5 Steps to Take Control of Your Financial Security

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What would it take for you to feel financially secure? A more stable job? Being debt free? Having millions in the bank?

No matter how it's defined, we all want to feel financially secure. And yet, according to Northwestern Mutual's 2012 State of Planning in America study, 30 percent fewer Americans have a plan in place to achieve financial security compared to 2011. Even among those who do have a plan, more than half admit their plan needs improvement.[1]

Why aren't we taking control of our financial security? Most survey respondents said they didn't have enough time to properly plan or they thought financial planning was too confusing. It's true that financial planning these days can be complex. But it doesn't have to be overwhelming.

By taking these five steps today, you can gain more control of your financial security.

Most survey respondents said they didn't have enough time to properly plan for their financial future.

Step 1. Lay the groundwork.

To reach any financial goal, you need to understand where you are, where you want to be in the future and what it'll take to get there.

Only then can you establish a habit of savings to help you achieve your goals. Start by taking stock of where you are today.

Track your monthly expenses, including:

- Housing
- Food
- Clothing
- Utilities
- Entertainment
- Communication
- Transportation
- Loans
- Health Care
- Insurance
- Education
- Charitable contributions and gifts

Develop a detailed list of your current assets, liabilities and income, including:

- Income
- Property
- Home value
- Savings
- Autos
- Investments
- Mortgage
- Retirement savings plans
- Credit cards

It's also essential to have estate-planning fundamentals in place. Both young and established families must have a clear understanding of their loved ones' wishes in the case of an unforeseen medical event or untimely death. Plus, as people age, their desire to leave a financial legacy to loved ones or charities often grows. Without adequate estate planning, you may not be able to meet these goals.

So, as you create a snapshot of your current financial situation, be sure to consider:

- Wills and trusts
- Powers of attorney
- Health care directives

Once you've got your current "financial house" in order, you can turn your attention to the future.

Step 2. Determine what you want to achieve, and build a plan to achieve it.

What are your hopes, dreams and goals? Do you have a clear vision of what you want from life? The next step in taking control of your financial security is to decide what financial security means to you. What are you aiming for? It's not enough to say, "I want to fund my children's education and enjoy retirement." You've got to be specific about your goals – possibly more specific than you have ever been – because until you know what your ideal life looks like, you cannot craft a plan to build it.

Goals should be measurable so you can quantify your target and track your progress.

Imagine erecting a skyscraper without a blueprint. Or, drawing the blueprint without a vision of the completed building. What's the likelihood of success? The same holds true for taking control of your own personal financial security. Before you can reach your goals, you need a solid plan to attain them based on a clear vision of success.

Ask yourself, "What do I want to achieve?" Pose the question to your spouse or your family. Talk through your answers with the people who matter most; you might find that you have very different dreams and goals.

Visualize it. Imagine your ideal future. Visualize what it might look like in terms of career, personal health, family, community and spiritual aspects. Who is most important in your life, and how, if at all, would you like to provide for them? Where and in what type of home would you like to live? What type of work and leisure activities would you enjoy? At what age do you want to retire, and what is your vision of that retirement?

Define it. To achieve your ideal life, you must not only dream about your goals but define them with as many specifics as possible. Think about each goal in detail to get a clear vision for the future. What does success look like? Where and how will it be achieved? Who might be involved? By when do you want to accomplish it?

Set deadlines. Once you've visualized and defined your aspirations, write down each one as a specific goal with a deadline. Goals should be measurable so you can quantify your target and track your progress, such as:

- I want to have a plan in place that will provide for my family if I become disabled or die prematurely.
- By the time my oldest child graduates from high school, I want to fully fund the in-state college educations of both of my children.
- By the time my youngest child graduates from college, I want to have saved enough to purchase a vacation home in Florida.
- I want to retire at age 62 with the means to spend the winter months each year in Florida.

Share your vision with a financial representative or advisor who does financial planning and can help you develop a plan to achieve it. Don't worry about having all the answers up front; your advisor will help you work through the details and offer guidance on how to make your dreams a reality.

Step 3. Take steps to minimize risk and ensure your plan's success.

With a clear vision of your hopes, dreams and goals, take steps to protect your ability to achieve them. What if you get sick? Lose your job? What if you or your spouse dies unexpectedly?

Preparing for life's uncertainties is a step that's often overlooked. Instead, we're likely to focus our energies on reaching a "number" – that magic dollar amount needed to pay off the mortgage, fund a college education or retire.

It's understandable; we've been trained to zero in on a number or to hit a dollar goal. But achieving financial security means more than accumulating wealth. It also means protecting your ability to create wealth. Of course, no one likes to think about the worst-case scenarios of accident, illness or disability. But ignoring the potential for these things to happen won't make it go away; it only opens you up to unnecessary risk. Until you address the risks, it's difficult to feel financially secure.

When you address the financial risks that threaten your family's well-being, you'll provide yourself with the necessary stability to reach your goals.

You can begin to gain confidence and minimize risk by understanding the ways in which your hopes, dreams and goals could be derailed.

Ask yourself these questions:

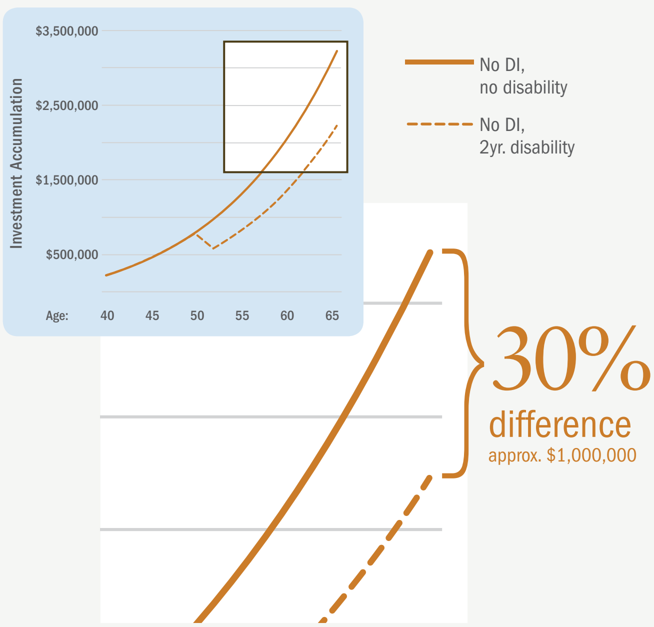
- Have I considered the impact to my lifestyle if a parent (or in-law) became dependent on me for care?
- Whom would I consider capable and willing to care for me if I needed long-term care?
- If I became sick or injured and could not work tomorrow, what sources of income would I use to meet my monthly living expenses?
- How would I meet my expenses if I lost my job or was laid off?
- How would I fund my retirement if I became disabled or chronically ill?
- How would my children's education be funded if I died unexpectedly?

Exploring the "What if's?" can certainly make you feel vulnerable. But once you identify potential risks to your financial security, you're able to develop a plan to mitigate them and set priorities. Which area of vulnerability poses the greatest risk, and what can you do today to reduce that risk?

You may be surprised at the impact one action can have on your ability to reach your goals.

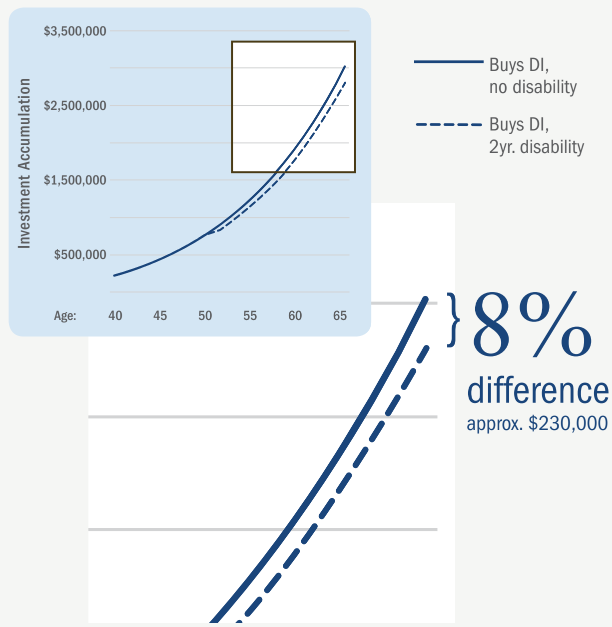
The charts below illustrate the long-term impact a two-year disability has on savings with, and without, disability insurance for two young investors starting at age 40. Both earn $250,000 annually with 3 percent annual income increases, and both have an existing investment portfolio valued at $250,000 with a 6 percent after-tax rate of return.[2]

Investor A contributes 10% of income annually to the investment portfolio and purchases no individual disability income (DI) insurance.



The results: Just a relatively short, two-year total disability at age 50 (dashed line) could have a significant impact on the investment account, reducing total investment accumulation in this scenario by **30% – over a million dollar difference** in this case.

Investor B contributes 10% of income annually to the investment portfolio, minus an amount used to purchase individual disability income (DI) insurance.



The results: While investment accumulation (solid line) is less than Investor A by age 65, if this investor experiences a two-year total disability at age 50, total investment accumulation is reduced by only about $230,000 (8%) – or **less than a third of the reduction Investor A would experience.**

Whom would you rather be? Investor A, or Investor B?

Not everyone has a six-figure income or a six-figure investment account. But everyone can benefit from the protection afforded by disability income policies. With the right tools, your advisor should be able to illustrate the impacts of both situations to your plan.

When you address financial risks, such as disability, that threaten the well-being of you and your family, you'll provide yourself with the necessary stability to reach your goals.

Step 4. Embrace change and the need to be flexible.

Changes to your life, your career, as well as new laws and regulations can all have a profound impact on your plan.

So, as you navigate through the changing stages of your life, both you and your plan must have the flexibility to adjust to life's gifts, challenges and shifting priorities.

Your financial plan should be a living document that changes over time to meet your evolving needs.

Even throughout retirement, you should be reviewing the plans you've put in place (as shown in the chart below) to ensure that you are adequately addressing your needs and those of your family.

Through each of these stages, track your progress and update your goals regularly. Meet with a financial advisor annually, and when you do, be sure he or she is taking the time to understand your current and unique situation. You and your advisor should be addressing questions such as:

- Has anything changed since your last meeting? Your health? Your job? Your family? Your finances?
- How are you feeling about where you stand?
- If you were to focus on just one financial goal over the next year, what would it be?

Your financial plan should be a living document that changes over time to meet your evolving needs. While there is no "cookie-cutter" strategy that works for everyone, consider the following steps at each stage of your life.

	Early Career 20s - 30s	Later Career 40s - 50s	Early Retirement 60s - 70s	Late Retirement 80s +
Wealth Preservation and Distribution	Prepare Basic Estate Plan	Review/Revise Estate Plan	Review/Revise Estate Plan	Review/Revise Estate Plan
		Develop Retirement Income Strategy	Implement Retirement Income Strategy	Update Retirement Income Strategy
Wealth Accumulation	Begin Accumulating for Retirement	Continue Retirement Accumulation	Consolidate Portfolio	
	Begin Education Funding	Fund Education		
	Develop Asset Allocation	Review Asset Allocation Transition assets 5-10 years prior to retirement	Review Asset Allocation Transition assets 5-10 years prior to retirement	Review Asset Allocation
Risk Management	Obtain Disability Protection Address Survivor Needs	Review Disability Protection Review Survivor Needs	Review Survivor Needs	Review Survivor Needs
	Obtain Healthcare	Evaluate Post-Career Healthcare Needs	Address Healthcare Needs	Review Healthcare Needs
	Establish Emergency Fund	Address Long-Term Care Protection Needs	Ensure Adequate Long-Term Care Protection Arrangements	Review Long-Term Care Protection Arrangements

Step 5. See the future – today.

Would you feel more confident about your financial future if you could see it clearly today? Do you know what to realistically expect next year? Five years from now? Thirty years into the future?

Today's financial advisors have access to sophisticated tools that can help you see, in remarkable detail, where you stand, what you'll need to live your life comfortably and what it will take to get there.

These tools offer multiple scenarios for achieving your goals and will demonstrate the impact of steps you've taken to mitigate risk.

Information is brought to life in a way that's relevant, meaningful and actionable. Images, charts, colors and maps help you make sense of the data, so you can make more informed decisions about your financial future.

Comprehensive reports are generated about every aspect of your financial life, detailing your objectives, resources, cash flow, gaps and strategies for:

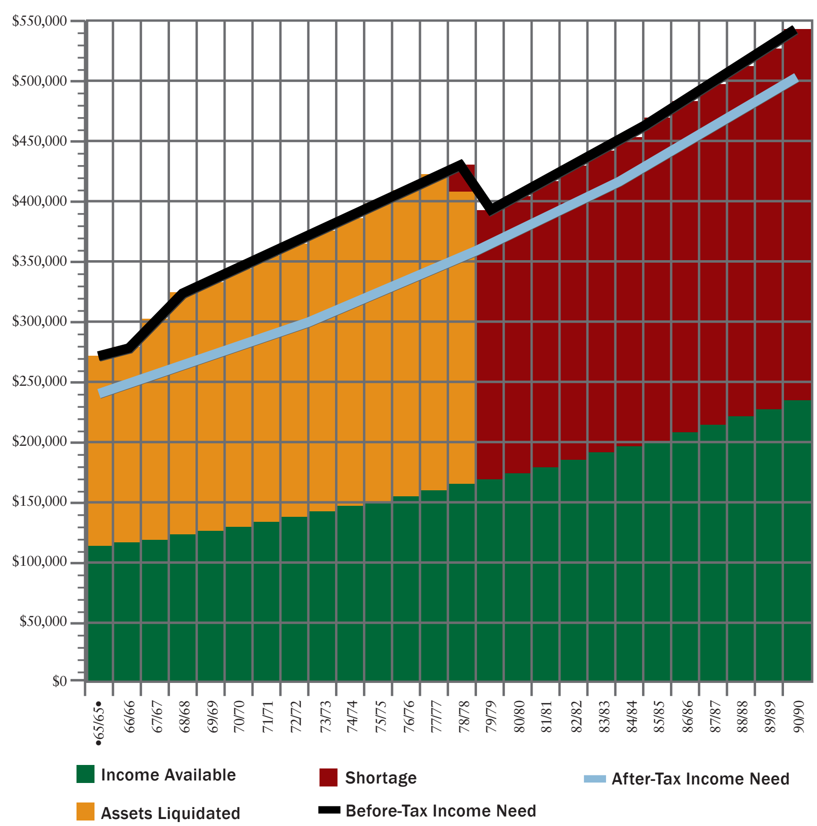
With a holistic view, you'll be well-equipped to take control of your financial security and build a plan to live a financially comfortable, long life.

- Your current and anticipated financial situation
- Survivorship planning
- Long-term care planning
- Education funding
- Retirement income
- Asset allocation and performance
- Leaving a legacy to loved ones or charity

With this type of holistic view, you'll be well-equipped to take control of your financial security and build a plan to live a financially comfortable, long life. By developing a solid financial plan that combines your objectives with sophisticated statistical modeling, you'll have an opportunity to plan for consistent income throughout your lifetime regardless of how long you live.

Cash Flow During Retirement

This sample chart indicates future cash flow based on a current retirement savings plan. Green bars indicate income (Social Security, etc.), gold bars indicate assets that can be liquidated (401(k)s, IRAs) and red indicates the shortfall.



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Summary

Financial security in life isn't something you just wish for. Achieving it takes a disciplined and balanced approach. But if you follow these five steps, you'll be better positioned to take control of your financial security. Lay the groundwork. Know what you want. Identify and minimize risks. Be flexible. And gain confidence by getting a clear view into your financial future.

And don't try to take these steps alone. Work with experienced advisors who have access to sophisticated processes and financial-planning tools. Let them help you take these steps successfully, so you can take control of your financial security today and achieve your goals tomorrow.

[1]Northwestern Mutual, Inc. 2012 State of Planning in America Study. http://www.northwesternmutual.com/learning-center/studies-and-reports/Documents/planning_progress.pdf

[2] Based on a Non-cancellable Guaranteed Renewable policy for a 40-year-old male non-smoker, 5A occupation class, with 3 percent "cost of living" benefits that increase coverage annually before, during and after disability. The premium is individually paid with after-tax dollars and increases annually as a result of monthly benefit increases when not disabled. The premium used in the scenario is net of dividends.*

Investor A withdraws funds from the investment account to meet ongoing expenses, which are assumed to be equivalent to the amount of individual disability income benefit received by Investor B during the same 2-year total disability. Investor B withdraws no funds, instead meeting ongoing expenses with individual disability income benefits received. Assumes the full monthly benefit received for the duration of the 2-year total disability.

**Dividends used in this scenario reflect Northwestern Mutual's 2010 dividend scale. Dividends are not guaranteed. Decisions with respect to the determination and allocation of divisible surplus, if any, are left to the discretion and sound business judgment of the company's Board of Trustees. There is no guaranteed specific method or formula for the determination or allocation of divisible surplus. Accordingly, the company's approach is subject to change. Neither the existence nor the amount of a dividend is guaranteed on any policy in any given policy year. Some policies may not receive any dividends in a particular year or years even while other policies receive dividends.*

Disability insurance policies are subject to full underwriting, which could affect the amount of coverage available as well as the actual premium charged. They also contain exclusions and limitations that could affect individual coverage. Product availability is subject to state approval, and premiums may vary by product and by state. For costs and more complete details, consult a Northwestern Mutual Financial Representative.

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