MoneySense

6 surprising benefits of having a financial plan

These tips from Merrill can help you pursue your goals and make the most of your financial plan.

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You are doing all the right things, contributing to a 401(k), saving for your kids' college, using debt strategically and more. But have you pulled all those pieces together into a real financial plan? One that considers unexpected life events, taxes, inflation and changing market conditions? One that projects the likelihood that you will reach your goals and suggests adjustments to help you overcome hurdles along the way?

A financial plan turns your vision into numbers, investment approaches and projections of potential future wealth. It quantifies the impact of tax obligations and inflation years from now and factors future costs and potential risks into your current strategies. What a financial plan can do well is help clarify aspects of your financial life that seem dauntingly complex.

A financial plan can help answer some of the tough questions you may be grappling with, such as how likely you are to reach all your goals, how you are doing so far, whether you should consider adjusting your portfolio, will you have the income you want in retirement and how you can plan for taxes down the road. Beyond these nuts-and-bolts questions, a plan captures your vision for the future and outlines in detail the steps you and your advisor can take as you pursue it.

Consider these six surprising benefits a financial plan can offer:

1. A 360-degree view of your finances. Seeing everything you own and owe in one place can be eye-opening. A full view of your current finances can help answer questions like "How much should I be spending, saving and investing?" and "What are the tax, education, insurance and financing strategies I should consider?"

2. The confidence to make your next move. When you see the big picture, you often learn that you are doing better than expected. Having that knowledge can give you the confidence to make major financial decisions. For instance, if you are delaying retirement because you believe you have not saved enough, running scenarios with your advisor could help demonstrate you already have enough to fund the retirement you want.

3. Permission to spend. A financial plan's detailed projections of future income and assets can also help you feel more comfortable about spending money today, whether that means accelerating your charitable donations or giving your children their inheritance in advance or something else.

4. Reassuring perspective amid volatility. Market fluctuations can lead people to make financial moves they later regret. By showing that you are still on track, a financial plan can help keep you focused on your goals and give you the fortitude to ride out the tough times.

5. A reality check — and incentive to save more. By reviewing your financial plan annually, you can see how you are doing and make any necessary adjustments. A sign you may be falling behind could inspire you to increase your savings rate, which can have as much financial impact in the long term as market returns.

6. Opportunities you might otherwise miss. A financial plan, for example, can compare projected potential returns for portfolios with different risk profiles, such as conservative, moderate and aggressive, and show how those asset allocations could be shifted over time. That might allow you to pursue greater growth now, while remaining within your risk tolerance.

Ultimately, it is the lack of unpleasant surprises that might be the greatest hidden benefit of having a financial plan. Planning for unexpected circumstances can ease your concerns and let you enjoy all that you have worked so hard to achieve.

For more information, contact Merrill Lynch Financial Advisor Stephanie Smith Christiano of the Wilmington office at (302) 571-5116.

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