

# Starting on the Road to Financial Security: Setting Financial Goals

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Financial security begins with setting financial goals. The process of determining financial goals is described in this NebGuide.

## Getting Started on the Road to Financial Security

Financial security is a dream for most people. To turn that dream into reality, start on the road to financial security by setting financial goals. Taking more control of spending and where money goes can result in surprising accomplishments toward financial independence.

### Define What You Want

Money management is about **using what you have to get what you want — your goals**. No one can have *everything*, but good management of what we do have can help get the things we want most. Carefully defined goals are those we have already started to accomplish.

Choosing a goal that is personally important helps motivate to work to reach it. Don't be afraid to set goals that stretch you a bit. After all, the purpose of setting goals is to help you accomplish more with your money than you have in the past.

Maybe you already know what you want to accomplish. Even so, take time to read the rest of this publication and to think about all parts of your life to ensure nothing important is missed. List financial goals that require money, including savings and debt reduction.

### Involve Family Members

People always are more willing to help if they have been involved in the decisions. Adults, teens and children all can be involved in discussions about what is most important to the family instead of only the adults making that determination. The possibility of achieving goals increases tremendously when everyone is involved.

## Check for Short-Term and Long-Term Goals

Most people have goals that are important to them now and other goals important for the future. Financial experts put goals into three categories for the amount of time it will take to reach them or when money will be available:

- Short-term goals are those expected to be reached within the next six months to one year.
- Intermediate goals are those expected to be reached within the next one to five years.
- Long-term goals are goals desired to be achieved more than five years from now.

Your definition of the timeframes for these categories may be different from what is stated above. That's fine as long as you are consistent. All three categories of goals aren't necessary — even some financial experts use only short- and long-term goals. Don't get hung up on categorizing goals, but do what makes the most sense. Just remember to think of more immediate needs and wants as well as those in the future.

Big-ticket goals that cost more money, such as a comfortable retirement or children's education, may be possible only by working toward them over many years. Do any of your goals fit this category? If so, you may want to set benchmarks along the way, such as having a certain amount saved for retirement in 5 years, in 10 years, and in 20 years.

## Gather Information

Do you need more information before setting your goals? Some examples include:

- Maybe you'd like to buy a new car, but don't know how much it will cost. If so, find at least three sources of price information such as visiting car dealers, looking at advertisements in the newspaper and searching on the Web.
- If your goal is to reduce debt, obtain information from your creditors about how much you owe and the amount of monthly payments. Also needed is a complete list of all debts.
- If saving for your first home, find out how much is needed for a down payment and closing costs.

What information do you need to find before writing down your goals?

### Ask Yourself About Your Debt

- Do I spend more than 20 percent of my take-home pay on debt repayment each month (excluding rent or mortgage)?
- Do I borrow (using credit cards, loans, cash advances and checking account credit lines) to pay monthly bills or living expenses?
- Do I pay only the minimum due on credit card bills, rather than the full balance?
- Have I requested an increase in a credit limit, needed to cover expenses?
- Have I missed credit payments?
- Do I borrow and add to a loan that is not paid off (sometimes called “flipping a loan” or “add-on loans”)?
- Am I considering or using a debt consolidation loan?
- Do I now charge items formerly purchased with cash?
- Do I worry about making my monthly payments?
- Do I sometimes skip paying one bill to pay another or write post-dated checks to pay bills?

Financial experts would agree that answering “yes” to any of the above questions is a sign of trouble. They recommend that, if you do any of the above, debt reduction be one of your financial goals, possibly the most important one.

### Ask Yourself About Your Savings

- Do I save regularly?
- Have I saved three to six months of basic living expenses in an emergency fund that is easily available if the cash is needed?
- Am I saving enough for future expensive goals such as a house or children’s education?
- When using credit to buy expensive items, have I saved to make as large a down payment as possible?
- Do I save to buy a big-ticket item instead of always buying expensive purchases on credit?
- Do I save at least 10 percent of my income?
- Am I saving enough for my retirement?

### Evaluate Your Goal

**Writing your goal helps you accomplish it.** As you write your goal(s), ask yourself two questions:

1. Is it specific? State exactly what you hope to achieve.
2. What is the target date for accomplishing the goal? Knowing “when” is important.

### Goal-writing Example

A family wants to take a vacation. But that is a very vague goal. What kind of vacation? Saying they want to go to Florida in the summer would be more specific. Better yet, they could decide where in Florida they are going, how they

would travel there, how long they would stay and when this vacation will take place: in three months? in a year and a half? Being specific about the goal helps the family effectively plan how to attain it.

### Make Your Goal Realistic

Sometimes goals clearly are unrealistic. For example, a family with a monthly income of \$3,000 and spending \$2,900 a month on basic living expenses would find it unrealistic to save \$500 a month for various goals. Unreachable goals may lead to discouragement and giving up. Make sure goals are at least possible even if you do have to stretch a bit to reach them.

### If goals seem unrealistic, change them.

- Change the amount. If you plan on saving \$10,000 a year for retirement, but then decide that isn’t possible, adjust the goal, perhaps saving \$5,000 a year instead.
- Change the target date. If you want to pay off your student loan in two years, and then decide that’s unrealistic, you might decide to pay it off in four years.

Revise your goals by writing them again with specific target dates and dollar amounts.

### Use Your Goal to Stretch Your Abilities

Simply writing down a commitment to continue what you are doing already can be useful, but usually people begin down the road to financial security with a desire to increase their savings or reduce their debt. Ask yourself: How much am I saving? How much am I paying on debt?

### Rank Your Goals

Most people have many goals. It is important to work hardest on the goals that are the most important to you. Ask yourself (and other family members) this question: **If I could work toward only one of these goals, which one would it be?**

For example, if you have five goals, you might rank them one through five. Or possibly divide your goals into three groups: highest importance, medium importance and lower priority.

Short-term goals are targeted sooner than long-term goals, but that doesn’t mean they are more *important*. You can work on more than one goal at a time, but it’s a good idea to be clear about which are your highest priorities.

### Create a Goal-setting Checklist

Before you complete your goal(s), ask yourself these questions:

- Do these goals reflect the needs and wants of all family members?
- Are my goals as specific as possible? (Not a “new car” but what kind of car, how much saved ahead of time for a down payment, and how much for a loan.)

- Have you determined a target date for each goal?
- Are your goals realistic?
- Do your goals make you stretch beyond what you are currently doing?
- If you have identified more than one goal, is it realistic to pursue all of them? If not, decide which goal(s) is/are most important to you and your family.

### Your Financial Security Goals

Write your goals in the charts for your reference (*Figure 1*). You also may want to fill out and save the Financial Security “thermometer” chart (*Figure 2*). Put the “thermometer” where you’ll see it often such as on the refrigerator, taped on the bathroom mirror or around your credit cards in your wallet.

### Financial Security — Getting Started

Follow these steps to start toward financial security:

1. Write down your goal(s).
2. Put a price on your goal(s).
3. Set a target date for reaching your goal(s).
4. Divide and conquer. Decide how much money you will set aside from each paycheck.
5. Develop a plan for reaching your goal, such as saving \$30 each week.
6. Most importantly, **start working on your goal(s) today!**

### Pay Down Debt Goals

<i>Rank</i>	<i>Which Debt</i>	<i>Total Amount</i>	<i>Target Date</i>	<i>Monthly Amount</i>
		\$		\$
		\$		



Transfer this figure to the Financial Security Thermometer on the back page of this publication.

To help track progress toward paying down debt, visit the Web site at <http://paydowndebt.unl.edu>.

### Grow Savings Goals

<i>Rank</i>	<i>Savings Goal</i>	<i>Total Amount</i>	<i>Target Date</i>	<i>Monthly Amount</i>
		\$		\$
		\$		



Transfer this figure to the Financial Security Thermometer on the back page of this publication.

**Figure 1. Documenting goals will help achieve them.**

## Financial Security Thermometer

Financial Security			
	<i>Debt</i>	<i>Savings</i>	
<i>Start Pay Down Debt here</i>	\$ _____	\$ _____	<i>Grow Savings Goal</i>
	_____ ↓	_____ ↑	
	_____ ↓	_____ ↑	
	_____ ↓	_____ ↑	
	_____ ↓	_____ ↑	
	_____ ↓	_____ ↑	
	_____ ↓	_____ ↑	
<i>Pay Down Debt Goal</i>	\$ <b>0</b> _____	\$ <b>0</b> _____	<i>Start Grow Savings here</i>

Figure 2. The Financial Security Thermometer can help document progress toward your goals at the end of each month.

### Resource

Developing Personal Financial Goals. (2007). In Kapoor, J. R., Dlabay, L. R., & Hughes, R. J. *Personal Finance*. (pp. 9-12). Boston, MA: McGraw-Hill Irwin.

UNL Extension publications are available online at <http://extension.unl.edu/publications>.

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