CHAPTER 1

THE FINANCIAL PLANNING PROCESS

CHAPTER CONTEXT: THE BIG PICTURE

This chapter introduces the financial planning process and is the first chapter in the four-chapter section entitled "Part 1: Financial Planning." This section of the text introduces the financial planning process, demonstrates the use of quantitative tools for measuring financial well-being, explains the importance of considering the time value of money in the financial planning process, and shows the impact of taxes on financial decisions. Chapter 1 establishes the foundation of the text by convincing students of the need for financial planning, the steps to be followed, and the benefits to be gained. Basic "principles" of financial management logic are introduced and serve to integrate the remainder of the text.

CHAPTER SUMMARY

This chapter establishes the importance of financial planning as a continuing process for achieving current and future financial, or lifestyle, objectives. A five-step process for personal financial planning is introduced. Setting financial goals is established as the cornerstone of the financial plan. The three stages of the financial life cycle provide a framework for considering the evolution of a financial plan in response to changing goals. Finally, the relationships among education, earnings potential, career choice, and career management are established. The chapter concludes by introducing the ten principles that guide financial planning and integrate the remainder of the text.

LEARNING OBJECTIVES AND KEY TERMS

After reading this chapter, students should be able to accomplish the following objectives and define the associated key terms:

1. Explain why personal financial planning is so important.

2. Describe the five basic steps of personal financial planning.
   a. liquidity

3. Set your financial goals.
   a. estate planning
   b. inflation

4. Explain how career management and education can determine your income level.

5. Identify and explain how skills acquired in this course will help you get a job and advance in it.

6. Explain the personal finance lessons learned in the recent economic downturn.

7. List the ten principles of personal finance.
   a. compound interest
   b. diversification

CHAPTER OUTLINE

I. Facing Financial Challenges
   A. How might student loan debt affect your future?
   B. Why isn't personal financial planning easy?
   C. What can you accomplish as a result of this text and course?
      1. Manage the unplanned
      2. Accumulate wealth for special expenses
      3. Save for retirement
      4. "Cover your assets"
      5. Invest intelligently
      6. Minimize your payments to Uncle Sam

II. The Personal Financial Planning Process
   A. Step 1: Evaluate Your Financial Health
   B. Step 2: Define Your Financial Goals
      1. Specifically define and write down your financial goals
      2. Attach a cost to each goal
      3. Set a date for when the money is needed to accomplish the goal
   C. Step 3: Develop a Plan of Action
      1. Flexibility
      2. Liquidity
      3. Protection
      4. Minimization of taxes
   D. Step 4: Implement Your Plan
   E. Step 5: Review Your Progress, Reevaluate, and Revise Your Plan

III. Establishing Your Financial Goals
   A. What are the time horizons for financial goals?
      1. Short term
      2. Intermediate term
      3. Long term
   B. Why is it important to prioritize, rank, and reevaluate goals so that they become the cornerstone of your financial plan?
   C. The Life Cycle of Financial Planning
      1. Stage 1: The Early Years—A Time of Wealth Accumulation
      2. Stage 2: Approaching Retirement—The Golden Years
      3. Stage 3: The Retirement Years

IV. Thinking About Your Career
  A. Choosing a Major and a Career
    1. Conduct a *serious* self-assessment to determine skills and interests
    2. Research career alternatives to identify careers that value your skills, interests, and abilities
    3. Learn more by talking to professionals or academic advisors or using the Internet
    4. Choose a career, but don't ignore earnings potential
  B. Getting a Job
    1. Three reasons to start early
    2. Be prepared for the interview, including the most common questions
  C. Being Successful in Your Career
    1. Do your best work
    2. Project the right image
    3. Understand and work within the power structure
    4. Gain visibility for your contributions
    5. Take new assignments to gain experience and organizational knowledge
    6. Be loyal and supportive of your boss
    7. Acquire new skills, particularly skills that are hard to duplicate
    8. Develop a strong network of contacts—for future opportunities
    9. Uphold and maintain ethical standards—ethical violations end careers
  D. What Determines Your Income?
    1. Earnings determine standard of living
    2. Education determines income level
  E. Keeping a Perspective—Money Isn't Everything

V. Developing Skills for Your Career
  A. Good personal finance skills can help get and keep a job
  B. Poor credit history can prevent you from getting a job or promotion
  C. Personal finance skill sets
    1. Critical thinking
    2. Information technology and computing skills
    3. Ethical problems/issues

VI. Love & Money
  A. Main Causes of Stress in Your Relationships

VII. Lessons from the Recent Economic Downturn
  A. Recessions can cause worry, stress, and concern for the future
  B. Avoid overspending, not saving, and acquiring too much debt
  C. Fund an emergency fund
  D. Start thinking about and funding retirement at an early age

VIII. Ten Principles of Personal Finance
   A. Principle 1: The Best Protection Is Knowledge
   B. Principle 2: Nothing Happens Without a Plan
   C. Principle 3: The Time Value of Money
   D. Principle 4: Taxes Affect Personal Finance Decisions
   E. Principle 5: Stuff Happens, or the Importance of Liquidity
   F. Principle 6: Waste Not, Want Not—Smart Spending Matters
   G. Principle 7: Protect Yourself Against Major Catastrophes
   H. Principle 8: Risk and Return Go Hand in Hand
   I. Principle 9: Mind Games, Your Financial Personality, and Your Money
   J. Principle 10: Just Do It!

VII. Behavioral Insights
   A. Principle 9: Mind Games, Your Financial Personality, and Your Money

VIII. Action Plan
   A. Principle 10: Just Do It!

APPLICABLE PRINCIPLES

In future chapters, relevant principles considered will be listed to facilitate review and discussion. Because the principles are introduced in this chapter, it is important that students become familiar with the concepts as a foundation for future study and application throughout the text.

SUGGESTED PROJECTS

Projects can be assigned as in-class group activities or assigned as homework to increase the applied understanding of key concepts from the chapter.

1. Ask students to identify the most difficult step in the financial planning process. In other words, what causes the most uncertainty—getting started, taking action, or evaluating progress and taking the necessary corrective action? Encourage students to defend their answers or use personal examples to justify their choices. How are procrastination and lack of time factors at any step in the process?

2. You can think of a financial plan as a “financial road map to guide you through life.” Develop a visual display that illustrates this concept and the five steps of the financial planning process. Try to incorporate examples that illustrate how the “new roads” on the map may change over the life cycle. What are some financial issues to account for when developing new romantic relationships?

3. Provide opportunities for students to use *Worksheet 1, Personal Financial Goals Worksheet* (Figure 1.2), to identify short-, intermediate-, and long-term goals relevant to, and realistic for, their personal and financial lifestyle. Anticipated cost could be based on a "guesstimate" or actual research; however, this project could be revisited in Chapter 3, when future value calculations could be incorporated to yield more accurate cost and savings estimates. Discuss how these goals might change in the future. Why might they change? Relate the discussion to why people need and should want a financial plan.

4. Interview three heads of household, each from a household representing a different stage of the life cycle or socioeconomic status. Inquire about their financial planning process and their strategies to identify and save for short-term, intermediate-term, and long-term goals. Report your findings.

5. Visit your campus career counseling office to learn about the services available to assist you with your career search and your job search. What career management services, if any, are available after you graduate?

6. As a foundation for your financial planning, visit the U.S. Department of Labor Career Guide to Industries at **www.bls.gov/oco/cg** to determine the earnings, benefits, and employment outlook for a position in your career field. What educational requirements are necessary for entry and advancement in the field?

7. To help students relate to their own fear of finance and comfort with money, ask the class to recall (1) their earliest memories of money and its meaning, (2) their personal "awareness" of their socioeconomic status relative to other classmates/friends, and (3) the approximate age when both occurred. Continue the exercise by asking students to identify one word they associate with money (common examples include love, freedom, independence, security, anger, envy, etc.). Conclude the discussion by integrating the themes around the text statement, "either you control your finances, or they control you—it's your choice."

8. As a group project, have each member of the group visit a financial professional (e.g., benefits officer, stockbroker, insurance company representative, loan officer, banker, financial planner). Present the list of ten principles that form the foundations of personal finance. Ask the professional to pick the three to five principles that he or she considers to be most important to personal financial success. Share the results in your group and prepare an essay or oral report of your findings. Which principles appear to be most important?

REVIEW QUESTIONS AND ANSWERS

Review questions can be asked throughout the chapter as a way to gauge student interest and understanding. Answers follow each question.

1. Why is financial planning, or just plain money management, a challenge for most people?

Financial planning, or just plain money management, is a problem for most people for several reasons. First, the skills required don't just happen—they have to be learned. Second, learning the skills isn't always easy. Classes may not be readily available in high school; good habits may not be taught, demonstrated, or even discussed at home; and financial management topics and vocabulary can be intimidating. Furthermore, a "fear of finance" may develop from family disagreements about money and a lack of financial knowledge. Your salary will not increase as a result of financial planning, but having a financial plan will help you better allocate the money you earn toward the financial goals that are really important to you both today and in the future. Everyone *needs* to plan their finances by establishing, tracking, and achieving various financial and personal goals for their current and future situation.

2. How does Step 5 of the financial planning process contribute to the idea that "financial planning is an ongoing process"?

Step 5 focuses on a *review* of progress toward goal achievement, a *reevaluation* of the current financial situation and the need for new or different goals, and the *revision* of the plan in response to these changes. Because your life situation and life goals will change over time, "financial planning is an ongoing process" that keeps your road map up-to-date with your direction of travel.

3. What three characteristics are required to define financial goals? Once identified, why is it important to rank goals?

As the foundation of your plan, financial goals should be specific, realistic, and a reflection of your financial and life situation. To define financial goals ask yourself (1) what, (2) how much, and (3) when. In other words, formalize the goal by writing it down, calculating the cost, and determining when the money will be needed. Setting and ranking goals helps you to decide which ones are most important and if you are truly willing to make the commitment to achieve them.

4. Explain the time horizon for short-term, intermediate-term, and long-term goals. Give an example of each.

Short-term, intermediate-term, and long-term goals are similar in that all represent important financial objectives to be accomplished in the future. They differ in time horizon. Short-term goals, such as paying off a credit card, can be accomplished in less than one year. Intermediate-term goals require from one to ten years, such as saving enough money for a down payment on a home. The most common long-term goal, which takes decades of savings, is to retire comfortably, that is, not slinging burgers at a fast-food joint or standing for hours as a greeter at a "big box" store for extra income.

5. List and characterize the stages of the financial life cycle. What three financial concerns are addressed across all three stages?

Three stages make up the financial life cycle:

- Stage 1: The Early Years—A Time of Wealth Accumulation sets the stage for the family and financial lifestyle. It is the longest stage. Buying a home, managing debt, saving for future goals, investing, planning for taxes, purchasing insurance, and beginning an estate plan characterize this stage. Marrying at a later age than normal, divorce, or remarriage may complicate the financial tasks associated with Stage 1.
- Stage 2: Approaching Retirement—The Golden Years focuses on final efforts to accomplish retirement plans and to create wealth. Insurance protection and estate plans must be reviewed. Goals, such as paying for a home and children's education, are achieved. Corporate downsizing, voluntary career changes, responsibility for aging parents, or death of a spouse could interrupt plans for accumulating a retirement nest egg or other wealth.
- Stage 3: The Retirement Years focuses on preserving wealth through management of savings and assets. Insurance needs may change, with increasing concerns for medical or nursing home care. Estate planning efforts to reduce taxes and to protect assets for heirs may be important. Remarriage or postponed first marriage that resulted in children born later in life, responsibility for aging parents, or chronic health care needs could complicate wealth preservation after retirement or necessitate part-time employment.

Insurance planning, tax and estate planning, and saving for goals, including periodic reassessment of the retirement goals, are three financial concerns that span the life cycle.

6. Define career planning. How is it related to financial planning?

Career planning is a process of learning about yourself and the job market to identify a career field that capitalizes on your skills and interests, provides necessary financial support for your lifestyle, allows the needed balance between work and personal life, and is personally enjoyable and satisfying. The objective of financial planning is to use the income generated from employment and investments (e.g., earned and unearned income) to accomplish the desired lifestyle and standard of living. For most people, their lifestyle is based on their employment earnings. The job pays, and it pays to be happy in the job!

7. List three reasons why college seniors returning to campus for the fall semester should have a résumé already prepared.

College seniors should return to campus with a résumé because

- The hectic fall schedule will likely prevent you from immediately preparing a résumé.
- Starting your job search immediately conveys to employers that you are organized and serious about employment—attributes important to potential employers.
- Many companies begin recruiting in the fall.

8. What do you think will be the five most important strategies for success in your career field?

Although individual student answers will vary, recommended strategies that are universally applicable include the following:

- Do your best work.
- Project the right image.
- Understand and work within the power structure.
- Gain visibility for your contributions.
- Expand your knowledge of the operation through new assignments.
- Show loyalty and support for your boss.
- Continually improve your skills, particularly skills that are hard to duplicate.
- Develop a strong network of contacts, for future opportunities including a new job.
- Uphold and maintain ethical standards. Ethical violations end careers.

9. Why is financial knowledge the best protection when faced with daily financial decisions?

Having a solid foundation of financial knowledge offers protection by doing the following:

1. Enabling you to protect yourself from incompetent advisors
2. Providing you with the impetus to plan for the future
3. Giving you the ability to make intelligent financial and investment decisions
4. Allowing you to apply the principles of personal finance to a wide variety of situations

10. Explain why it is important to review past economic downturns when studying personal finance.

Understanding how economic downturns affect individuals and families indicates how vulnerable Americans are to losses in income and assets. The study of downturns also shows how important personal finance topics are in the daily lives of families. By looking at economic events and how such events shape consumer perceptions, it may be possible to plan in such a way that minimizes future downturns. People tend to have short memories. By studying the past, it is possible to prepare for the future.

11. What are the two reasons investors demand compensation when saving money or making an investment? Explain how Principles 3 and 8 affect the choice to delay consumption. Why might investors who ignore these principles lose money?

Investors want compensation for

- Postponing consumption. In other words, they are delaying the benefit from spending their money today.
- Risk associated with the investment. They want a higher expected return in exchange for choosing an investment with additional risk.

Inflation will reduce the purchasing power of investors' money, so investors should require a rate of return that is greater than the average rate of inflation. Wealth is created by investing savings and allowing the investments to grow over time, which means delaying consumption! Further, the amount of risk prudently undertaken should be in direct correlation to the amount of return available and the length of time the consumption can be delayed. Investors who ignore these principles are more likely to lose money.

Principles 3 and 8 address the investors' decisions to defer spending. Simply stated, investors require a base amount of compensation to cover the loss of purchasing power due to inflation. In addition, they require extra compensation for relinquishing control of their money for longer periods of time or in riskier investments. And the longer the time horizon, or future date when the investment funds are needed, the more risk the investor can take.

PROBLEMS AND ACTIVITIES ANSWERS

1. Studying personal financial planning might help you to accomplish the following:
- Manage unplanned events and avoid the problem of going to the coin-operated laundry because your washer is beyond repair and you have no emergency funds for buying a new one.
- Accumulate wealth for special goals and avoid the problem of never taking that trip to Australia that you once promised yourself.
- Realistically plan for retirement by estimating future costs and the necessary current savings to meet that goal. This will avoid the problem of having to work during your "golden years" or having to sell your home because you can no longer afford it.
- Use insurance to "cover your assets" to avoid the problem of driving a car with a badly dented fender because you couldn't afford the repair bill.
- Invest intelligently to avoid the problems associated with poor choices in investment advisors and investment products.
- Minimize taxes to avoid the problem of paying more taxes than necessary on your income or your investments.

2. Steps in the financial planning process, and examples related to financial tasks, include:
- Step 1: Evaluate your financial health. Task: Record all expenses for a month to compare income and expenses.
- Step 2: Define your financial goals. Task: Pay off credit card(s) by the end of this school term.
- Step 3: Develop a plan of action. Task: Develop a budget matching income and projected expenses for the remainder of this academic year.
- Step 4: Implement the plan. Task: Reduce expenses in problem areas so amounts do not exceed budgeted projections.
- Step 5: Review progress on the plan, reevaluate the plan, and revise the plan or start over with a new one. Task: Based on this year, develop a revised budget for next year based on projected income and expenses.

3. Answers will vary; however, the following are representative:
- Pay off credit card(s) by the end of this academic year.
- Save $X for a trip during winter break, spring break, etc.
- Limit spending on X (recreation, clothing, music, etc.) to $X.
- Don't ask parents for any extra money during this term.
- Live debt free this term. Use credit cards only for an emergency.
- Don't carry a balance on credit card(s); pay off the bill each month.

4. Answers will vary; however, the following is representative:

It is important to me to gain financial independence and to manage my money well. That is why I set the goal to stop asking my parents for extra money during this term. This goal reflects my lifestyle and my desire to handle my money more responsibly. The goal will guide my actions by serving as a reminder to think before I spend. That way I won't spend more than I can afford to pay for with my available funds. My success will be easy to evaluate. If by the end of the term I have not had to "beg" for more money, I will know I have met my goal.

5. Answers will vary; however, the following is representative:

Because the accumulation-of-wealth stage extends into the mid-50s, financing the cost of education could remain important to me should I choose to continue my education or for the education of others who are important to me (spouse, child, etc.). It is not until Stage 2: Approaching Retirement—The Golden Years that the goal of educating children is usually accomplished. During Stage 3: The Retirement Years, estate planning issues are significant, and leaving part of my estate to fund education for my grandchildren could become important.

6. Answers will be unique to the individual student.

7. Answers will vary; however, the following is representative:

Nearly half of all employers will check applicant's credit report. Negative personal financial situations can result in loss in job productivity, lack of taking responsibility at work, greater instability personally and professionally, and could pose a threat to national security for some employees (e.g., military and other government employees).

8. Answers will vary; however, the following is representative:

Be open about debt early in the relationship. Keep debt low. Be aware of the costs of raising children.

9. Principle 5 states, stuff happens. Having funds set aside for emergencies is crucial so that when stuff happens, you have the ability and liquidity to meet your need. Liquidity refers to the speed and ease with which you could access those dollars when needed. However, some stuff that happens is simply too expensive for your savings to cover—for example, a tragic auto accident in which you become disabled. Having insurance, with adequate protection for a reasonable price, could cover more of your losses. Basically, the two types of events from which everyone needs protection are the ones we cannot afford or the ones we simply cannot foresee. Principle 7 addresses this protection issue.

Instructor's Note: Although answers will vary, students might currently be protecting themselves with health, auto, renter's, life, or disability insurance. Some will likely have no insurance but need to consider the implications for their financial future.

DISCUSSION CASE 1 ANSWERS

1. Financial planning is critical to financial success as the process is repeated throughout the life cycle in response to changing financial and life situations. Through financial planning, goals are accomplished, and new goals are identified. The five-step process begins and ends with evaluation. In the first step, you do a check-up of your financial health as a basis for planning. In the fifth step, you assess your progress on the plan, review your financial health, and revise the plan for future efforts. The middle three steps consist of clarifying financial goals, developing a plan to reach those goals, and putting that plan into action.

2. As newlyweds, short-term goals important to Jeremiah and Bethany might include paying off any debt they brought to the marriage, reviewing their insurance coverage, and beginning to save for an emergency fund, or other goal. Because she is still in school, purchasing a major item may not be important. Within the next one to ten years, Jeremiah and Bethany must consider funds for a home purchase as well as other assets to support their lifestyle. With children come additional financial planning needs for savings, insurance, and estate planning. Retirement savings will be a long-term goal. Without more knowledge of their financial and life situation, other goals cannot be identified.

3. The four principles of flexibility, liquidity, protection, and minimization of taxes should guide the development of any financial plan. Without a plan, nothing happens, AND spending is easier than saving. Financial security comes from balancing what you earn with what you spend to meet the needs of today and tomorrow. Financial planning is critical to making that happen. Principle 4 cautions that the tax implications of earning and investing require Jeremiah and Bethany to consider how to maximize the money available after paying their taxes. Principles 5 and 7 parallel the other principles of plan development. Unexpected events in life demand access to cash and flexibility in the budget, or financial plan, to accommodate those costs. Liquidity ensures access to savings without a loss of value. Likewise, planning ahead by purchasing insurance protection provides coverage in the event the loss exceeds what can comfortably be paid from personal savings due to a major (or minor) catastrophe.

4. Five tips to help Bethany prepare for job interviews include the following:
- Review the commonly asked questions shown in Table 1.3; prepare and practice a succinct answer for each.
- Use the library, the Internet, or other sources to learn about the company.
- Make a good impression by getting a good night's sleep, dressing appropriately, and arriving early.
- Look and act confident but relaxed.
- Thank the interviewer and immediately send a follow-up letter.

5. Young professionals can ensure success in their chosen careers by (1) updating and maintaining marketable skills, especially those that are not easy to duplicate; (2) understanding and using the organizational power structure to their benefit, including being loyal and supportive of the boss; (3) building a visible reputation for good work, a willingness to take on new challenges, and an image that fits the organization; and (4)

developing a strong network of people knowledgeable of their character and capabilities. Doing a good job and working within the organizational mission is always important.
Although ethical behavior has always been a professional expectation, recent national attention on the "transparency" of corporate and individual actions has increased the importance of ethical behavior. A loss of confidence by the boss or other co-workers in individual professional integrity can end a career.

6. Some of the common disagreements experienced by couples like Jeremiah and Bethany include first, and most important to this class, finances in addition to annoying habits, children, relatives, and jobs.

7. Principle 10, just do it, means that Jeremiah and Bethany must make a commitment and avoid procrastination—both critical strategies for success in financial or career planning. Furthermore, positive reinforcement from making progress toward their goals and taking control of their careers and their finances should provide momentum to keep them committed and successful! Granted, they may not be able to achieve all of their goals, but sound planning and evaluation (or self-assessment) can help them set and achieve realistic goals for their situation.

DISCUSSION CASE 2 ANSWERS

1. The Delgados are in the accumulation stage of the financial life cycle. This stage is the foundation for the efforts that continue during the latter two stages. It is crucial to have a sound financial plan, based on important goals and controlled spending, to guide them. The longer financial goals are postponed, the more impossible they may seem—another reason for continued inaction and procrastination. Establishing a financial plan is the first step toward action and success.

Professional financial advice could benefit the Delgados; however, Principles 1 and 2 offer a caution. Building personal financial knowledge will enable the Delgados

- to avoid financial professionals more concerned about their own interests than the Delgados' interests,
- to fully appreciate the need for and the benefits to be gained from financial planning, and
- to more effectively use their knowledge to respond to changes in the financial environment (e.g., changes in economic conditions or interest rates).

Financial knowledge may also help the Delgados avoid the sunk cost effect of throwing good money after bad. Professionals might suggest replacing some of their financial products, such as insurance policies, or perhaps not continuing to save money in a low earning savings account but investing for a higher return. Understanding more about financial planning principles and products may help the Delgados recognize the benefit of this advice. The same could be true with mental accounting, as the Delgados may need to change their views on savings for different goals, or using windfall money such as a tax refund or employee bonus. Too often, windfall money is "mad money" to be spent, when the best use could be saving for a goal or reducing credit card debt.

2. $532,631 = $233,610 × 3 × 0.76

3. Nicholas and Marita can more easily fund the children's education if they
- start early and understand how investments grow over time to build wealth (Principle 3);
- understand the relationships among inflation, investment returns, risk and the length of time until the money is needed (Principle 8); and
- recognize that investments with higher risk typically yield higher returns and vice versa—lower risk investments typically yield a lower return (Principle 8).

To follow these principles, Nicholas and Marita should start investing immediately (even small amounts) in different investments with different risk-return characteristics. As they get closer to the time the children enter college, they should protect their investments and earnings by moving the funds to less risky investment or savings alternatives.

4. Answers will vary but should include the following three components:
- Definition or clarification of the goal (e.g., all costs, tuition only, room and board only, or other variations on costs for a public/state-supported university, private university, community college, or other educational experience)
- Future, or inflation-adjusted, cost
- Future time, or number of years until the funds will initially be needed

An example might be stated as follows:

Based on today's average state-supported university cost for tuition, room and board, and miscellaneous expenses, our goal is to accumulate half of the total inflation-adjusted cost for Jarred and the twins, 16 and 18 years, respectively, in the future. Jarred and the twins will be expected to fund the remaining half of their college expenses through personal savings, employment, or scholarships.

5. Answers will vary, and could reflect most of the short-term and intermediate-term goals listed in Figure 1.2. The only goals specifically identified by Nicholas and Marita are two long-term goals:
- Help fund the children's education
- Retire early and travel

6. Just like the twins were unexpected, Principle 5 reminds Nicholas and Marita that other unexpected events in life require adequate liquid funds, or investments that could be readily turned to cash without a loss. Having some assets with good liquidity avoids the loss associated with a forced quick sale of assets that are not so liquid. Liquid funds may help with an emergency expense, but large property damage or personal losses (e.g., for medical care, disability, or death) require insurance. With three kids, there is bound to be at least one fender bender! Principle 7 says protect yourself by having the right kind of insurance at the right price. Trying to save and buy insurance while providing for a family of five may tempt Nicholas and Marita to put off saving for longer-term goals like college and retirement, but Principle 6 reminds them that smart spending—for big and little purchases—will help them avoid wasting money needed for more important family needs and goals.