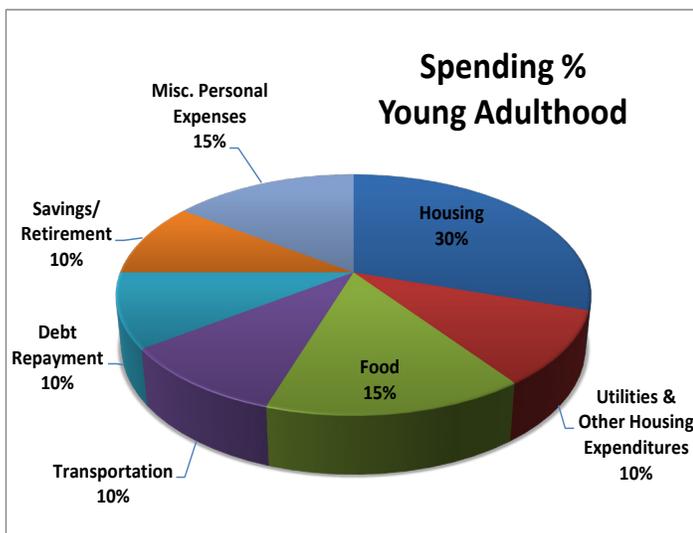
Understanding how and where you spend your money is vital for financial success and limiting debt accumulation. There are several basic steps you can take to stretch your money a little further each month.



1. Get organized – keep all of your bills and important financial papers in one place.
2. Track your spending – write down all of your expenses for a minimum of seven days, but preferably a month.
3. Identify your total monthly take-home income.
4. Develop a plan – create a plan on paper, using a computer, or app for how to spend your money each month.
5. Remember for big expenses, such as car insurance, vacations, or holidays, you may want to set aside a little each month so that you are prepared when these events occur.
6. Evaluate – After two to three months evaluate your spending plan. Are you overspending in any certain category?
7. Revise your plan to more accurately reflect your spending habits.

Keep working at your spending plan until you find a combination that works with the needs of your lifestyle. If you find that your expenses routinely exceed your income, reevaluate your current lifestyle situation. You might consider a part-time job to increase your monthly income or ask a friend to be a roommate to

### Average Expenses of a Single Person Under Age 25



Source: <http://www.bls.gov/cex/#tables>

reduce your housing and utility expenses. Determining the amount or percentage of income to spend on specific budget categories can be difficult, especially when first establishing your financial independence. Your income level, as well as your specific financial goals will influence the percent of your income allocated to specific expense categories. Housing, car insurance, entertainment, and clothing, as well as food, savings, and retirement will often be your largest expenses.

## Partnership

When a couple prepares to merge their lives they generally talk about the exciting aspects of living together: Your comfy recliner or my elaborate, three-piece living room suite? Where will we spend the holidays – your family or mine? Choose the blue bath towels or the green ones? While it is easier for a couple to have these types of conversations, it's much harder to talk about things like "How much money will health, life, car, and home insurance cost?" How will we afford groceries, gas, and a mortgage?"

Because many of today's couples are not getting married or getting married at a later age than in past generations, couples are bringing individual wealth (and debt) into the relationship. Partners are more likely to have separate bank accounts, car payments, and possibly mortgages. Learning to think from a "we" perspective as opposed to a "me" perspective is challenging for most couples. How to balance yours, mine, and ours takes work and commitment from both partners.

Communicating about finances requires honesty, patience, supportiveness, and respect. Couples must learn to balance each other's financial needs and wants within the confines of a practical budget. In general, the smaller the gap that exists between reality and a couple's expectations about their relationship, the more satisfied they are in their shared experience. In the beginning stages of your financial partnership, do not be quick to assign financial responsibility to one person. Rather, pay bills, balance check books, and review credit card statements together until you have es-



established a routine that you both agree upon and trust. Gaining initial hands-on experience through budgeting and bill paying will help you both learn how to better manage your finances as a team.

Couples who are first entering a long-term partnership are especially vulnerable to unexpected financial stress. During the first year or two years, which is referred to as the “honeymoon phase,” couples are typically unrealistic about their financial situations. They haven’t created a budget and are less likely to have a rainy day fund or substantial emergency savings. They are also more likely to be tempted to “have it all” in the beginning of the relationship, hoping to duplicate a lifestyle, for example, that took their parents years to achieve.

The best way to safeguard your partnership from financial stress is to plan for it. Discuss realistic money expectations and potential setbacks. By preparing for the unexpected like job loss, health issues, and saving for the future, you are working to establish a strong foundation for your partnership.

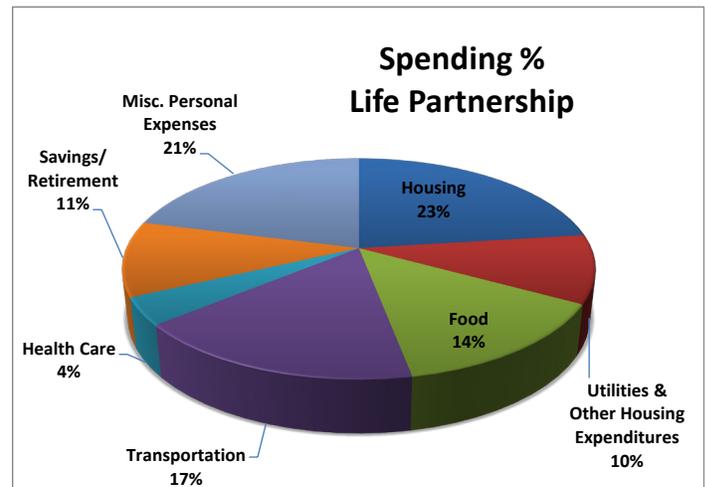
Tips for handling daily spending decisions and making the most out of your dollar:

- 1. Set Goals.** As a couple, discuss financial goals you would like to achieve. Prioritize your goals based on importance, time-frame, and available sources of income.
- 2. Budget.** Work together to create a monthly budget that is within your means and helps achieve your financial goals.
- 3. Save.** Begin saving for an emergency fund that includes three to six months of living expenses.
- 4. Communicate.** Establish a plan with your spouse for handling financial decisions and address questions such as: How much can one person spend without consulting the other?

Typically, life partnership is the stage when wealth accumulation typically begins. Each couple will have unique budgeting needs; however, housing will most likely remain one of the largest expense categories, followed by

health, transportation, savings, and retirement planning.

## Average Expenses of a Couple Age 25 to 34



Source: <http://stats.bls.gov/cex/2008/share/age.pdf>

## Adding Children

Adding a new family member is often a joyous occasion. However, excitement over your new addition may at times be tempered by the feeling of additional responsibility. Becoming a parent attaches a considerable amount of financial obligation. The United States Department of Agriculture estimated a middle-income family with a child born in 2012, would spend \$241,080 (without inflation) on food, shelter, and necessities on the child from birth through high school.



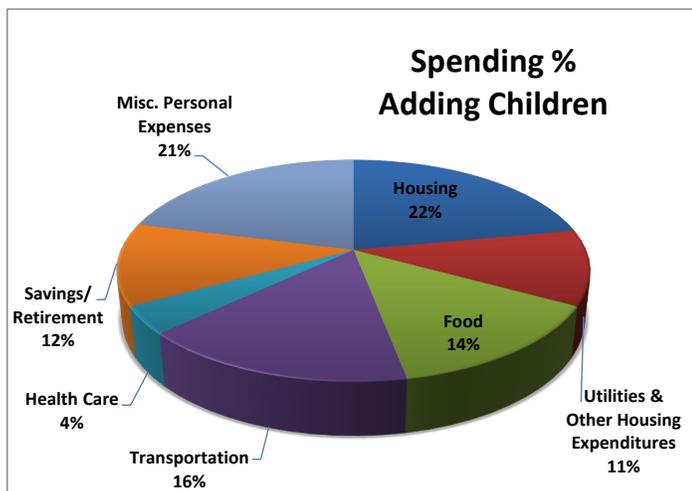
The largest expense categories include shelter, food, child care, and education. Based on Consumer Expenditure Data, a middle-income two-parent family spent an estimated \$12,600 to \$14,700 per child in 2012. Expenditures per child are directly linked to family income and geographic location. Families earning less will spend less and families who earn more will spend more. Furthermore, families living in a northern city can anticipate spending more than families living in the rural south. Expenditures per child have increased



over time. The Expenditures on Children by Families report was first issued in 1960, and at the time it was estimated a middle-income family with a child born in 1960 would spend \$195,690 (adjusted for 2012 dollars). Housing has remained one of the highest costs associated with raising children over time; however, health care and other care costs have increased substantially.

Planning continues to be the cornerstone in preparing your family to financially manage the addition of a new family member. As a couple discusses changes in their short, medium, and long-term goals they may need to revise their budget accordingly. In the short-term, financial considerations will include expenses associated with the pregnancy and birth or adoption, and leave from work, as well as baby-related expenses of diapers, formula, clothes, day care, doctor visits, nursery, etc. Medium-term financial goals should include considerations for daycare expenses, preschool, extra-curricular activities such as music lessons or sports, vacations, and birthdays. Long-term financial considerations would include college funds, graduation, and wedding planning.

### Average Expenses of a Family with at Least One Child Present



Source: <http://www.bls.gov/cex/#tables>

Due to the additional financial obligations associated with children, this is also a time that couples should evaluate their needs for life insurance. Life insurance can help your fam-

ily financially prepare for an unexpected life event. Couples should consider life insurance on both parents, not just the primary wage earner. Consider your responses to the following questions to help assess your need for life insurance:

Does your family depend on your income?

Do you have a home mortgage or other substantial debt that your family would be responsible for in the event of your death?

Do you have enough savings to cover your funeral expenses?

Would you need to pay someone to perform domestic duties in the event of a spouse's death?

Could you meet your financial goals, including college expenses and retirement without additional financial help?

Based on the Consumer Expenditure Survey, percentage of income per budget category (remains fairly similar across life partnerships)

## Retirement Planning

Regardless of age, from 18 to 108, it is important to be thinking about and planning for retirement. For many young people retirement seems an eternity away; however, retirement investments grow over time, so it is important to start planning and saving early. Often retirement savings are postponed to finance current lifestyle choices, such as general living expenses, travel, entertainment, and education. This decision can be costly for the future.



Getting started is often the hardest part. In general, it is wise if your budget will allow, to contribute the maximum amount your employer will match. If your employer does not offer a sponsored retirement plan set up your own retirement account by working with a financial advisor. Additionally, you may want to consider other retirement investments based on your retirement goals, your estimated length of retirement, expenses you anticipate



during retirement, and income you anticipate during retirement.

As with any investment, the performance of your retirement accounts should be reviewed on a regular basis. Both before and during retirement, it is important to preserve or maximize your retirement assets. Inflation, often known as “the silent thief” is the general rise in the price of goods and the cost of living. Over time it can reduce your buying power and erode your retirement savings. Considering a balanced portfolio between savings, stocks, bonds, and mutual funds can help you



maximize your return on investments and protect against inflation. Finally, you should also consider your time horizon, or length of time before retirement. If retirement is many years away, you can invest your retirement savings more aggressively, hoping to achieve a greater return on your investment. However, it is important to realize that with the potential of greater reward or return greater risk also exists. Therefore, as you move closer toward retirement, consider moving your assets to more conservative investments to protect your retirement savings.

As you prepare for retirement, consider paying down debt, including revolving debt such as credit cards and installment loans such as home mortgage. Reducing or eliminating debt during this life stage will allow you more financial freedom during your retirement years.

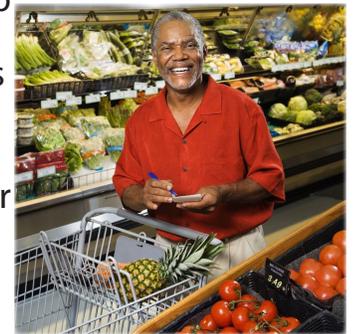
Goal setting will help you determine the amount needed to save for retirement. The typical retiree will keep between 70% and 90% of pre-retirement expenses. However, based on your specific goals, this number may be more or less. To estimate your retirement income needs, make a list of current expenses. Based on your retirement goals, adjust the amount for each expense category, if it is anticipated the expense will increase or decrease during retirement. For example, often expenses associated with work, such as eating lunch out and clothing decrease during retirement.

But if someone plans to travel, this is an expense that may increase. Health care costs are an expense that commonly increases during retirement years. Obviously some expenses will stay about the same, such as home utilities. This can help you develop an accurate estimate of your retirement income needs.

## Retirement Years

During your retirement years, it is important to be watchful of both your assets and expenses. The typical retiree may have income from multiple sources, such as Social Security, personal savings and investments, and employer-sponsored retirement plans such as a pension, 401K, or 403B plan. One of the first steps to maximizing your finances during retirement is to make a list of the amount of your monthly income sources. The amount of monthly income will be fairly consistent every month. Living on a fixed income can be challenging at times, especially when faced with rising prices on items such as groceries, gasoline, health care, and other necessary living expenses. Developing a monthly budget for your retirement expenses can help you feel more prepared to adjust to rising prices and unexpected retirement expenses.

Prior to developing your monthly budget, be certain you have an accurate estimate regarding your current spending habits. If necessary, track your expenses using a spending log for at least seven days. Based on your retirement income and spending log, develop a budget for the next month, covering necessities first. Retirement budgets can often be tight, but if you do not have an emergency fund in place, consider saving for emergencies each month. After you establish your budget, continue to track your spending to make certain you are staying within the allotted amount. Remember, your budget is a work in progress; you will want to review your budget at the end of each month and reallocate your income if necessary.



## Unexpected Life Events

Losing a life partner is a very stressful experience. Proper financial planning can help relieve emotional turmoil during this period of time and allow you to focus on yourself and your family. Often couples avoid planning for the death of a loved one because it is unpleasant to think about. To financially prepare for the possibility of loss, it is important to have a plan in place for replacing the lost income.



If you have young children or a significant amount of debt this is especially important. Carrying adequate life insurance as replacement

income will allow you to continue to meet your financial obligations. To determine an adequate life insurance amount, there are other considerations beyond income replacement, such as funding future education and health insurance costs as well as the possibility of having to pay for services your spouse was previously performing, such as yard work or vehicle maintenance. You and/or your children may also be eligible for Social Security survivor benefits. Contact your local Social Security office for eligibility requirements. In addition to securing your finances, it is also a good idea to familiarize yourself with services or programs available through either employer. Some companies offer support programs or a continuation of benefits, such as health coverage, for a certain period of time.

If you experience the death of a loved one, allow time to grieve before making any major financial decisions. Often a grief-stricken person may feel overwhelmed and make financial decisions that he or she may later regret.

Throughout time, couples should remain involved in the finances for many reasons, this is especially true in the case of an untimely loss of a loved one and dissolution of property partnership. Both partners need to be aware of not only the financial and property assets, but also how the assets are named or titled. The name on the title of an asset can restrict

access. For example, if only your name is on a savings account, the surviving partner may have limited or no access to this cash. If you are facing a divorce or dissolution of partnership, always consult an attorney prior to signing any paperwork. As property is divided, be certain to use fair market value to estimate assets not the amount originally paid for the asset. If you purchased a house together, the value of the home may have significantly increased over several years; therefore, you should both share in the increase of value. Make certain that you are aware of all debts that may be associated with your name. Debts should be divided and your name removed from your partner's portion of the debts. If your name remains on a loan, technically you are responsible for the payments. If your partner is late or skips a payment this can negatively affect your credit history.



You may choose to move on to a new relationship following either loss of a loved one, divorce, or dissolution, but keep in mind that you will have some of the same financial considerations of a young married couple, such as having open conversations regarding finances and developing a financial plan together. As a couple you can decide to keep certain assets separate, while combining others. It is also important to discuss retirement goals and assets. You may choose to review and revise your beneficiaries on life insurance policies and investments. Additionally, you may want to seek the advice of an estate planning attorney to ensure your assets would pass according to your wishes upon your death.

## Summary

Transitions between different stages of life can often be difficult. However, planning ahead financially can help you be better prepared to meet the various obligations associated with the seasons of your life, which will allow you more time to focus on yourself and your family.



# Partnerships

- UK College of Agriculture, Food, and Environment
- UK School of Human Environmental Sciences
- Kentucky State University
- Community and Economic Development in Kentucky (CEDIK)
- UK Family Center
- Operation: Military Kids
- Veteran's Affairs
- University of Tennessee
- University of Florida
- eXtension
- Kentucky Housing Authority
- Federal Deposit Insurance Corporation
- Extension Disaster Education Network
- KY Farm Start



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