

HOW TO PREPARE YOUR 2021 FINANCIAL PLAN

Thoughts & Considerations

By

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WHAT'S A FINANCIAL PLAN?

- A **financial plan** is a comprehensive picture of your current finances, your **financial** goals and any strategies you've set to achieve those goals.
- Good **financial planning** should include details about your cash flow, savings, debt, investments, insurance and any other elements of your **financial** life.
- Financial planning is the process of outlining how your money, investments and other assets can help you meet your financial goals.

WHY IS A FINANCIAL PLAN IMPORTANT?

- Greater control of your income, expenses and investments
- Helps you to set SMART goals
- Tool for building and managing wealth
- Guide to better decision making
- Life's uncertainties can be overwhelming
- Roadmap to a better financial future
- Improved quality of life

HOW DOES ONE GO ABOUT PREPARING A FINANCIAL PLAN?

START WITH A REVIEW OF THE CURRENT SITUATION...WHERE YOU ARE TODAY FINANCIALLY? WHAT'S YOUR NET WORTH?

| ASSETS (What You Own) | Naira | LIABILITIES (What You Owe) | Naira |
|---|------------------|----------------------------|-----------|
| Cash in Bank | 250,000 | Loans | 850,000 |
| Cash in Hand | 50,000 | Taxes | 220,000 |
| Landed Property | 5,000,000 | Rent | 1,000,000 |
| Vehicles (Current Value) | 2,000,000 | Utilities | 22,500 |
| Investments | 500,000 | Other Liabilities | 100,000 |
| Pension Account | 1,000,000 | | |
| Stock of Goods | 995,000 | | |
| Outstanding payments | 100,000 | | |
| Total Assets | 9,895,000 | Total Liabilities | 2,192,500 |
| Net Worth (Assets – Liabilities) | 7,702,500 | | |

YOU ALSO NEED TO KNOW HOW YOUR MONEY HAS BEEN COMING & GOING...MAKE 12-MONTH PROJECTIONS IF YOU DON'T HAVE DETAILS

| INCOME (Inflows) | Naira | Expenses (Outflows) | Naira |
|--------------------------|------------------|-----------------------|------------------|
| Salary | 2,400,000 | Fuel for Car | 250,000 |
| Side hustle Income | 300,000 | Holiday Travel | 245,000 |
| Cash Gifts | 100,000 | Telephone & Data | 135,000 |
| Performance Bonus | 100,000 | Clothing | 225,000 |
| Rental Income | 200,000 | Entertainment | 65,000 |
| Investment Income | 50,000 | Electricity | 240,000 |
| | | Feeding | 600,000 |
| | | House Rent | 1,000,000 |
| Total Inflows | 3,150,000 | Total Outflows | 2,760,000 |
| Surplus (Deficit) | 390,000 | | |

ONCE YOUR CURRENT SITUATION IS KNOWN YOU CAN NOW SET S.M.A.R.T GOALS

SHORT TERM (In 12 months time)

- Increase my salary income by 40%
- Payoff all my outstanding loans
- Cancel all holidays to free funds for investment
- Keep N200,000 in my emergency fund
- Invest 25% of my subsequent surplus
- Reduce telephone expenses by 25%

LONG TERM (In 5 years time)

- Triple my salary and side hustle incomes
- Purchase land worth N2 million for my 2nd property
- Make provisions of N240,000 annually for my aged parents
- Get married
- A net worth of N25 Million

EVERY SMART GOAL MUST HAVE A WORKABLE STRATEGY FOR ITS ACCOMPLISHMENT

Goal: Save N200,000 in my emergency fund by December 2021

Strategy

1. Give my bank instruction to take N15,000 out of my salary account monthly to my emergency fund account
2. Save 5% of any additional income from my side hustle or cash gifts in my emergency fund
3. Invest 25% of my rental income in a high yield investment that guarantees 20% p.a

Goal: To get married by December 2025 at the very latest

Strategy

1. Save 50% of all my side hustle income in a high yield savings account
2. Develop additional skill sets to enable me earn at least 50% more in the next 12 months and save 25% of that income
3. Make 20% of my investment income also be included in the high yield savings account

CREATE A PLAN TO PAY YOUR DEBTS

- You can't make huge progress with your short and long-term goals if your interest and repayments are weighing you down. So figure out how to pay what you owe first.
- Start by creating a plan to get rid of your most problematic debts.
- The bottom line is you need to take action and start working towards being debt-free.

ESTABLISH YOUR EMERGENCY FUND

- An emergency fund is like a financial safety blanket.
- No matter how “prepared” you think you are, there’s always a chance that some unexpected cost will come and sweep you off your feet.
- Emergency funds protect you against things like unexpected illness, suddenly losing your job, or even just a bill that you forgot to pay.
- While the exact amount of emergency funding you have depends on you, it should generally cover about 3 to 6 months’ worth of your fixed expenses.

START INVESTING

- The next step is building whatever wealth you already have, so you're prepared for the future. You can begin focusing on your savings and making investments.
- You might have different plans to suit your short-term and long-term goals. For instance, your short-term financial plan might cover the steps you're going to take to build wealth now.

KEEP TRACK OF YOUR PLAN

- The importance of a financial plan is something you can't afford to underestimate.
- The more you know about your current financial situation and where you're headed, the more confident you'll be in your spending.
- However, getting a financial plan example template and building your own strategy is just the first leg of the journey. You also need to commit to actively tracking your progress.
- Check in every three months or so, and make sure you're moving in the right direction. A lot can change in your financial situation within just a few weeks.
- Remember to update your plan when significant events occur in your life too. Having a child, getting married, or purchasing a new home will all create new considerations for you to deal with.

TRACK YOUR SPENDING MONTHLY/BUDGET

| Inflows | Budgeted (N) | Actual (N) | Expenses | Budgeted (N) | Actual (N) |
|--------------|----------------|----------------|---------------|----------------|----------------|
| Salary | 225,000 | 185,000 | Fuel for Car | 25,000 | 35,000 |
| Side Hustle | 100,000 | 25,000 | Telephone | 22,500 | 40,000 |
| Cash Gifts | 50,000 | nil | Feeding | 50,000 | 75,000 |
| | | | Entertainment | 10,000 | 2,500 |
| | | | Internet | 10,000 | 10,000 |
| TOTAL | 375,000 | 210,000 | TOTAL | 117,500 | 162,500 |
| | | | | | |

THE FINAL WORD

- There are lots of free resources and apps you can use to create your financial plan. Alternatively you could use excel or sheets of paper. A plan doesn't have to be too fancy
- Financial plans aren't just for people with high income. Anyone can utilize them to identify their goals and create a plan for achieving them.
- If you create a financial plan today, you would be able to work on achieving your life's goals strategically.
- It doesn't matter where you stand. The important thing is that you get to fulfill your ambitions while improving your financial stability.

QUESTION TIME

Next Event

Title: The Nigerian Economic Outlook for 2021

Speaker: Dr. Bongo Adi (Research Fellow and Lecturer at Lagos Business School, World Bank Consultant)

Date: January 16th, 2021 (Every 3rd Saturday of the month by 7:30pm.)

