when you make the grand exit. Essential to this plan are a proper will and a sound tax strategy, which might mean distributing part of your wealth in the form of gifts while you are still alive. Estate planning is examined along with the life insurance in Chapter 15.

Career Planning

Choosing a career is clearly an important decision, not only financially but also in terms of mental and emotional health. To many people, their careers define them as persons and represent sources of both enjoyment and frustration. Moreover, career planning is not a one-time effort during senior year in college but, rather, it goes on throughout the whole life cycle, as people change careers or temporarily leave and then return to the labor market. Although career planning is a topic generally outside the area of personal finance, we examine careers in financial planning in Appendix 1.1.

A Planning Approach

As shown in Figure 1.6, planning involves four steps. First, you must state your broad goals in specific and concrete terms. For example, if buying a home is an important goal, eventually you must decide when you will buy it, how much to pay for it, the size of your down payment, and how to finance it. The second step is to create an action plan, which sets out in detail how you will achieve your goal. To achieve the goal of buying a home, you must save a portion of your income each year and invest the funds temporarily. After you have set a specific date to buy a home, you can decide which temporary investments are best suited to help achieve the goal. If the purchase date is relatively far in the future

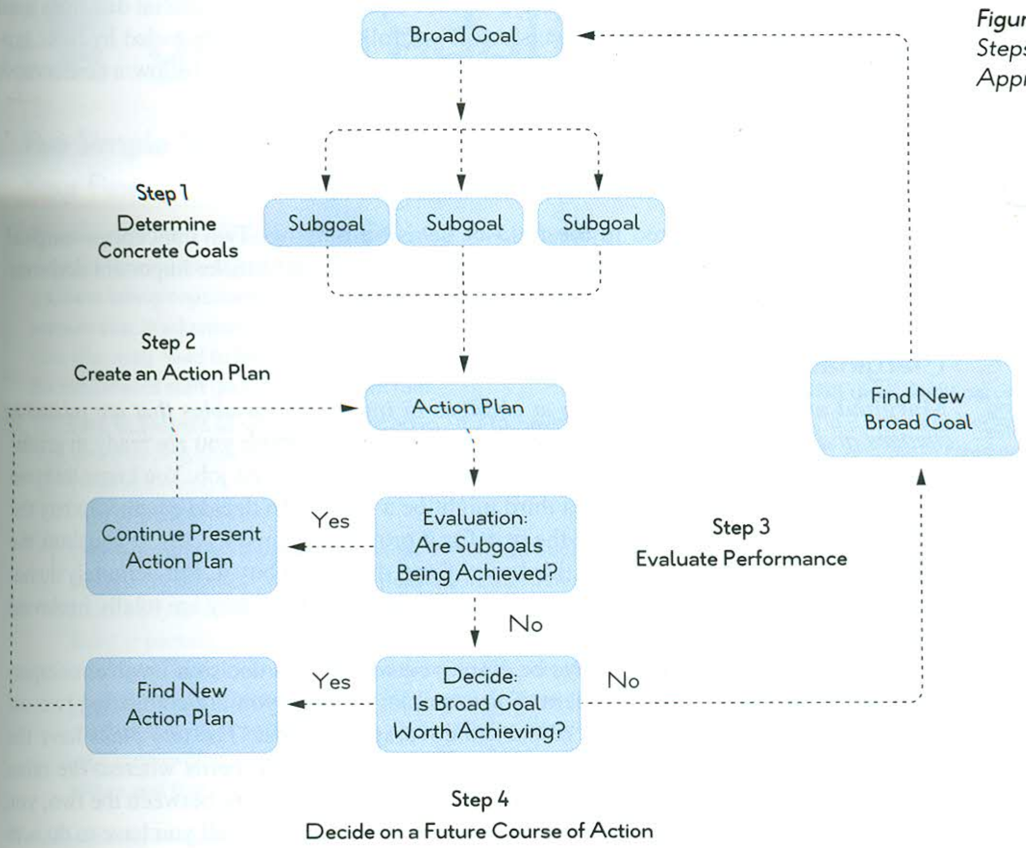

Figure 1.6
Steps in the Planning Approach

hand, might be skinflints who love money for money's sake and have virtually no other interests in life. (We're really not.) As Figure 1.1 indicates, we can categorize goals as either nonfinancial or financial.

Nonfinancial Goals

We should realize that many of our aspirations in life are nonfinancial. We hold moral, family, social, religious, or political ideals that have little or no connection to finance. You can't put a price tag on these goals, and you shouldn't try. On the other hand, the extent to which we succeed in achieving our financial goals might determine how much time and energy are available to pursue the nonfinancial aspirations. Sociologists tell us, for example, that one of the primary reasons for divorce is financial stress in the family. Achieving financial goals doesn't assure a happy life, but the evidence suggests that it helps far more than it hinders.

Financial Goals

Financial goals form the basis for financial planning. Indeed, without financial goals, planning is impossible. Setting goals and incorporating them in annual budgeting are important topics discussed in depth in Chapters 2 and 3. However, it is useful to introduce the topics here.

Financial independence Having sufficient income or resources to be self-reliant.

Very broadly, one might list the most important financial goal as **financial independence**, that is, to have enough income or resources to be self-reliant. However, a goal defined this broadly really doesn't help us plan for the future. What does self-reliant mean? You might understand it as having a job with little threat of a layoff, while someone else may see it as never going into debt. Actually, there are two more concrete goals to shape financial plans: a consumption goal—current and future—and a savings goal.

Current consumption Goods and services used in a current time period.

Principle of diminishing marginal satisfaction A decreasing *rate* of satisfaction in relation to increasing income.

Current Consumption. **Current consumption** refers to goods and services that we use in a current period of time, such as this year. These goods and services measure our scale of living. A low consumption budget means we use fewer of them and (probably) have a lower level of satisfaction than someone with a high consumption budget. If Mary's consumption budget is twice that of John's, chances are very good she has more consumption satisfaction than he. But she might not have twice as much. Economists often point out the **principle of diminishing marginal satisfaction**, which means that current consumption satisfaction increases as current income increases but usually at a decreasing rate. We still want that second piece of pie, but it provides us less satisfaction than the first. This principle explains why we begin to look more favorably at future consumption after we have achieved reasonable levels of current consumption.

Figure 1.1
Life's Goals

Nonfinancial	Financial
· Moral	· Current consumption
· Family	· Future consumption
· Social	· Savings
· Religious	
· Political	