Article published on May 14th 2012 | Finance

You might have seen some TV ads recently where people literally carry their retirement â€œnumberâ€• wit them. Each personâ€™s number varies, but itâ€™s usually in the $1-2 million range.

I like these ads because they reinforce the importance of setting a measurable retirement goal. But merely having a â€œnumberâ€• like the ones in these commercials isnâ€™t enough. Why not? Well, in the place we donâ€™t know what the number represents. Is it net worth? Is it investable assets?

Second, how does that number pay for your retirement expenses? In our previous article we discussed how retirement expenses can be grouped into two general categories: lump sum purchases or ongoing expenses. Lump sum purchases include such things as a house, cars, possibly a big trip or vacation. Ongoing expenses are recurring living expenses - monthly utility bills, food and clothing, regular insurance payments, etc. Somehow your â€œnumberâ€• has to cover both categories of expenses. But how?

Some assets generate cash flow and some donâ€™t. Thatâ€™s the missing ingredient.

Retirement â€œnumbersâ€• usually refer to net worth, which is a measure of your wealth. Letâ€™s say yo number is $1.5 million, and it represents your net worth at retirement. There are many combinations of assets and liabilities (debts) that result in a net worth of $1.5 million but to keep things simple letâ€™s assume further that you have no debts. So you have $1.5 million in assets and no liabilities. You are a millionaire with no debts. Nice going! But we still need to make another assumption - about the composition of your assets.

Some assets generate cash flow Financial Planning and some donâ€™t. Thatâ€™s the missing ingredient Cash flow-generating assets can be used to pay for ongoing living expenses. And if your assets generate enough of a regular income stream - enough monthly cash flow - to pay for both your ongoing expenses and your periodic lump sum purchases, then you will have become financially independent.

Thatâ€™s really the ultimate goal, isnâ€™t itâ€¦ Financial Independence Having a large net worth â€œnum having wealth - is good. In fact, itâ€™s necessary. But it might not be enough to pay the bills. For that you need assets that generate cash flow. Thatâ€™s even better.

But why wait until retirement to acquire assets that generate cash flow? Wouldnâ€™t it make sense to start accumulating them when youâ€™re younger?

Article Source:
http://www.articleside.com/finance-articles/net-worth-is-good-but-cash-flow-is-better.htm - Article Side

Keith Wheelan - About Author:
Keith Wheelan, is a professional financial planning advisor for Cash Flow Navigator helps to empower members of cashflownavigator community to successfully plan for and achieve financial independence. for more info visit http://www.cashflownavigator.com/

Article Keywords:
Financial Planning, Financial Management,Financial Independence , Financial Life Cycle, Financial Advisor, Personal Finance, Financial Plans, Financial Tools

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!