

FINANCIAL PLANNING DOCUMENT

This financial planning worksheet was developed to let you evaluate your future financial plan by allowing you to change some of the variables that contribute to the overall picture. It's my hope that this model is an accurate representation of the major elements involved in putting together a financial plan for the future. But, before you make any decisions effecting your financial situation, make sure you contact a certified professional. There are two areas on the worksheet that will be discussed further, they are the "Variables" and "Worksheet Body". Before you begin, make a copy of this worksheet and work on that. That's just in case something gets screwed up. Besides, you can now pass along a copy to someone else.

VARIABLES

The variables are different elements in the model that can be changed to see what effect they have on the overall results. Go ahead and make any changes to the values you like and see what happens. The main purpose is to maximize, within reason, your savings to cover all your expenses once you get old and gray.

Age at Retirement: This should be self explanatory, but if not, it is the age at which you stop working and start your retirement. For the purpose of this worksheet model, you'll retire on your birthday that you reach the "Age at Retirement".

Average Annual Interest Rate on Savings Before (and After) Retirement: I decided to break up the interest earned on your savings into two categories, interest earned before and after retirement. Normally, people will take on a little more risk in their early years before they retire. Then, when they retire, they need more security which translates into lower risk and lower interest rates.

Average Annual Inflation: This is the average inflation rate that prices increase by every year. These numbers can be obtained from any library.

Average Annual Salary Increase: This is the average amount that your salary increases every year. If you get a consistent bonus every year then you could also include that. But, for the most part, I'm just talking about a base salary that you can count on for sure. It's a judgment call on your part.

Percent of Gross Earnings to Savings: This is a percentage of your annual salary (before taxes) that goes to long term savings. Long term savings is that which you put away for retirement. Don't count the money you put away for the kids college or vacations.

Gross Monthly Cost to Live After Retirement: Because it is next to impossible to choose an amount that you will need to live on in terms of future dollars, we need to base it on an amount in today's dollars (present value). This amount should be a gross amount (before taxes). This amount should be based on the value of money in the first year that you start your financial plan.

WORKSHEET BODY

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The worksheet body contains the information that is the result of the combination of variables and the embedded formulas. It also contains areas where you can record actual amounts to check your progress. Do not place any values in cells that have formulas in them, this is very important. This area is divided up into five areas. They are: Year, Age at Birthday, Inflated Dollars, Gross Annual Income, and Value of Savings.

Year: The first cell in the “Year” column is the first year that you start your financial plan. You only need to place a year in this cell, the other cells below will be calculated automatically. For example, if you start your plan in 1992, type “1992” in the first cell of the column. Observe that the other cells below fill in automatically, giving you 1993, 1994, 1995 and so forth.

Once you fill in the initial value, you won’t need to touch this column again. Notice that as you input this initial year date, the last item in the variables, “Gross Monthly Costs to Live After Retirement”, changes to reflect this initial date.

Age at Birthday: The “Age on Birthday” column is provided for a better reference of where you are in your financial plan. Your birthday will be the point in each year at which you will check your savings and income amounts to see if you are on track with your financial plan.

This column is completed similar to the “Year” column. In the first cell, place the age that you will become on your birthday in the year that you started the financial plan. It is possible that your birthday has already passed. If so, that’s OK, go ahead and put in your age that you turned in the first year. As with the “Year” column, the values below the first cell will calculate automatically. Again, as with the “Year” column, once you insert your age in the first cell you won’t need to touch this column again.

Inflated Dollars: These two columns are given to you to show you what inflation can do to the value or power of your money. The first column, Required, shows how many future dollars it will take to purchase the same goods purchased today for \$1. The second column, F. Value, shows the future value of \$1 today in each of the different years. The point of these two columns is that inflation matters.

Gross Annual Income: There are two columns involving income. The first gives you the required amount and the other gives you actuals. The “Required” amount is calculated using the variables along with embedded formulas while the “Actual” column is used to check your progress. Every year simply input the actual amount you have as income.

To set the income columns up, place your actual income in the first cell of the “Required” amount column. Again, similar to the “Year” column, the values under the first cell will be calculated automatically. This is the only input into the “Required” column you will make. The remainder of inputs will be made into the “Actual” column.

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Income is calculated in two different modes, salary while working and income required during retirement. Salary while working is calculated by taking the entire last years salary and multiplying it by one plus the inflation rate. Income required during retirement is calculated by taking the sum of the inflated monthly amounts for each month of each year.

Value of Savings: This is the value of your long term savings, savings that is put away for retirement not vacations or toys. Toys are important but not as important as retirement. Like the income columns, this also has a “Required” and “Actual”.

To set up the savings columns, place the amount of savings in the first cell of the “Required” column and the rest will be calculated automatically. Like the income column, this is the only input into the “Required” column. Any other inputs will be made in the “Actual” column and should be done so every year.

The amount in the “Required” savings column is also calculated in two modes. The first is savings while working and the other is savings while retired. Savings while working is calculated by taking the future value of last years ending amount plus the the future value of each months contribution. Savings account amount during retirement is calculated by taking the future value of the amount ending last month for a month. Then, subtract the inflated amount needed for monthly expenses. This is performed for each subsequent month.

CONCLUSION

As I said in the beginning, I believe this is a fair representation of a model to be used for financial planning. But, if you happen to see any errors, please let me know. I can be reached at the following:

I’m putting this worksheet and text document out because it’s of interest to me and I feel that it could be helpful to you as well. If you find any problems or shortcomings I would appreciate any comments. I’m currently an MBA student at the University of Arizona in Tucson and would appreciate any donations to the cause. I won’t be graduating until May of 1993 and I’m living on a very restricted budget so any donations would be appreciated.

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Enjoy.