5 Dos and Don’ts When Creating a Financial Plan

**What is a financial plan?** Financial plans are essential vehicles to help people get through life comfortably, reaching their goals and avoiding pitfalls, such as too little savings for retirement.

A financial plan covers the following six categories:

1. Expenses and income
2. Investments
3. Retirement savings
4. Educational savings (such as college savings)
5. Risk management
6. Estate plan (wills, trusts, powers of attorney)

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When developing a financial plan, however, be sure to accomplish these five dos – and avoid the five don’ts.

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### Dos

#### Do set goals

The primary objective of financial plans is to help realize a person's financial goals. There’s no one-size-fits-all plan simply because most people's most important goals are different. Do you want to travel once you hit the age of 50, for example? Start a business at 30? Raise a large family? All these goals presuppose different financial plans.

#### Do create a budget

Some people avoid budgets because they think that the word alone connotes scrimping or cutting back. As well, people avoid budgets because think that they’ll be judged about potential money mistakes.

 Don’t be afraid of a budget. There does not need to be judgement involved. In financial plan terms, “budget” just means you have a steady working knowledge of expenses versus income each month. Think of it as a type of cash flow statement for your family.

You also need to divide these into categories, such as housing, food, utilities, and so forth. A budget allows you to see how much disposable income you have to achieve your goals and to make any necessary adjustments.

#### Do plan for retirement

Retirement planning is one of the pillars of financial planning. Although to many young people it may seem that retirement is a dim speck in the horizon, one of the best ways to plan for a financially comfortable one is to start early, so your retirement funds can grow for decades. And if you’re middle-aged or approaching retirement, it’s essential to plan so you can maximize your goals.

#### Do manage risk thoroughly

If you’re not thinking of managing risk as part of your financial plan, think again. Risk management is also a pillar of financial planning. Your assets, such as a home and vehicle, need to be insured. You need life insurance to provide for your family if anything happens to you. You need to think about insurance for disability and end-of-life care as well. Unmanaged risk can upend your entire life. Make sure it can’t.

#### Do revisit periodically

Every financial plan needs to be revisited periodically. First, think through whether your goals have changed. Second, think through any changes in your life at least once a year. If you got married or had a child during the year, for example, goals, savings plans, and many other factors could change. A house down payment or college savings could move from not on the list to top priority.

Third, review your investments. What was their yearly performance? How risky or conservatively are you invested? Does account volatility make you feel uncomfortable? Make sure you’re on track to realize your goals. If you aren’t, adjust the amount you’re saving, your choices, or your allocations accordingly.

### Don’ts

#### Don’t forget to prioritize your goals

While goals are the engine of financial plans, it’s also very important to prioritize them. Dividing your goals into short term, intermediate term and long term will also help, as time frame also affects the priority. If you’re saving for a home down payment two years from now, but also want to start a business in a decade, the down payment should be the greater priority.

#### Don’t spend more than you can afford

No matter your level of compensation, it’s possible to spend above your means. There are always more expensive homes, travel plans, and other items that lure you to spend. One of the chief reasons for creating a budget (see our do’s above!) is to *know* what your spending patterns are versus your income.

Overspending can saddle you with a debt burden, which further saps your spending and saving capability. Ultimately, overspending and debt can hobble your ability to realize your goals. And goal realization is why you have a financial plan, right?

#### Don’t neglect a savings plan

Financial plans have a category for investments (in addition to retirement funds). Don’t forget that part of your investments should be in a savings account (money market or certificate of deposit, or CD). Savings underpin sudden unexpected expenses, such as a medical emergency or car repair. They can cushion a spate of unexpected events, such as a layoff. Every financial plan needs saving as a linchpin.

#### Don’t leave money on the table

Be sure to optimize your retirement savings. How? If you’re eligible for a 401(k), check to see if your company offers a match. A match means that the company contributes a certain percentage to the 401(k). If the match is 100 percent, the company contributes 100 percent of your contribution. If the match is 50 percent, it contributes 50 percent.

In other words, if you’re saving 5 percent of your salary in a 401(k) and your company provides a 100 percent match, they’ll contribute another 5 percent. That’s free money, and a great way to power your retirement savings.

#### Don’t avoid end-of-life planning

Yes, no one wants to think about their life ending. But the lack of a plan for the end of your life could leave your family in a financial bind. It can also affect your ability to retain control of your assets and your health.

An [estate plan](https://prismplanningpartners.com/how-a-financial-advisor-can-help-you-with-estate-planning/) with a will that specifies to whom or where you want your assets to go can be very beneficial. Without it, your assets could be tied up for months, leaving your spouse or other heirs with no access to your assets. If you want certain assets to go to friends or organizations, these wishes may not be known if you haven’t specified it in a will.

It’s also prudent to create powers of attorney for both healthcare and property. A property power of attorney gives your designee the ability to make financial decisions should you become incapacitated. They can pay your bills, for example, if you are in the hospital. A healthcare power of attorney gives your designee the ability to make medical decisions for you.

Have questions about a financial plan or these do’s and don’ts? At Prism Planning Partners, we are CERTIFIED FINANCIAL PLANNERS ™️ committed to facilitating important questions so that we can help you explore all of your opportunities. We offer a broad array of financial planning and consulting services for our clients-including estate planning.

[Contact us](https://prismplanningpartners.com/contact-us/) today and let us illuminate your possibilities!