

# Life cycle financial planning essay sample



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At the beginning of brainstorming for this paper, I was thinking about to write something about Chinese pension system. But during the material collection, I found that China's pension system and ways to achieve people's financial goals are not well developed, we all know that the system obviously had to be changed. Starting in 1997, there was a shift of the burden of pension provisions from only the state to be shared by state, employers and employees. There was also a move from PAYGO financing to a combination of PAYGO and funded systems. Last but not least, it was expanded to include all urban workers. Furthermore, China's financial market is an emerging market, it is still not that perfect for Chinese people to select financial instruments to design their financial plans.

Meanwhile, we need time for the market and the system to be improved. Therefore, I tried to find some optimal ways that can help Chinese people to achieve financial goals and I have found a theory called " life cycle financial planning", which is designing the financial plan by different important factors in one's lifetime. I hope it can be helpful to Chinese people to realize the important of life planning, and both private sectors and public sectors can contribute on new methods based on this theory. From the following, I will introduce what is life cycle financial planning and the main factors in it. What is financial planning?

Financial needs continually change throughout an individual's lifetime. However, many people are still following similar financial patterns during their life. Nevertheless, everyone has an individualized financial plan that is dependent on many different factors in an individual's life. Financial planning is a tool used to achieve financial success based upon the development and

implementation of financial goals. It is important to use financial planning to help a person avoid financial difficulties. By having well-written financial goals and implementing them into a financial plan, a person will have the means to achieve the standard of living they desire. An individual's values, goals, personal choices, major life events, lifestyle conditions, and life cycle needs work together to determine the details of an individual's financial plan. As these factors change, so does an individual's financial plan.

Financial planning is an ongoing process that is affected by expected as well as unexpected events. Factors that affecting financial planning:

#### 1) Financial goals

Source: Family Economics & Financial Education, Revised May 2010, Personal Finance Unit, Life Cycle of Financial Planning, Page 2 Financial goals are specific objectives to be accomplished through financial planning. Goals should be consistent with personal values and attitudes. Financial goals should be SMART goals. 2) Lifestyle conditions

Lifestyle conditions are affected by an individual's values, goals, personal choices, major life events, and life cycle needs. Any lifestyle condition changes may require an individual to re-evaluate their financial plan. People may change careers, start careers, or start families late in life. For example, a single 40 year-old with no children will be focusing on different financial plans than a married 40 year-old with 2 children. 3) Life Cycle Needs

Financial needs change throughout an individual's life cycle. Specific life cycle needs are affected by an individual's values, goals, personal choices, life events, and lifestyle conditions. However, people in certain age groups

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tend to have similar life cycle needs. The table below gives examples of life cycle needs (activities and events) which would require financial planning for different age groups. The following table shows different needs of Chinese people in different life times. (Red part are needs that I think we should have but we did not realized ones) High School: Ages 13-17|

\* Developing a plan for eventual independence \* Preparing for a college \* Evaluating future financial needs and resources \* Exploring financial systems– banks, etc. (Mostly managed by parents)| Young Adult: Ages 18-24|

\* Establishing a household \* Training for a career \* Earning financial independence \* Determining insurance needs (Insurance sectors are not perfect in China) \* Establishing credit (Usage of student credit card) \* Establishing savings \* Creating a spending plan \* Developing a personal financial identity| Adult with or without children: Ages 25-34|

\* Child-bearing \* Child-raising \* Starting an education fund for children \* Expanding career goals \* Managing increased need for credit \* Discussing and managing insurance needs \* Creating a will| Working Parent or Adult: Ages 35-44

\* Upgrading career training \* Developing protection needs for head-of-household \* Establishing retirement goals \* Building on children's education fund \* Need for greater income due to expanding needs| Midlife: Ages 45-54

\* Assisting with higher education for children \* Updating retirement plans \* Investing \* Developing estate plans| Pre-Retirement: Ages 55-64|

\* Consolidating assets \* Re-evaluating property transfer (estate) \* Evaluating

expenses for retirement and current housing \* Investigating retirement part-time income or volunteer work \* Planning future security \* Meeting responsibilities of ageing parents| Retired: Ages 65 and over|

\* Re-evaluating and adjusting living conditions and spending as related to health and income \* Adjusting insurance programs for increasing risks \* Finalizing will or letter of last instructions \* Acquiring assistance in management of personal and financial affairs (Difficult to be achieved in China) \* Finalizing estate plans| Source: Family Economics & Financial Education, Revised May 2010, Personal Finance Unit, Life Cycle of Financial Planning, Page 2 This table could be an easier one for Chinese people to understand what our needs are in different periods of lifetime and what we should do in order to meet different changes and events in life. It is very specifically defined that people in certain age groups tend to have similar life cycle needs. Financial Life Cycle

Stage3: Wealth Distribution

Stage3: Wealth Distribution

0 20 30 40 50 60 70 80

0 20 30 40 50 60 70 80

Stage1: Basic Wealth protection

Stage1: Basic Wealth protection

Stage2: Wealth Accumulation

Stage2: Wealth Accumulation

Approaching

Retirement

Years

Approaching

Retirement

Years

Retirement

Years

Retirement

Years

Single-Married-

Raise Family

Single-Married-

Raise Family

Although everyone has a specific financial plan, there is a typical financial life cycle pattern that applies to most people. A life cycle is defined as a series of stages in which an individual passes during his or her lifetime. This life cycle pattern includes three stages. The amount of time it takes to move through the financial life cycle varies for every individual or household.

Conclusion

A well-managed and balanced financial plan starts with basic financial requirements and focusing on wealth accumulation in the middle, and moves up to distribution of wealth as the final financial plan. As a person moves up higher in the financial planning, it will become more complex. Based on such a life cycle financial planning theory, the private sectors such as insurance companies and institutional investors like pension funds are enabled to find different needs of people's in different stages, according to this, they can

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efficiently make their products and investments more diversified, at the same time, the increasing demand for new investment choices will push the financial market of China to be self-improved. In addition, there are nearly 50 percent of population are living in rural area in China, the better way to educate them to learn how to make financial planning, this theory may be more understandable and acceptable since it starts from people's needs. Moreover, I believe it will also be helpful to introduce this life cycle financial planning theory to the government in terms of improving social welfare and pension system designing. In sum, I believe that in a pension plan or a personal financial plan, to start from understanding different conditions and needs is always a better choice for us. We can make our financial plan more efficient and unique by not just following the others.