
1.3

Managing Resources

Financial Planning

Learning Outcome Notes

LO 1.3 - Construct a personal financial lifecycle to identify financial needs at different life stages

CHAPTER QUESTIONS

By the end of this learning outcome you should be able to do the following

1. Construct a personal financial life cycle to identify financial needs at different life stages.
2. Draft a personal financial life cycle to identify financial needs at different life stages
3. Plan finance for different stages of your life
4. Consider saving and expenditure.
5. Consider estate planning

WHAT IS A PERSONAL FINANCIAL LIFE CYCLE

Personal Life Cycle ^{Def} This is a cycle that reflects the changes you go through during your life and helps you adjust your financial needs at each stage of the cycle.

As you grow older your financial needs change. Understanding and planning for these changes are important.

For example, when you are young you are dependent on your family. You have a few sources of income and most of your needs are met by general household expenditure and most of your personal income is discretionary. When you leave school, you become more financially dependent. Your source of income will increase you may even have other people in your life being financially dependent on you.

Financial Planning is an important skill and ongoing process. The benefit of planning is to make sure that you are prepared for each of the life stages. Every person has a financial need and it differs from person to person. There is no perfect plan as everyone is different and every one's journey in life is different.

WHEN TO PLAN AND WHAT TO PLAN FOR

1. Birth to Teens (Dependence Stage)

During this stage you would have very little concept of money, budgeting, saving or planning. You are mostly dependent on your parents/guardian.

2. In your Teens (Dependence Stage)

In your younger teens you are still dependent on your parents/guardians. You may start doing work, saving some money. Without realising you have started financial planning. As you go through your teens you start to prepare for your career and adult life. some financial concern will be

- Full time education and career
- Income from part time employment
- Considering future financial needs and resources

3. In your Twenties (Independence Stage)

Now you start to gain financial independence and gain secure employment. Here you will have a high level of disposable income and discretionary spending due to not having any family commitments. You will probably thinking of the following

- Finishing education
- Starting employment
- Start being more financially independent
- Repaying a student loan
- Building up regular savings
- Buying a house

4. In your Thirties (Developing Stage)

At this stage you are more likely to have more family and household commitments. You will probably have bought a house at this stage so will be repaying back a mortgage. At this stage there is a high level of risk and responsibility so having insurance is important. It is also a good time to be thinking about retirement goals and pension needs. People in this stage are thinking about -

- Increasing their income
- Paying a mortgage/Rent
- Saving (Emergency fund)
- Life Assurance
- Children's educational costs
- Pension

5. In your forties (Developing Stage)

People who have children in this stage will see increased spending on current and future educational needs. If they can afford it they may have investment. Health insurance and pension planning become very important as they get older. People at this stage are thinking about -

- Children's education
- Investments
- Retirement plans
- Life Assurance

- Making a will

Will ^{Def} This is a legal document containing instructions for what should be done with personal money and property after death.

6. In your Fifties (Pre-Retirement)

People in this stage will have older children. Spending on education will probably be for third level. They may need to have extra health and life assurance for themselves. They may also start to put extra money into their pension. People in this stage will be thinking of the following

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- Children's education (Third Level)
- Pension funding
- Life assurance and health insurance
- Meeting needs of aging parents

7. In your sixties (Pre-Retirement)

People in their sixties will be thinking about

- Retiring
- Paying off their mortgage
- Checking their will

8. At Retirement

People at retirement will be -

- Living off savings
- Considering care needs
- maybe downsizing

Pension ^{Def} This is a fund that is paid into when they are working. When the person retires, they will use the fund to support them as they will not be receiving a wage or salary.

Estate ^{Def} This is made up of everything you own, when a person is young your estate might be your bike or books but when they get older it would include your house and savings

