



Setting Financial Goals

Advanced Level

First Reaction...



If you don't know where
you are going, how do
you expect to get there?

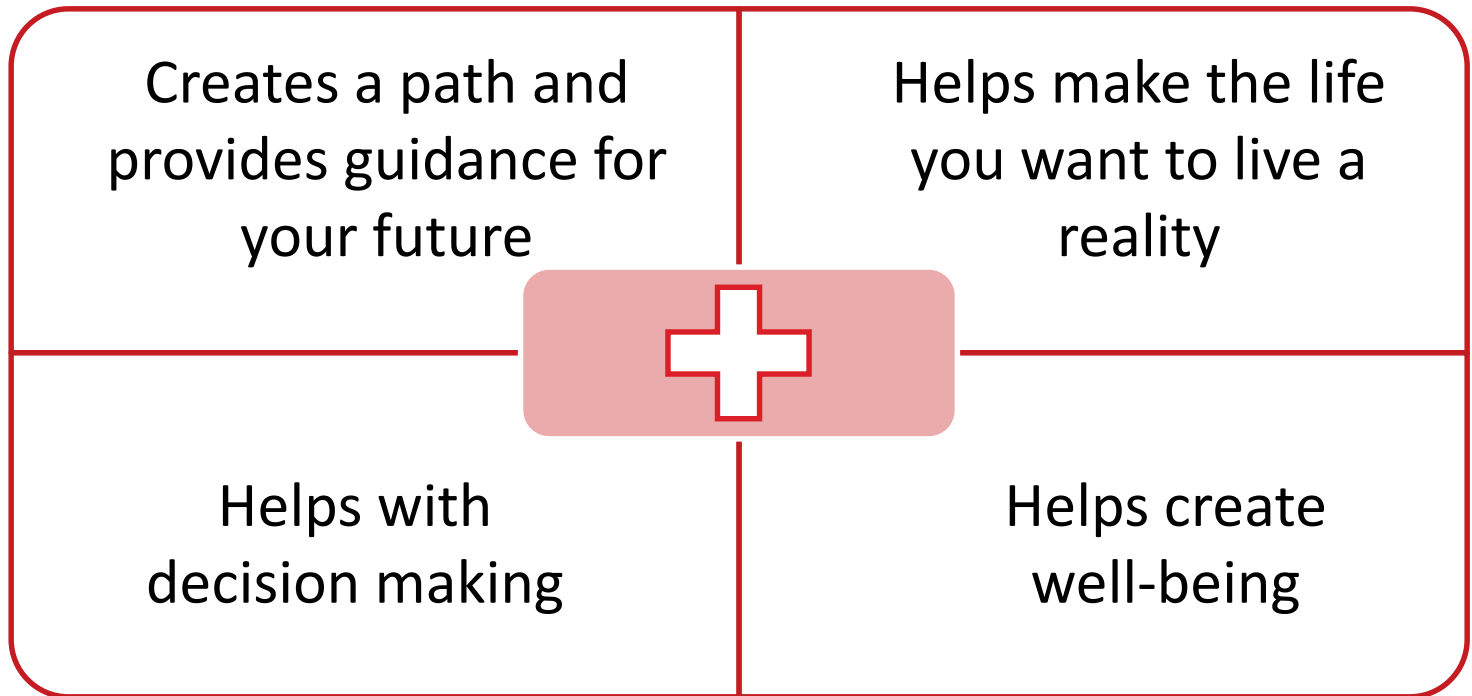
Set Goals!

Goal – the end result of something a person intends to acquire, achieve, do, reach, or accomplish sometime in the near or distant future

Setting goals is like creating a map for a road trip



How can goal setting benefit you?



How can goal setting benefit your life?



Is it realistic to write goals for every decision you make?

	Routine Decisions	Major Decisions
Explanation	Daily decisions that don't require a lot of thought	Require thought, effort, time, personal discipline
Example	What to wear in the morning	What to do after high school graduation
Goal?	Is it realistic to write goals for routine decisions?	Important to write goals for major decisions

To Goal or Not To Goal?

Which of the following decisions would you write a goal for?



When you will purchase a car

When you will complete your homework this evening


What you will eat for lunch

Which extra-curricular activities you will participate in

Underline items in your letter that could be achieved by writing down a goal



How can goal setting help you manage your money?



Goal setting is important to financial planning

Financial Planning - managing money continuously through life in order to reach financial goals

Financial Goals - specific objectives (or goals) that are accomplished through financial planning

Setting financial goals will help you make day to day spending decisions

Circle items in your letter that could be achieved by writing a financial goal



Elements of a successful goal...



S

Specific

M

Measurable

A

Attainable

R

Realistic

T

Time Bound

S = Specific

- Clearly defined end result
- Financial goal = state exactly what plan you have for the money involved

Lacey's Example	
Current Goal	SPECIFIC Goal
<ul style="list-style-type: none"> • I will reduce my debt. 	<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan.

M = Measurable

- Determine exactly when you will know that the goal has been met
- Financial goal = state the exact dollar amount

Lacey's Example

Current Goal	MEASURABLE Goal
<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan. 	<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan <u>by \$1,000.</u>

A = Attainable

- Create a step-by-step plan outlining exactly how the goal can be reached
- Financial goal = Often determined by a spending plan or budget

Lacey's Example	
Current Goal	ATTAINABLE Goal
<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan by \$1,000. 	<p>Lacey has an extra \$100 to spend:</p> <ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan by \$1,000 <u>by paying an extra \$100 per month</u>

R = Realistic

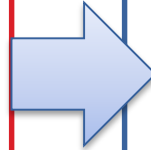
How do you determine if a goal is unrealistic?



Examine the consequences of that goal



Consider the trade-offs and opportunity costs

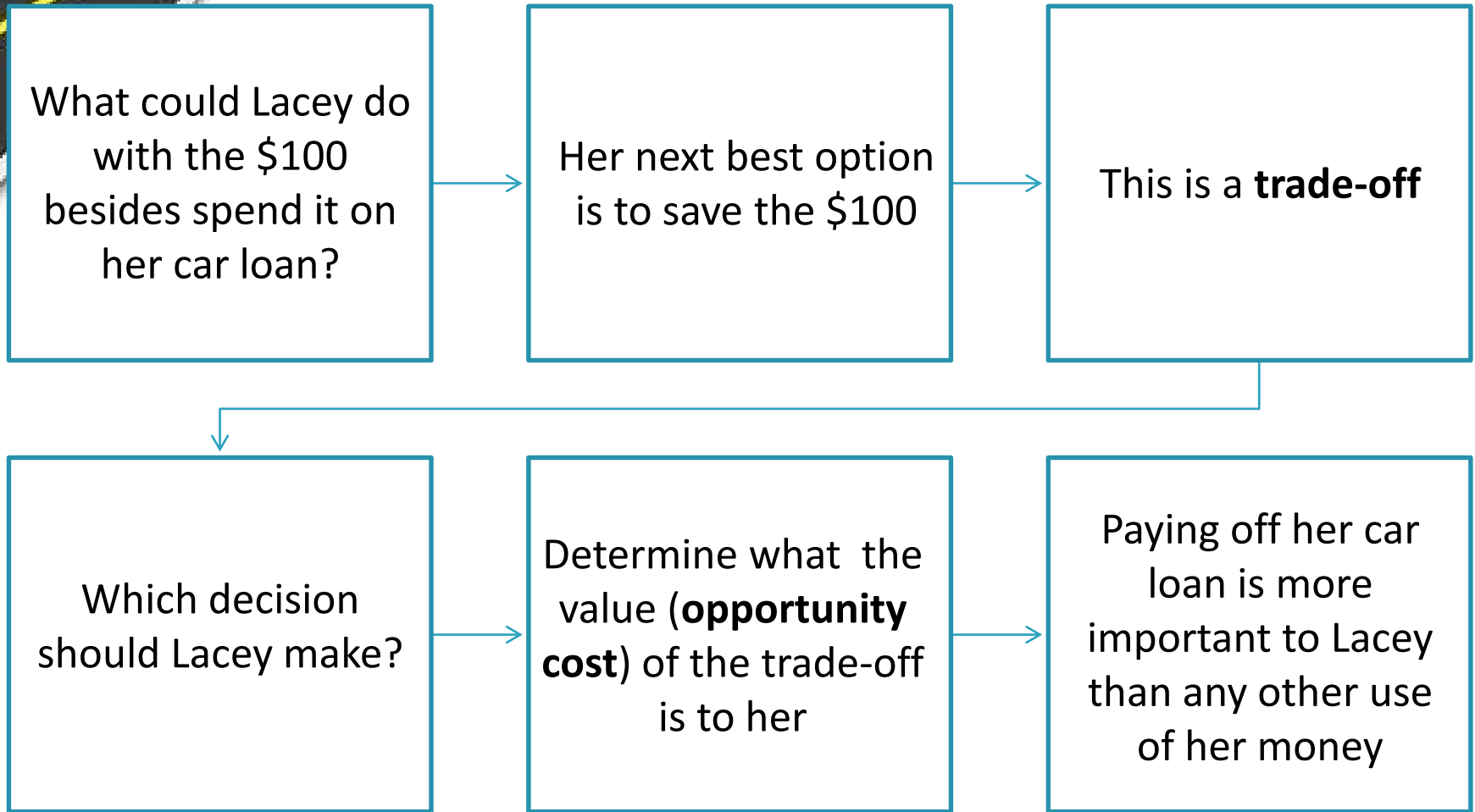


Trade-off -
giving up one thing for another



Opportunity cost -
the value of the next best alternative that you will give up as a result of your plan

Example



R = Realistic

Lacey's Example

Current Goal	REALISTIC Goal
<ul style="list-style-type: none"> I will reduce the amount I owe on my car loan by \$1,000 by paying an extra \$100 per month. 	<ul style="list-style-type: none"> Lacey has determined that paying her car loan is more important than any other use of her money. The opportunity cost of paying her car loan is higher than the alternative of saving that money.

T = Time Bound

- Specifically state when the goal will be reached
- Consider whether your goals are short-term or long-term
 - **Short-term goal** – attained in less than one year
 - **Long-term goal** – attained in more than one year
- Financial goal – make sure to consider your long-term financial needs when setting financial goals

Lacey's Example

Current Goal	TIME BOUND Goal
<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan by \$1,000 by paying an extra \$100 per month. 	<ul style="list-style-type: none"> • I will reduce the amount I owe on my car loan by \$1,000 <u>in 10 months</u> by paying an extra \$100 per month.

SMART Financial Goals Summary

**S****Specific**

State exactly what is to be done with the money involved

M**Measurable**

Write the exact dollar amount

A**Attainable**

Create a step-by-step plan outlining exactly how the goal can be reached

R**Realistic**

Think through the trade-offs and opportunity costs to analyze the consequences of your goal to make sure it isn't unattainable

T**Time Bound**

Specifically state when the goal will be reached

Show Me the Goal!



Austin's Book of Goals

Age 16

1. Save money

- Austin needs help writing a SMART goal
- He has identified all parts of the goal
- You need to help him classify each element of a SMART goal
- Then, combine the parts of the goal to create a final SMART goal

Remember the parts of a SMART goal...

**S****Specific**

State exactly what is to be done with the money involved

M**Measurable**

Write the exact dollar amount

A**Attainable**

Create a step-by-step plan outlining exactly how the goal can be reached

R**Realistic**

Think through the trade-offs and opportunity costs to analyze the consequences of your goal to make sure it isn't unattainable

T**Time Bound**

Specifically state when the goal will be reached

Match each part of Austin's goal with the correct SMART goal element

Specific

Measurable

Attainable

Realistic

Time Bound

Austin will spend \$25 less on entertainment every month in order to save that \$25 instead.

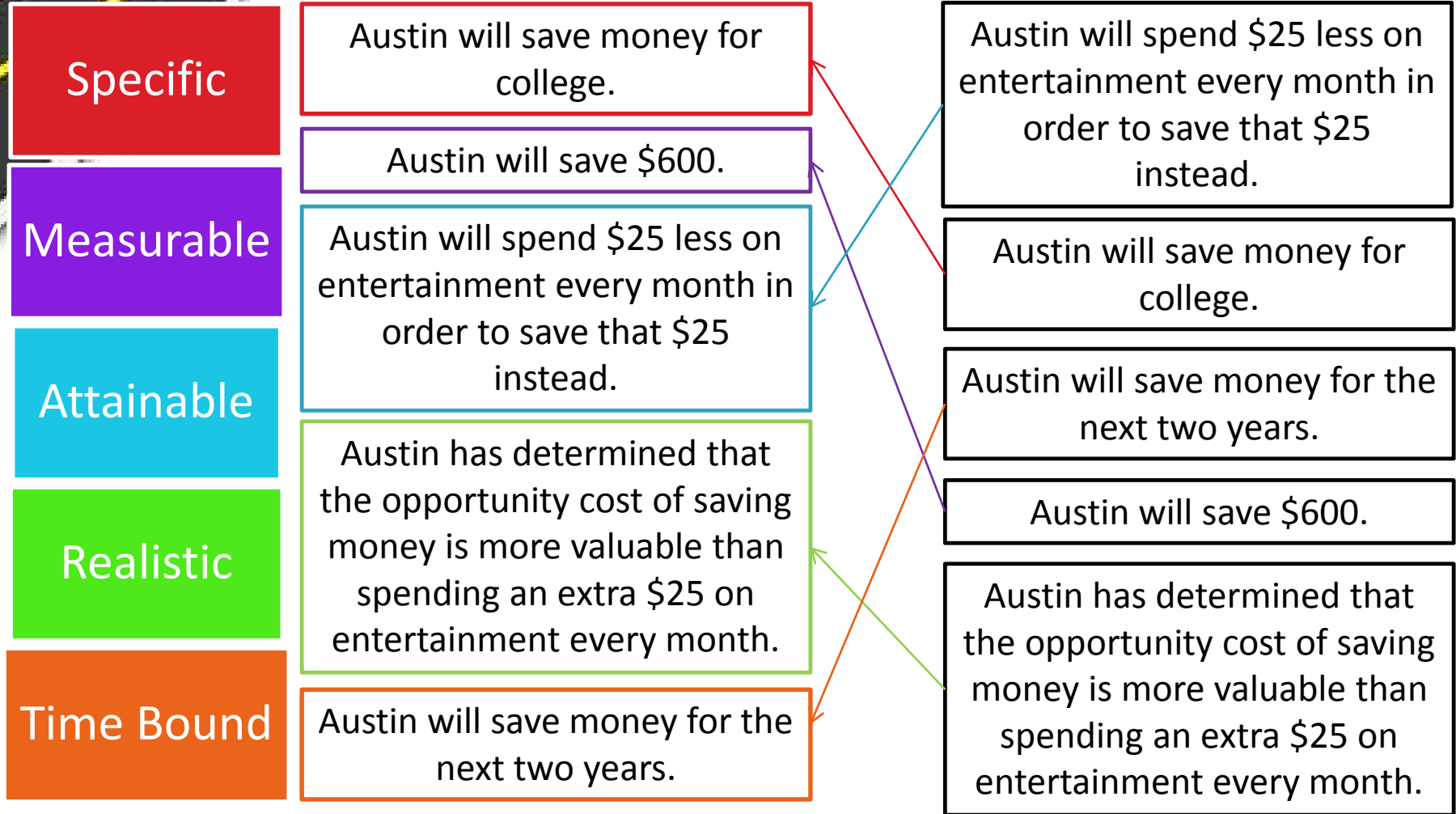
Austin will save money for college.

Austin will save money for the next two years.

Austin will save \$600.

Austin has determined that the opportunity cost of saving money is more valuable than spending an extra \$25 on entertainment every month.

Are you correct?



What is Austin's final SMART goal?

Specific

Austin will save money for college.

Measurable

Austin will save \$600.

Attainable

Austin will spend \$25 less on entertainment every month in order to save that \$25 instead.

Realistic

Austin has determined that the opportunity cost of saving money is more valuable than spending an extra \$25 on entertainment every month.

Time Bound

Austin will save money for the next two years.

Austin will save \$600 for college. Austin has decided that he is willing to spend \$25 less on entertainment every month in order to save \$25 per month for the next two years.

Show Me the Goal!



Specific

Measurable

Attainable

Realistic

Time Bound

1. The following goals do not contain all elements of a successful SMART goal
2. Identify the missing SMART goal element(s) for each

Show Me the Goal!

Specific

Measurable

Attainable

Realistic

Time Bound

Goal

I plan to save \$1,500 to buy a used car. I will do this by canceling my home cable service and saving that \$75 each month instead.

What is missing?

Time Bound!



Why?

- How long it will take to reach this goal has not been identified

Show Me the Goal!

Specific

Measurable

Attainable

Realistic

Time Bound

Goal

I plan to save \$2,500 by automatically depositing \$105 from my paycheck into a savings account each month for 2 years.

What is missing?

Specific!

Why?

- What the person is saving money for has not been identified

Show Me the Goal!

Specific

Measurable

Attainable

Realistic

Time Bound

Goal

I plan to save \$5,000 for college living expenses in four years.

What is missing?

Attainable and Realistic!

Why?

- How the goal will be reached has not been identified
- Because of that, it isn't possible to tell if the goal is realistic or not

Show Me the Goal!

Specific

Measurable

Attainable

Realistic

Time Bound

Goal


Instead of signing up for a cell phone plan, I will save that money to buy a new computer in one year. I will do this by saving the \$50 I would have spent on the cell phone bill every month.

What is missing?

Measurable!

Why?

- The amount of the computer has not been identified



Once you write a goal, how can you ensure that you reach it?

- Continually evaluate your goals
 - What will you do if something gets in the way of reaching your goal?
- Make your goals public
 - Ask a friend or family member to hold you accountable
 - Use a goal setting website
- Reward yourself for reaching your goal



Help Paul reach his goal

Paul would like to purchase a specific new cell phone that costs \$100.

Help Paul write a SMART goal to save money to purchase the new cell phone. But first you need to learn a little about him...

- Works part-time to earn \$225/month
- He is responsible for all expenses related to his car = \$175/month
- Remaining \$50 of paycheck is used for entertainment and savings
- Has \$125 in savings to pay for unexpected expenses
- He has a goal to keep a minimum of \$100 in savings
- Paul's mom is supportive of his decision and will help him stay on track
- Remember to consider what Paul will have to NOT spend money on in order to save money for his new phone

Does Paul's goal include all elements of a SMART goal?

**S****Specific**

State exactly what is to be done with the money involved

M**Measurable**

Write the exact dollar amount

A**Attainable**

Create a step by step plan outlining exactly how the goal can be reached

R**Realistic**

Think through the trade-offs and opportunity costs to analyze the consequences of your goal to make sure it isn't unattainable

T**Time Bound**

Specifically state when the goal will be reached

Life Happens...

Unexpected events = chance cards

1. Choose one:

1

A newer, more expensive cell phone is announced that costs \$150. Paul has decided that he would rather purchase the new phone.

2

Paul's car needed a minor repair that cost \$50.

3


Paul misses a shift at work, which decreases his paycheck by \$30.

4

Paul had to purchase \$35 worth of supplies to complete a final project for one of his classes.

2. Adjust Paul's goal to make sure he is still successful at reaching his goal!

Life Happens...



Was it hard to reevaluate Paul's goal
to adapt to life changes?



What would happen if Paul didn't
reevaluate his goal after unexpected
events occurred in his life?





Summary

What is a goal?

How can goal setting benefit you?

Why is setting financial goals important?

What are the elements of a SMART goal?

Now it's your turn!



1.

Write one SMART financial goal for yourself from your letter

2.

Ask your group members if your goal includes all of the elements of a well written goal

3.

Based upon feedback from your group, edit your goal