



WHAT IS THE BEST APPROACH TO FINANCIAL PLANNING?

By Bruce M. Fogel, Esquire BACON WILSON, P.C.

If your answer to the headline question is that there is no single “BEST” approach to financial planning, I say you are right. Any approach at all, however, is not only good but important. It allows you to prepare for what lies ahead, rather than react to emergencies. There are as many different approaches to planning as there are people looking to have a plan. For almost anyone, however, I strongly recommend starting by looking back. This involves the creation of a “Backwards Budget” as a critical tool in the process. I do not use the word “budget” as an imposition on your lifestyle – a Backwards Budget is a calculation to help ensure your financial security.

The Backwards Budget involves looking back at your finances for a period of one year. List all your spending during that period. Be realistic. List ALL payments: those required, such as rent or mortgage, utilities, food, etc., as well as discretionary spending, like entertainment, retirement contributions, vacations, gifts, savings, etc. No one will be judging you. This exercise is a tool to help you learn. Once your payments are listed, to calculate how much you spend on a monthly basis: Take your annual expenditures and divide them by 12, semiannual bills by 6, and multiply weekly expenses by 4.3, until you arrive at a total spent per month. Then add 3%-5% to allow for unanticipated bills, inflation, and miscellaneous spending.

This may be the first time you have seen a comprehensive

snapshot of your spending habits. Now you can compare the monthly expenditure number provided by the Backwards Budget against your monthly income. This is your “Goldilocks” opportunity: Where am I overspending? Where am I underspending? Where am I just right?

Now you can embark upon planning not only for your current situation, but for what lies ahead. Wherever you are on life’s continuum, armed with your Backwards Budget figures, you will have information to help identify the funds you can or should commit to addressing such matters as saving for college or a home, or purchasing life, disability, or long-term care insurance. Another important aspect is planning for retirement relative to strategies for current investments and future income. I often advise clients of their opportunity (or obligation) to maximize deferred income through various retirement plans, and it is important to consider what sort of risk tolerance is warranted for investment of cash savings, retirement funds, or securities. At the same time, many individuals and families also want to be able to leave something behind for loved ones.

No matter what your stage of life, I suggest that one truth is applicable to all of us: We do not want to outlive our money. This is what puts us in the position of trying to balance our early-life needs and wants against preserving resources for older years. The Backwards Budget is a starting point, a summary. It should help you work meaningfully with your advisor toward a greater understanding and control of your financial life. I wish you great success.

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