

# Personal Financial Planning

## What is Personal Financial Planning?

- The term '**personal financial planning**' implies that a person intends to achieve something in a financial sense.
- The general principle of shorter, medium and longer time frames is a useful approach to setting personal goals.
  - Short-term goals are those which we intend to achieve over a time frame of 12 months.
  - Medium-term goals are those intended to achieve of a period of 2-5 years.
  - Long-term goals may range from items intended to be achieved in 7-8 years up to 40 or more years.
- The principle of financial planning includes consideration of all time frames.
- Goals should have two components – they should be *specific* or *quantifiable*, and be *referenced to a time frame*.

## Why is Personal Financial Planning Important?

- **Personal financial planning** is about helping people achieve their financial goals.
- The 'life-cycle' theory of consumption and saving shows that the consumption pattern is relatively smooth over a person's life cycle, but that a person's lifetime income profile is quite uneven.

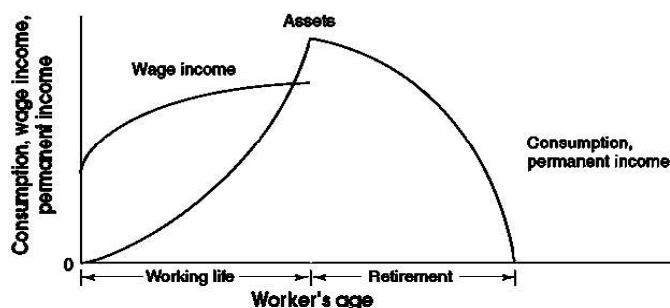


TABLE 1.1 Budgets for various households and living standards (June quarter 2016) for ages 65–85

	MODEST LIFESTYLE – SINGLE	MODEST LIFESTYLE – COUPLE	COMFORTABLE LIFESTYLE – SINGLE	COMFORTABLE LIFESTYLE – COUPLE
Housing – ongoing only	\$ 74.43	\$ 71.45	\$ 86.27	\$ 100.00
Energy	\$ 40.80	\$ 54.18	\$ 41.40	\$ 56.15
Food	\$ 77.05	\$ 159.61	\$ 110.07	\$ 198.13
Clothing	\$ 17.65	\$ 28.65	\$ 38.21	\$ 57.31
Household goods and services	\$ 27.25	\$ 36.95	\$ 76.65	\$ 89.80
Health	\$ 44.35	\$ 85.59	\$ 87.99	\$ 155.29
Transport	\$ 91.22	\$ 93.81	\$ 135.94	\$ 138.53
Leisure	\$ 74.58	\$ 111.11	\$ 226.01	\$ 309.72
Communications	\$ 8.48	\$ 14.84	\$ 23.30	\$ 29.65
Total per week	\$ 455.78	\$ 656.19	\$ 825.84	\$ 1134.58
Total per year	\$ 23 700	\$ 34 122	\$ 42 944	\$ 58 998

- Many people do not have specific savings plans and, rather than adopt a disciplined savings habit, are often persuaded through marketing campaigns to spend more than they earn.
- In the context of life-cycle theory, personal financial planning is about managing income, expenditure and savings to actively meet a person's short-term and long-term objectives.
- The Association of Superannuation Funds of Australia (ASFA) regularly prepare a Retirement Standard (RS) which benchmarks budgets needed by Australians to fund either a modest or comfortable standard of living in the retirement years.
- Approximately 80% of Australians rely on the age pension to some extent.
- The accepted target benefit at retirement is 62.5% of pre-retirement earnings for most of the working population.