

## FINANCE MAMA by Kristin Harad

### **Make 2008 a Financially Successful Year!**

As parents, we often feel an increased need to be “financially responsible.” If you have procrastinated getting your financial life organized or you do not know where to start, now is the time to commit to getting your financial plan together.

My column will appear monthly in the SMMC newsletter, and I hope that you will use it as a guide to managing the new financial issues challenges that we all face as parents. I will address the topics that challenge many growing families, ranging from income/expense planning to education funding to retirement planning, with many topics in between. Please join me each month as I give you very tangible, hands-on action steps to make sure you are creating a financial future that works for your family.

We'll start this month with goal setting and getting a clear read on your current financial picture.

### **Set Goals for 2008 and for 2013.**

Developing a one year and a five year vision of what you want to create in your life helps drive your decision-making, especially when it comes to money. Start by taking a sheet of paper and find a relaxing place to think about what it is important to you. I recommend doing this exercise separately from your partner and then bringing your individual efforts together for a discussion. You may be surprised to discover how aligned or different your goals are (remember to create a “safe space” for open conversation).

#### *The exercise:*

Picture yourself one year from now reflecting back on 2008. It has been a “good year.” What happened? Now think about what it would mean if it were a hugely successful year---what happened? Do the same thing for the year 2013. Transport yourself to that year and reminisce about the fantastic events that have occurred. What are they? From this wider perspective you can drill down to what your specific goals are for this year and the next five. Try to come up with a complete list for all areas of your life and then prioritize the top three.

### **Find Balance: Know what your total financial picture is RIGHT NOW.**

I start every financial plan I write with a balance sheet. This may conjure up notions of annual reports or complicated accounting techniques....but creating this snapshot of your financial picture is easier than it may sound. Draw a line down the center of a page, or create two columns in excel. Label one side “Assets (Things you own)” and the other side “Liabilities (Things you owe).” Sum up the columns. This document will show you what is called your Net Worth, which is simply your Total Assets minus your Total Liabilities. Net worth is not necessarily an important number right now, but it gives you

a big picture view of your family's finances. Essentially if you sold everything you own and paid off everything you owe, net worth is the amount you would have remaining (or still owe).

Common assets that many families have include checking and savings accounts, brokerage accounts, IRAs and 401ks, 529 Plans or Coverdell ESAs and the current blue book value of any car you own (or are paying a loan for...not a lease). Liabilities include all of your debt: your balance on your car loan, any credit card debt, and outstanding student loans or personal loans.

There are two areas on the Balance Sheet that deserve special attention:

1. **Your Home:** Often times the largest item on the Balance Sheet is your home (if you rent, you will not have anything listed in the home section). To account for your house or condo in the Asset column, you should include the current market value of your house (what you realistically believe it would sell for tomorrow). This means if you put your house on the market and you think it would sell for \$1,000,000, put that in as the value. Do not forget to include the amount of your total outstanding mortgage(s) in the liability column.
2. **Investments:** Rather than just including the total balance of a 401k or brokerage account, list out each fund, stock, or bond and the number of shares you have. You can then use the current share price or the value from your December 31<sup>st</sup> statement. This will set you up to be able to review your individual investments easily each quarter to see how each one is performing.

As you compile your balance sheet, keep asking yourself and your partner, "Is there anything else we own? Any 401k money left at a former employer? Any vested pension money that is drifting in the wind?" Make sure you know, and be sure to list it.

### **Surprise!**

Chances are, when you subtract your liabilities from your assets, you will be surprised at the number. Some people discover they are millionaires and didn't even know it, while others may find the exercise to be a rude awakening. If your number is negative, make sure you seek financial counsel and work through this exercise with a professional to create a workable plan to become debt free. Whatever your number is, start thinking about how this compares to your short and long term goals and begin to formulate the steps you'll need to achieve them.

My topic next month will be creating an effective spending plan (or budget as some like to say). If you have specific questions related to this topic, please e-mail them to [kris@newparentfinances.com](mailto:kris@newparentfinances.com) so I can try to address them in my article.

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*issues expectant parents and young families face. Kristin and her husband have a 3-year-old boy and are expecting their second child this year.*