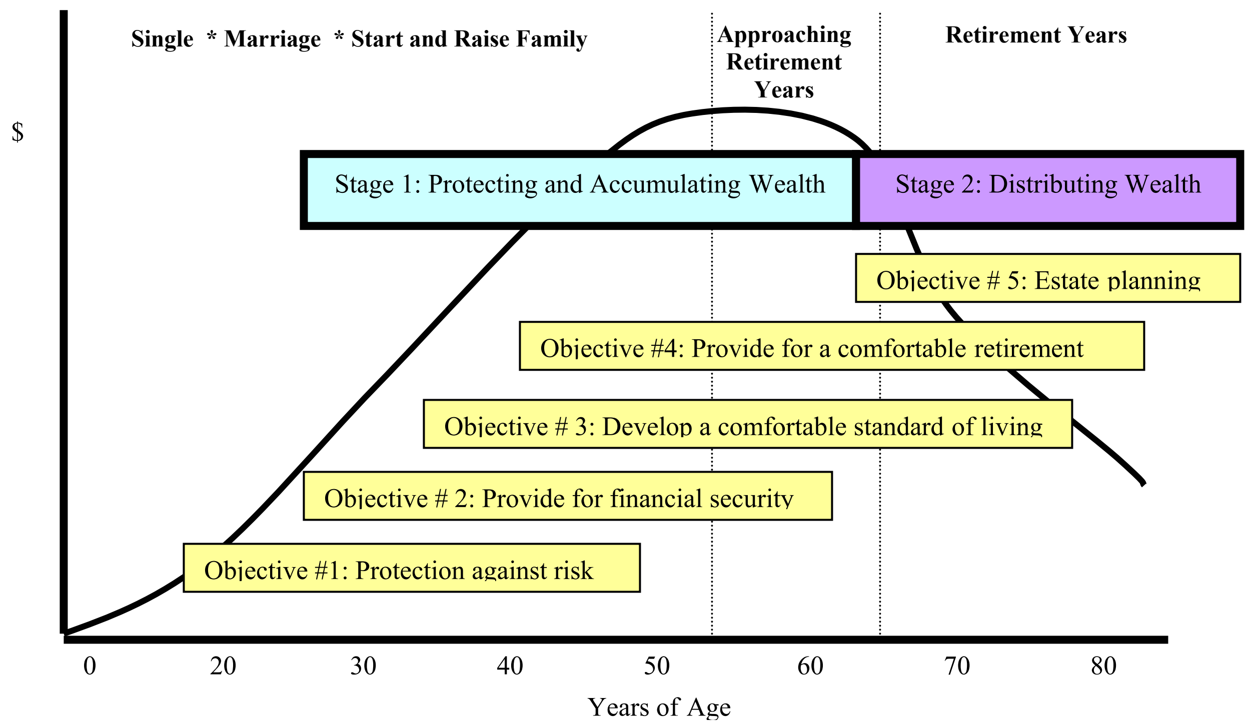
University of Wyoming
Cooperative Extension Service

The Life Cycle of Financial Planning

People's financial needs change throughout their lives. While there is a typical financial life cycle pattern that applies to most people, every family and individual might be faced with unexpected events at any time that are difficult to predict if and when they might occur, and are not planned for in the financial life cycle.

Figure 1 – An Individual's Financial Life Cycle and Corresponding Financial Objectives



There are certain commonalities in a typical financial life cycle such as the need to protect your family against risk; accumulate wealth; and distribute your wealth and provide for an orderly transition of your assets. Lifestyle situations will affect your financial situation and requirements at different stages in life.

The lifestyle situations include but are not limited to the following:

- Marital Status – single, married, divorces, widowed
- Employment Status – employed, unemployed, facing unemployment
- Age
- Number of Dependents – children, spouse, parents, other family members
- Economic Outlook – interest rates, employment level
- Education – education level of family members, tuition needs for children
- Health Status

Although each person sets specific financial goals throughout one's life cycle, five basic financial objectives apply to most people.

Objective #1. The first financial objective is to protect yourself against risk in two ways. The first way is to protect against risk of the unexpected by setting up emergency funds. The second way is to protect against risk by purchasing an adequate mix of insurance that will cover life, disability, health, property and casualty, and automobile.

Objective # 2. The second financial objective is to provide for the financial security of yourself and your family. This may include providing financial security for extended family members, providing partial or full financial needs for education of family members, purchase of home, cars, and other basic needs. The objective is to provide adequate financial security without placing undue stress on your resources to cause financial crisis.

Objective # 3. The third objective is to have a comfortable standard of living that goes beyond the financial security provided for in objective #2. You might want to have some of the added benefits of life such as vacations, memberships in clubs, entertainment and relaxation, a second home, additional cars, and time from work to pursue other interests.

Objective #4. The next objective is to provide for a financially independent, comfortable retirement during your later years that will provide the same standard of living that you enjoyed during your working years.

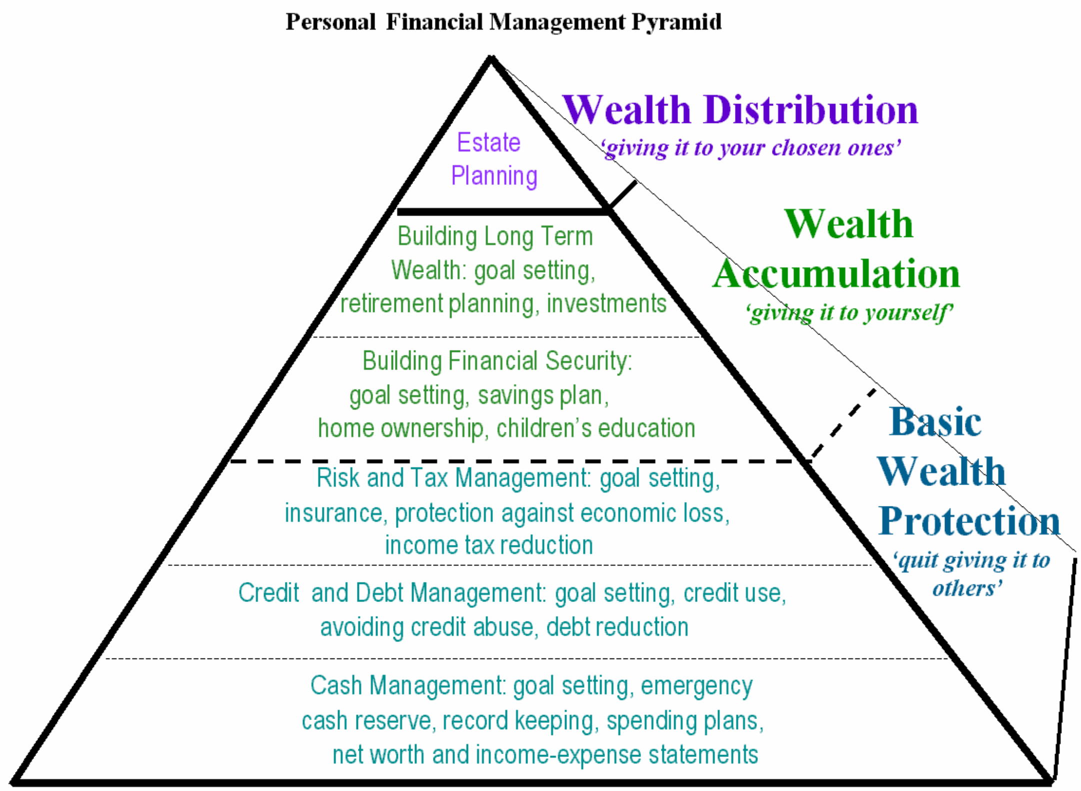
Objective #5. The final financial objective is to provide for an orderly transition and distribution of your assets and wealth. This objective is usually called "estate planning" and should be an important objective whether you have accumulated a large estate or not.

The Personal Financial Management Pyramid

The financial management pyramid shows the levels that contribute to a well-managed and balanced financial strategy recommended for individuals. The pyramid follows the typical individual's life cycle, starting with the basic financial requirements at the bottom of the pyramid to establish strength and stability for a healthy financial foundation, and moving up the pyramid to the top where distribution of wealth to one's chosen beneficiaries is the final financial strategy. Decisions about one level have a strong impact on what is done at each higher level of the pyramid. For example, if you have not established a realistic spending plan, you may have a difficult time when it comes to using credit wisely and not spending more than you earn, which subsequently will have an impact on saving for a down payment and qualifying for a home mortgage.

Your financial life becomes more complex as you move up the pyramid. The financial complexities and the changes in your life may require you to re-evaluate your strategies and set new financial goals periodically.

Figure 2 – Personal Financial Management Pyramid



Prepared by Gail M. Gordon, University of Wyoming Cooperative Extension Service, 2001.