

## 1.1: Introduction

Bryon and Tomika are just one semester shy of graduating from a state college. Bryon is getting a degree in protective services and is thinking of going for certification as a fire protection engineer, which would cost an additional \$4,500. With his protective services degree many other fields will be open to him as well—from first responder to game warden or correctional officer. Bryon will have to specialize immediately and wants a job in his state that comes with some occupational safety and a lot of job security.

Tomika is getting a Bachelor of Science degree in medical technology and hopes to parlay that into a job as a lab technician. She has interviews lined up at a nearby regional hospital and a local pharmaceutical firm. She hopes she gets the hospital job because it pays a little better and offers additional training on site. Both Bryon and Tomika will need additional training to have the jobs they want, and they are already in debt for their educations.

Tomika qualified for a Stafford loan, and the federal government subsidizes her loan by paying the interest on it until six months after she graduates. She will owe about \$40,000 of principal plus interest at a fixed annual rate of 6.8 percent. Tomika plans to start working immediately on graduation and to take classes on the job or at night for as long as it takes to get the extra certification she needs. Unsubsidized, the extra training would cost about \$3,500. She presently earns about \$5,000 a year working weekends as a home health aide and could easily double that after she graduates. Tomika also qualified for a Pell grant of around \$5,000 each year she was a full-time student, which has paid for her rooms in an off-campus student co-op housing unit. Bryon also lives there, and that's how they met.

Bryon would like to get to a point in his life where he can propose marriage to Tomika and looks forward to being a family man one day. He was awarded a service scholarship from his hometown and received windfall money from his grandmother's estate after she died in his sophomore year. He also borrowed \$30,000 for five years at only 2.25 percent interest from his local bank through a family circle savings plan. He has been attending classes part-time year-round so he can work to earn money for college and living expenses. He earns about \$19,000 a year working for catering services. Bryon feels very strongly about repaying his relatives who have helped finance his education and also is willing to help Tomika pay off her Stafford loan after they marry.

Tomika has \$3,000 in U.S. Treasury Series EE savings bonds, which mature in two years, and has managed to put aside \$600 in a savings account earmarked for clothes and gifts. Bryon has sunk all his savings into tuition and books, and his only other asset is his trusty old pickup truck, which has no liens and a trade-in value of \$3,900. For both Tomika and Bryon, having reliable transportation to their jobs is a concern. Tomika hopes to continue using public transportation to get to a new job after graduation. Both Bryon and Tomika are smart enough about money to have avoided getting into credit card debt. Each keeps only one major credit card and a debit card and with rare exceptions pays statements in full each month.

Bryon and Tomika will have to find new housing after they graduate. They could look for another cooperative housing opportunity or rent apartments, or they could get married now instead of waiting. Bryon also has a rent-free option of moving in temporarily with his brother. Tomika feels very strongly about saving money to buy a home and wants to wait until her career is well established before having a child. Tomika is concerned about getting good job benefits, especially medical insurance and family leave. Although still young, Bryon is concerned about being able to retire, the sooner the better, but he has no idea how that would be possible. He thinks he would enjoy running his own catering firm as a retirement business some day.

Tomika's starting salary as a lab technician will be about \$30,000, and as a fire protection engineer, Bryon would have a starting salary of about \$38,000. Both have the potential to double their salaries after fifteen years on the job, but they are worried about the economy. Their graduations are coinciding with a downturn. Aside from Tomika's savings bonds, she and Bryon are not in the investment market, although as soon as he can Bryon wants to invest in a diversified portfolio of money market funds that include corporate stocks and municipal bonds. Nevertheless, the state of the economy affects their situation. Money is tight and loans are hard to get, jobs are scarce and highly competitive, purchasing power and interest rates are rising, and pension plans and retirement funds are at risk of losing value. It's uncertain how long it will be before the trend reverses, so for the short term, they need to play it safe. What if they can't land the jobs they're preparing for?

Tomika and Bryon certainly have a lot of decisions to make, and some of those decisions have high-stakes consequences for their lives. In making those decisions, they will have to answer some questions, such as the following:

1. What individual or personal factors will affect Tomika's and Bryon's financial thinking and decision making?
2. What are Bryon's best options for job specializations in protective services? What are Tomika's best options for job placement in the field of medical technology?
3. When should Bryon and Tomika invest in the additional job training each will need, and how can they finance that training?

4. How will Tomika pay off her college loan, and how much will it cost? How soon can she get out of debt?
5. How will Bryon repay his loan reflecting his family's investment in his education?
6. What are Tomika's short-term and long-term goals? What are Bryon's? If they marry, how well will their goals mesh or need to adjust?
7. What should they do about medical insurance and retirement needs?
8. What should they do about saving and investing?
9. What should they do about getting married and starting a family?
10. What should they do about buying a home and a car?
11. What is Bryon's present and projected income from all sources? What is Tomika's?
12. What is the tax liability on their present incomes as singles? What would their tax liability be on their future incomes if they filed jointly as a married couple?
13. What budget categories would you create for Tomika's and Bryon's expenses and expenditures over time?
14. How could Tomika and Bryon adjust their budgets to meet their short-term and long-term goals?
15. On the basis of your analysis and investigations, what five-year financial plan would you develop for Tomika and Bryon?
16. How will larger economic factors affect the decisions Bryon and Tomika make and the outcomes of those decisions?

You will make financial decisions all your life. Sometimes you can see those decisions coming and plan deliberately; sometimes, well, stuff happens, and you are faced with a more sudden decision. Personal financial planning is about making deliberate decisions that allow you to get closer to your goals or sudden decisions that allow you to stay on track, even when things take an unexpected turn.

The idea of personal financial planning is really no different from the idea of planning most anything: you figure out where you'd like to be, where you are, and how to go from here to there. The process is complicated by the number of factors to consider, by their complex relationships to each other, and by the profound nature of these decisions, because how you finance your life will, to a large extent, determine the life that you live. The process is also, often enormously, complicated by risk: you are often making decisions with plenty of information, but little certainty or even predictability.

Personal financial planning is a lifelong process. Your time horizon is as long as can be—until the very end of your life—and during that time your circumstances will change in predictable and unpredictable ways. A financial plan has to be re-evaluated, adjusted, and re-adjusted. It has to be flexible enough to be responsive to unanticipated needs and desires, robust enough to advance toward goals, and all the while be able to protect from unimagined risks.

One of the most critical resources in the planning process is information. We live in a world awash in information—and no shortage of advice—but to use that information well you have to understand what it is telling you, why it matters, where it comes from, and how to use it in the planning process. You need to be able to put that information in context, before you can use it wisely. That context includes factors in your individual situation that affect your financial thinking, and factors in the wider economy that affect your financial decision making.

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