

The First Step to Financial Freedom

www.myretirementrehab.me/first-step-to-comprehensive-financial-planning/

Retirement Rehab

Most clients who come to me know the value of comprehensive financial planning for their future. They want to reduce debt, make smart investments, and develop multiple streams of income to protect themselves from the worst case scenario.

But they all still seem to hit a roadblock because they don't know where to start. Here's the first step.

Understand Your Cash Flow

Comprehensive financial planning involves having a clear understanding of your cash flow:

- How much do you earn?
- Where do your earnings come from?
- How much do you spend?
- What do you spend it on?

Your answers to these questions need to be precise, complete, and tabulated.

Why?

Most people in the US (my past self included) don't have a realistic picture of how their income and spending are related. According to the Bureau of Labor Statistics' [Consumer Expenditure Survey](#), household spending grew by 25% in the US between 2004 and 2014, returning to pre-recession levels.

This is surprising, since median household income never recovered from the Great Recession. In fact, it fell 13% during the same period. Economists say a "growth in consumer confidence" is the reason.

People tend to make a lot of financial decisions based on the idea of having more money, not *the reality* of having more money. You buy a new car because your Christmas bonus is on the way. Or you offer to pay your daughter's Ivy League tuition in full because you know you're about to get that raise.



Take A Hard Look at Your Lifestyle and Spending Habits

So if you're ever going to get a grip on your finances and achieve comprehensive financial planning, you need to stop spending fantasy money. Instead take a cold, hard look at your own cash flow data.

Here's the basic information you'll need:

- **Your paycheck**

If you receive a bi-monthly paycheck, multiply it by two to figure your monthly income. Or divide your annual salary by 12.

- **Your living expenses**

Look at all your accounts and determine your monthly living expenses for the month. What categories do they fall into? (E.g. transportation, housing, utilities, food and groceries). The more granular you can be, the better, because you'll need this information later on.

- **Your credit card and loan statements**

Determine increases or decreases in balance from all your credit card and loan statements during the month.

- **Your investment account contributions**

Calculate contributions to any of your investment accounts, including retirement accounts.

- **An account of annual expenses**

What other expenses do you have that weren't captured in your monthly evaluation? (E.g. annual insurance premiums, tax expenses, children's tuition).

Once you have your data, you can map it out on a spreadsheet starting from the beginning of the year. Soon, you can visualize your progress towards comprehensive financial planning.

Dig Deeper

Given this financial picture, are you saving enough for retirement? The answer is probably no.

But once you have a clear idea of what your current cash flow is, it's easy to identify the problems with it.

And don't worry, this is the easier part. [Data from the UK](#) shows that transportation is the biggest average weekly expense for household, and the cost goes up every year. Probably because people keep buying more cars.

What's the biggest expense for your household? Seeing it written down with clear numbers will make it easier to evaluate just how essential (or non-essential) this expense is for your household. Take a deep breath and ask yourself if your housing situation can be changed. In almost all cases the answer is yes. It's not a simple thing to do but making this one change can drastically affect your retirement funds.

If you'd like to move on to the next step of comprehensive financial planning with us. Hop on our list for the fresh, real-world ideas and solutions.



[Click here](#) for more information on retirement in the New Economy.

