

# 6 Major Components of a Comprehensive Financial Plan

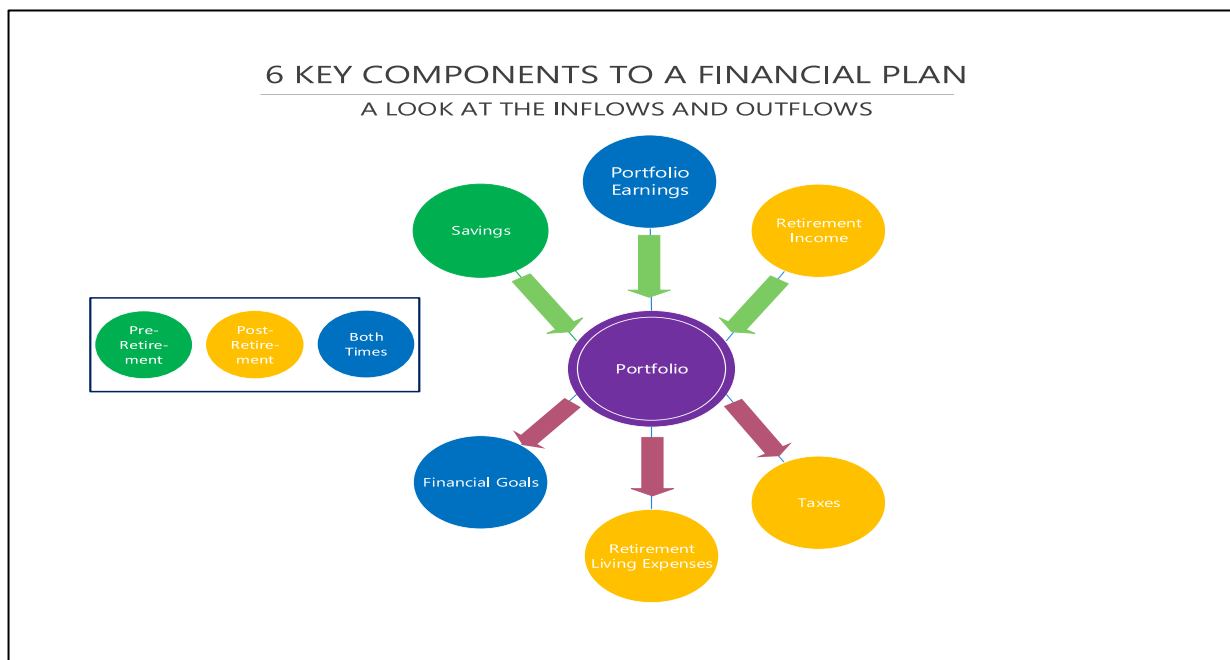
As a CERTIFIED FINANCIAL PLANNER™, I enjoy working on financial plans for families so that they can feel more confident in achieving financial independence during their lives.

Comprehensive financial plans can be complex, but they all contain 6 major components:

1. Savings;
2. Retirement income;
3. Retirement living expenses;
4. Taxes;
5. Portfolio earnings; and
6. Financial goals.

All these components revolve around a **portfolio** of assets that will be *added to* and *subtracted from* to provide for all the expectations of the financial plan.

Here's a picture of these components:



Each component happens at a certain time during the plan and causes *assets* to flow into or out of the portfolio. A more detailed description of each component is as follows:

## Pre-Retirement Period:

1. **Savings:** Savings start the portfolio and add to it during your working years. The earlier you start, the better. And the more you put in, the better. These become your portfolio *assets* which are invested to grow and provide a major piece of your retirement funds (more on that in a minute).

## Post-Retirement Period:

2. **Retirement Income:** These are the funds that you receive after you retire from your (at least *major*) career. This income will come from a combination of Social Security benefits, pension plans (traditional pension plans - which are rare these days, and 401-k plans), annuities, trusts, asset sales, and working another job.
3. **Retirement Living Expenses:** These expenses are for your day-to-day living during your post-retirement period. This is made up of many of the expenses you incurred during your pre-retirement period (food, housing, travel and entertainment, etc.), but it typically won't include savings, Social Security taxes, payroll taxes, and pre-retirement health care insurance. Outside of the size of your portfolio, this is the single most important component of having a successful plan (which means - not running out of money before you die!).
4. **Taxes:** You will continue to pay income taxes, though this will be on different things than before. You'll pay taxes on your pension, annuities, trust payments; on your Social Security benefits (though the amount that you are taxed on will change based on your other income), any other work income, and withdrawals from your (non-Roth) retirement plans. Note that the government requires that you withdraw a certain amount each year from your (non-Roth) retirement accounts once you reach 70 ½ years old.

## Both Pre- and Post-Retirement Periods:

5. **Portfolio Earnings:** The assets in your portfolio are invested so that they can grow to provide you with the resources needed to fund all your financial goals. This money will earn a (hopefully) *real* return, meaning above and beyond inflation. And depending on your time horizon on when you will start withdrawing funds from your portfolio, these assets can be put in long-term investments that will be at higher risk but provide higher returns. And - if managed appropriately - the risk taken in the portfolio will reduce over time as you get closer to retirement.
6. **Financial Goals:** And finally, the essence of your financial plan are the goals you and your family want to achieve during your lifetimes. These are the significant, major expenses you will incur during your lifetime, both pre- and post-retirement, that will be paid out of your portfolio. Another way to look at these is that they are the life events such as weddings, travel, second homes, education funding, new car, etc. that require funding from your portfolio. Of course, the key assumptions here are how much the goal will cost and when you will need it.

There are many other facets to a comprehensive financial plan. But understanding these 6 major components and how they work together in a financial plan will greatly increase the chances of achieving the financial independence that a quality financial plan will provide.