Wi$e Up Teleconference Call
Financial Planning for Life Events
October 31, 2006
Speaker 1 – Michele Schaff

Sarah Miller: Our first speaker is Michele Schaff. Michele is President of Ardor Financial Group, an independent fee-only financial consulting practice in Northfield, Illinois. Among her many duties, Michele offers financial planning advice to private clients, trusts and companies as a Certified Public Accountant and a Personal Financial Specialist. She holds a Masters of Professional Accounting degree in Taxation, which she earned from the University of Texas at Austin. Michele is also an Accredited Investment Fiduciary Analyst, and she holds an NASD Series 65 Registered Investment Advisor license.

Michele has authored numerous publications and has authored and presented financial education programs including "Fundamentals of Intelligent Financial Management." She is actively involved with the American Institute of Certified Public Accountants. We're very pleased to welcome you to our call today, Michele.

Michele Schaff: Thank you. It's a pleasure to be part of the call today. When I was first asked to participate in a one-hour call about financial planning for life events, I thought, "Wow, that's a pretty hefty undertaking for such a brief call." I felt a little like a circus ringmaster trying to stuff a dozen big-footed clowns into a tiny car, and I think that a lot of women and men share this feeling when they're thinking about putting together their own financial plan.

It is such a big chore, and on top of that, there are so many complex nuances. And while these things are true, it is also true that much of a financial plan -- not all of it, but much of it -- can be done by a lay person, a woman like you.

The Department of Labor's Wi$e Up program is a good place to get started. You can learn some of the fundamentals necessary to successfully manage your finances and begin to put together your own personal financial plan. The Web site -- for those of you who don't know it -- is www.wiseupwomen.org. The program's goal is to promote financial security by providing education and by encouraging responsible saving habits.

Let's work on the first part of the noble goal -- education. What is financial planning for life events? This may seem like an easy question, but it really is not. Your financial plan is more than just numbers and statistics on paper. When done properly, it represents your ideals and your beliefs, and it translates them into your personal financial affairs. It is your lighthouse and your compass. It helps to keep you on the path that you have set for yourself, and as you probably already know, once your goals are in writing, your chances of reaching them greatly improve.

It's a mantra affirmed by many inspirational authors and speakers. Why then have so many women not planned? What obstacles stand in the way? "I'm just too busy. I don't have time to fuss with it." "Financial planning is for wealthy people. I don't have enough money to worry with planning." "If I barely have enough to pay my bills now, where in the world would I get money to save? I can't afford it." Sound familiar to anyone?

Here's what I have to say in response – "Make time." Turn the television off. Say no to someone and take time for yourself. Take a day of vacation at work. Use your lunch breaks, train rides, whatever you've got. Wealthy people get wealthy because they plan before they have wealth.

Money is not the only subject of a financial plan. Do you have children? Do you want the government to decide what happens to your children if something happens to you? What happens if you are ill and cannot make your own decisions? Are you properly insured? There is almost always a little fat you can trim if you look hard enough. And lastly, you cannot afford not to do it. While these obstacles that I just mentioned are the easier ones to vanquish, others are more challenging to overcome.

The specific obstacles that thwart a person will vary with that person's personality and life experiences. Some people will feel daunted by what they believe is an overwhelmingly large and complex amount of work. And to those, I say, "Remember the old adage about how to eat an elephant – one bite at a time." Break the large task into many small ones. Ignore the whole and focus on just one task at a time.

Other people are fearful; they fear facing the risks that we all face in life, the risks and potential life events that are captured in financial planning, some that we hope will happen -- like marriage or having a child -- and others that we truly dread -- like serious illness, incapacitation or death. To those, I say, "Use your fear to push you forward and organize your personal and financial affairs."

According to the American Cancer Society, one in three women will be diagnosed with cancer in her lifetime. Would you want to have to deal with financial planning while battling for your life? Of course not. You want to put all your energy into the fight for your life. Life is hard enough without making yourself a victim of your own unpreparedness. Help yourself reach your goals. Find out what is keeping you from making progress and turn it on its ears. Use it to push yourself forward and start your personal financial plan. Do not let inertia stand in your way.

Okay, now that you're all struck with the fear about dying and eager to get your financial house in order, let's discuss what it takes to be successful in managing one's personal business. There are five traits that I'm going to touch on today.

One -- take control. You must take responsibility for your own financial security and future. If you are part of a couple, do not rely on your partner to take care of you. If something happens to your relationship, you could be financially devastated.

You need to be part of financial decisions and know how to manage your own affairs even if in the distribution of duties your partner carries out the routine tasks. Know what assets you own and how they are titled. Know what debt you're responsible for paying. It's important that you know what happens upon your partner's death or incapacitation and make sure that your wishes will be carried out upon your own.

Two – plan, and then live your plan. Success is rarely an accident. Your personal financial plan is your roadmap to achieving your financial goals. It should also reflect your values and your beliefs. If you believe that spending time with your young children is critical, your financial plans should not require that you work 12-hour days.

Three – have realistic expectations and reasonable objectives. Do not expect to earn an unrealistically high rate of return to make up for getting a late start in your savings program. Risk and return go hand in hand. There is no free lunch. With a chance of great reward comes the risk of great loss. Take with a very large grain of salt the great investment stories you hear at parties. People like to talk about their successes, frequently embellishing them, but rarely share their failures. If you took a few years off work to be with your children, accept that you will not quickly make that up, and that is okay.

Four – be disciplined. Sticking to your plan is critical. If you have not budgeted for a weekend get-away with friends, do not be tempted to splurge on the excursion. Your plan should allow for a reasonable level of discretionary spending and straying from that objectively determined amount by letting your emotions navigate your plan will certainly lead you astray.

Five – spend wisely. I do not want to sound draconian by any means, but there's a lot of unnecessary spending that we have come to take as normal and necessary. The next comment will not be a popular one, but it is certainly a relevant one. The improvident consumers and impulse purchasing of today is robbing Americans of their promise of financial security tomorrow. Daily lattes, magazine subscriptions, premium cable channels, manicures, the latest fashions, a cell phone plan with a lot of minutes and text messaging, et cetera, add up to significant amounts of money over time.

These things are nice, but you must make the tough decision of what is more important to you -- financial security or a few frivolous expenses. Budget your spending and live within your means. The same goes for debt. It is far better to avoid interest and other costs of borrowing by waiting to purchase until you have saved up enough money. Learn to appreciate delayed gratification and you will be the better for it. Part and parcel of spending wisely is managing debt. Debt should be reserved for acquiring assets with enduring value, like a home or even a car, but not clothes or restaurant meals or other discretionary spending items.

It's surprising how little things add up. Saving a mere $3 per day amounts to over $1,000 per year. Put that into your IRA for 30 years, and grow at an average of 7.5% annually. These small sums would add up to over $120,000 at retirement. With the same assumptions, you would have over $400,000 for retirement by just saving $10 per day. Remember the fable about the tortoise and the hare – slow and steady really can win the race.

It is very important to respect money, and in the age of credit cards and debit cards, it is easy to lose track of how much money you spend. A recent study commissioned by the American Institute of Certified Public Accountants (the AICPA, which Sarah mentioned earlier) and conducted by Drs. Thornberg and Haveman, who are economists with Beacon Economics, found that **people are literally spending more than they are earning after taxes for the first time since the Great Depression.**

And, according to the study, estimates place the current unfunded liability of the United States, including both current debt and the net value of future social insurance obligations, at approximately $220,000 for each person alive today. With such [a] mounting financial burden, Americans should be saving more than ever, but they are not.

To fight this mounting burden, the AICPA and the Ad Council recently launched a nationwide campaign to "Feed the Pig." If you have not already seen the ads, you can soon see them - or you will soon see them. You can learn more about the study by visiting www.aicpa.org. You can see some of the print ads and television ads at www.feedthepig.org, and while you are there, try out the calculator that shows you how much you can save by taking your lunch to work or by skipping your afternoon latte.

You can also visit the AICPA's educational Web site for the public at www.360financialliteracy.org. If you adopt the traits that I discussed, you'll find that living a financially prudent life becomes easier with time. Bad habits can be hard to break, but not impossible. As you experience the success of your plan, you will see your savings grow, which is the second part of the Wi$e Up program's goal.

You will be more financially secure and more confident, and you will help America became a fiscally stronger country.

Sarah Miller: Thank you, Michele.