



Setting Financial Goals

by Sophia



WHAT'S COVERED

In this lesson, you will use your critical thinking skills to analyze a set of financial goals. Establishing a clear financial plan will help you reduce stress and improve your financial outcomes. Specifically, this lesson will cover:

1. Putting a Price on Success
2. Thinking Critically About Economics
3. Getting Started With a Financial Plan
 - 3a. Track Expenses and Income
 - 3b. Reduce Your Expenses
 - 3c. Review Your Values and Goals
4. Planning for Peace of Mind
 - 4a. Know Your Physical Self
 - 4b. Focus on What You Can Control

1. Putting a Price on Success

"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future."

Alexa von Tobel, CEO and Financial Advisor

Money won't make you happy on its own, but having the knowledge you need to take control of your personal finances will make your life a whole lot more enjoyable. Whether it's affording your own education or saving to pay for your children's, empowering yourself to achieve your personal and professional goals means thinking critically about your economic resources and making smart decisions for the future.



In this lesson, you'll practice your **problem solving skill** by discovering critical thinking strategies you can use to make informed decisions about your personal finances. You'll also practice your **agility skills** as you discover how to adapt to changing economic trends. So, even if money can't buy happiness, you'll have a solid plan in place to reach your own budgetary bliss. You will also look at how your **productivity skills** can help you create this plan to track and monitor your personal finances.



WATCH

Check out this inspiring story about a young man's journey from struggle to success. It all started with some self-reflection and thinking critically about his future.

2. Thinking Critically About Economics

Economics is the study of how societies produce, consume, and exchange health and resources. Every decision you make about using or conserving resources ties to economics and your problem solving skills.

Understanding the basics of economics puts you in a better position to make wise choices about your personal finances. Personal finance is about how you as an individual, or a family, make decisions around **budgeting**. This includes what you choose to buy, what you decide to save, and anything that relates to allocation of your resources and wealth. By understanding personal finance, you can equip yourself to make strategic, future-oriented choices about your resources.

IN CONTEXT

Shia is incredibly busy this term. She's enrolled in three courses, works part-time as a nanny, takes care of her young son, and is trying to stick to her New Year's resolution of exercising more. A few weeks into her courses, Shia realizes she needs to spend more time studying to perform her best, so she pivots and reduces her hours at work. She's also spending a lot of money on takeout food because she can't find much time to grocery shop or cook. After a month of earning less and spending more, Shia realizes she doesn't have enough money to pay her rent this month. Next month's rent has her worried too. She isn't sure what she should do and spends a lot of time stressing about the future. Shia needs a plan and the ability to be agile given her current circumstances.

A **financial plan** is a personal document that details all the financial information you have – such as your cash flow, savings, debt, investments, and insurance. A financial plan should also include your personal goals (like buying a house), help you prioritize those goals, and allow you to strategize on how you're ultimately going to reach them. A financial plan can help you stay agile in the face of challenges (like changes in your **income**) by giving you the information you need to pivot and still stay on track. If Shia had created a financial plan, it might look similar to the one below.

Monthly Budget		
Income (variable)	\$3,400	100%
Expenditures	Dollars	Percent
Housing	\$750	22%
Food (groceries, takeout)	\$600	18%
Transportation	\$80	2%
Education (three courses)	\$1,000	29%
Utilities	\$250	7%
Taxes	\$200	6%
Health Care	\$70	2%
Family Care	\$300	9%
Miscellaneous	\$100	3%
Savings	\$50	2%
Total	\$3,400	100%

Shia is fortunate this time – she will be able to borrow enough money from her family to make rent this month. Hopefully, she has learned that if she wants to achieve real financial security and be prepared for life's what-ifs, she'll need to create, monitor, and stick to a financial plan.



Agility: Skill Tip

While it is important to have and stick to a financial plan, it is just as important to know when you need to make changes given shifting circumstances or priorities. Strong agility skills will allow you to recognize those times and adjust as needed.



TERMS TO KNOW

Budget

A resource management tool that keeps spending in line by tracking how much you will earn and spend in the future.

Financial Plan

A future-oriented process that is designed to help an individual or family achieve financial goals..

Income

A broad term used to describe all sources of money obtained by individuals and households that can be spent or saved.

3. Getting Started With a Financial Plan

As you begin preparing your financial plan in this course, here are some simple techniques you can use to improve your productivity skills and reach your financial goals.

3a. Track Expenses and Income

If you want to see where your money is going rather than guessing, keep a daily record of all your financial transactions, including paychecks and bills. Below are some common third-party applications that professionals use to track their **expenses**.



KEY CONCEPT

These are only recommended tools and do not represent tools that are endorsed by Sophia Learning. Use of any of these tools is entirely at the user's risk and may involve the transmission of personal information. If you are not comfortable transmitting your personal information, do not use the tool.

- Intuit® Mint: A budget management tool that syncs with your accounts to track spending.
- PocketGuard: Gives you a snapshot of how much you can spend at any moment.
- Clarity Money: Tracks your spending and online subscriptions.
- Microsoft® Excel: Lets you build, track, assess, and visualize budgets from scratch.
- Google® Sheets: A free tracking and assessment tool, similar to Excel.



TERM TO KNOW

Expense

Something you spend money on.

3b. Reduce Your Expenses

If you're like most people, you appreciate saving money. Lowering your expenses reduces the amount of money that's owed to others.



THINK ABOUT IT

Could you cut back on takeout lunches or negotiate a better data plan with your cell phone company? Once you start looking at how you're spending, there are bound to be ways to save. For instance, you may be able to receive a lower interest rate on your credit card simply by asking your creditor.

You can also apply basic mathematical guidelines to lower your expenses. Try the 50/20/30 rule (Hayes, 2019). This easy-to-follow budget organizes your income like this:

- 50 percent for **fixed expenses** (rent, for example)
- 20 percent for financial goals (buying a home, for example)
- 30 percent for **variable expenses** (auto repairs, for example)



TERMS TO KNOW

Fixed Expense

A regular or recurring expense like utilities or rent.

Variable Expense

An expense that can change over time like an auto repair.

3c. Review Your Values and Goals

These simple techniques will bolster your personal financial plan and help you stay on track with your achievements:

- **Consider your values.** To keep a balanced budget, you will need to make decisions around regular spending versus achieving your goals. One person may be fine cutting out the fancy coffee to add more to their weekly savings, but another person may really need that daily reward to keep them motivated. Once you have a sense of how the items in your financial plan rank in relation to each other, you can more effectively plan for your future.
- **Set financial goals.** Maybe you want to earn another academic degree, enjoy a night out at a new restaurant, or take a vacation to Mexico. Everyone has goals. The more specific goals you put in your plan, the more focused and motivated you'll be to make them happen by saving, paying off debt, and growing your funds.



Productivity: Skill Reflect

Think about productivity and how planning can help you be more productive. What was your initial reaction to the idea that taking the time to plan can actually help you be more productive in the long run? Can you think of an example from your own life where planning helped you to complete a task more efficiently?

4. Planning for Peace of Mind

Financial uncertainty is the single greatest stressor in Americans' lives. When you're stressed, it's difficult to stay productive toward your personal and professional goals because your mind is busy focusing on that stress. A financial plan can help you improve your overall well-being and eliminate stressors that get in the way of productivity. And there are a number of daily practices you can also use to take control of the stressors in your life (Hill, 2018).

4a. Know Your Physical Self

Tune in to what your body is telling you. Follow these simple strategies to reduce stress:

- **Exercise.** Getting your blood pumping at least 30 minutes each day will help your mental clarity and focus during work. It doesn't have to be all at once, or even athletic; you can walk the dog or play with your kids.
- **Take short, strategic breaks.** Taking breaks every 90 minutes has been proven to keep your brain more relaxed and refreshed. Don't break for too long, though, or you may lose sight of what you were working on. A 10- to 15-minute break will keep you sharp.
- **Tap into your body's rhythm.** Learning to ride your natural wave of energy throughout the day can help you stay productive. For many people, working on bigger tasks early in the morning is best because they are more alert and focused.

4b. Focus on What You Can Control

What motivates you to do your best? Knowing what drives you can help you maintain focus, improve productivity, and lower stress:

- **Reward yourself.** We are motivated by rewards, even small ones. Find little ways to push yourself to stay productive, like treating yourself to a healthy morning muffin.
- **Limit your online distractions.** It's challenging not to get sucked into the latest posts or headlines when you're trying to get work done. You can limit your Internet distractions by reducing how often you check your e-mail or social media posts.
- **Adopt an agile mindset.** All of the stresses and worries in our life can spin out of control, crowd our mind, and stifle our success. Protect your mental agility by worrying less about what others think or things you can't control, asking questions when you need help, trying new things that push you outside of your comfort

zone, and reducing negative self-talk. By staying mentally flexible, you'll find it easier to adapt your mind to new scenarios and to come up with unique solutions to problems.



SUMMARY

What does it mean to put a **price on success**? Simply stated, it means that you'll get out of something whatever you put into it. In this case, **getting started with a financial plan** and keeping a budget (the price) will give you better opportunities to build wealth over your lifetime (the success) and help you be more productive. Although your financial plan belongs to you, what goes into your plan is based on **thinking critically about economics** around you. Suppose your employer raises your **income** after a profitable quarter of sales. Or maybe you need to **reduce your expenses** because your landlord raised the rent. Situations like these force you to use your problem solving skills to **review your values and goals** so you can be agile and make adjustments to your finances based on the economy.

When we set financial goals, we're **planning for peace of mind**. When we can anticipate life's events, especially financial ones, it can lower our levels of stress. As you study economics and review your goals, start by **focusing on what you can control**. Educate yourself on factors beyond your control, but don't dwell on them. A healthy mind often leads to good **physical health** no matter what you're doing, whether it's taking a course, building a budget, or making an important life decision.

REFERENCES

Hayes, Marianne. January 3, 2019. "5 types of budgets and how to make one that actually works for you." *MarketWatch*.

www.marketwatch.com/story/5-types-of-budgets-and-how-to-make-one-that-actually-works-for-you-2019-01-03

Hill, Catey. December 17, 2018. "This is the No. 1 reason Americans are so stressed out." *MarketWatch*.

www.marketwatch.com/story/one-big-reason-americans-are-so-stressed-and-unhealthy-2018-10-11

Source: THIS TUTORIAL WAS AUTHORED BY SOPHIA LEARNING. PLEASE SEE OUR [TERMS OF USE](#).



TERMS TO KNOW

Budget

A resource management tool that keeps spending in line by tracking how much you will earn and spend in the future.

Expense

Something you spend money on.

Financial Plan

A future-oriented process that is designed to help an individual or family achieve financial goals.

Fixed Expense

A regular or recurring expense like utilities or rent.

Income

A broad term used to describe all sources of money obtained by individuals and households that can be spent or saved.

Variable Expense

An expense that can change over time like an auto repair.