

Making the Right Money Resolutions Can Lead to a Much Healthier, Happier 2008

Money worries are the most common cause of holiday stress, according to Mental Health America. The 2006 study showed that parents are more stressed than all other demographic groups by finances and females are more likely than men to feel stressed by finances.

Money isn't everyone's number one worry, but if it's yours, why not consider the following New Year's resolutions to improve your financial life?

Resolve:

1. To track your spending: If you haven't purchased financial accounting software or set up a reliable accounting method of your own, this is the year to do it. Diligent expense tracking is the first critical step to getting personal finances in order.

2. To write down your goals: Have you ever written down the big things you want in life? Granted, all great dreams don't cost money, but many of them do. Money buys freedom – to travel, to retire early, to start a business, to change careers. Putting goals in writing gives them a formality and a starting point for the planning you must do.

3. To consider advice on taxes and planning: Maybe you've always winged it with your taxes and considered your company 401(k) the ticket to your financial future. Chances are your planning is inadequate. Start getting references on good tax professionals and consider sitting down with a financial planning professional to discuss your current retirement savings picture and what you can do to improve it.

4. To cut your credit card debt: If you can't ever seem to get yourself completely out of credit card debt, make this the year to do it. Take inventory of your balances, figure out if you can consolidate them under your lowest rate card, and resolve to pay off an amount that exceeds the minimum -- on time, every month. Oh, and pay cash from now on.

5. To save: If you haven't signed up for your employer's 401(k) plan or begun a savings plan tailored for the self-employed, this is the year. And resolve to save at least five to 10 percent of your take-home pay as you're able to afford, and place the maximum in whatever retirement savings plans you qualify for.

6. To get ahead on your mortgage: This advice isn't for everybody, but if you've paid off your credit cards by paying more than the minimum, apply the same principle to your mortgage payment. Every dollar you prepay will potentially save thousands in interest over the life of the loan if you plan to stay in your home long-term. In fact, if you make one extra payment a year, either at once or in equal monthly shares over the course of a year, you can cut a 30-year loan down to 21 years. Just don't short your investment plans to do it.

7. To invest in yourself: If going back to college or taking specific coursework will help you advance in your career, plan to do it. If investing in a health club membership that you actually will use makes sense for your health, do it.

8. To redefine the way you shop: If you're an impulse shopper, break the habit in '08. As a suggestion, get a legal pad and make that your centralized shopping list – use a single page for groceries, stock-up goods (it's wise to start buying essentials in bulk if you can measure the savings), essential clothing or big expenditures you'll need to make at specific times. Taking that pad with you wherever you spend money is a good way to keep a grip on your wallet – as long as you don't stray from what's written down.

9. To cook more: Even if you can't boil water, eating out is one of the biggest drains on the American household budget. The National Restaurant Association reported that in 2004, the average household spent \$2,434 in restaurants, equal to \$974 per person. Start small – resolve to cook at least one or two meals a week you like that will be cheaper at home. If it's drudgery, you won't keep it up.

10. To attack that miscellaneous column: Do you really need deluxe cable? How much are you paying for your Internet service? Can you wear a sweater around the house and lower the thermostat? In every budget, there are items that can be cut – or at least trimmed. Take a hard look at all your “essentials” to see how essential they really are. Aim for a target of at least 10 percent and start setting that money aside on a regular basis.

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Is Your Home Insurance Coverage Adequate?

As the overall cost of replacing a home has risen due to the impact of multibillion-dollar natural disasters, it's hard to open an annual homeowners insurance bill without trepidation.

Yet if you're tempted to save money, don't underinsure in order to offset rising premiums, say financial professionals. But there are measures you can safely take to blunt those increasing costs while making sure your coverage is adequate.

Clean up your credit score: Remember that credit scores are being used for many purposes besides offering credit. Increasingly, insurers set pricing based on how much credit you're already using, which obviously puts a strain on finances if you suffer damage at your home or lose your job. Make this a first step in keeping your overall costs down.

Test replacement coverage at several insurers: Keep in mind that your insurer isn't insuring your land – that's not going anywhere – but the structure and contents on top of it. That's why the insured amount of your home seems so much lower than what someone would pay for it if it went on the market. Many financial planners recommend taking out a guaranteed-replacement-cost policy. The insurer pays for the cost of fully replacing the property even if costs exceed the policy's stated value of the home. Go for the highest replacement value at the lowest cost.

Value your improvements: Insurers will ask if you've upgraded a kitchen, added a floor or another bath, but if you didn't do this at the time you were considering the project, here's a resource for valuing various project costs to get an idea of whether the insurer's replacement cost estimate is somewhere close to reality. It's *Remodeling* magazine's annual *Cost vs. Value* report online site (<http://www.remodeling.hw.net/industry-news.asp?sectionID=194&articleID=607228>). It allows you to check costs by project and region, which is helpful.

Always keep a thorough home inventory: And don't forget to update it regularly. You may no longer have certain computers, jewelry, art or fur coats in your home, and if you've insured that material in the past, tell your agent to leave it out of the current estimate. Of course, if you've replaced those items with other expensive items that wouldn't be covered with your ordinary household items, make sure you price adequate coverage. Digital cameras make it easy to photograph whole rooms as well as valuable items – you can put those images on a disk or hard drive and store them in a fire safe with your policies.

Consider higher deductibles: One of the best ways to cut your overall premium is to take on more risk. That means taking a higher deductible. If you have a \$250 deductible, raise it to \$1,000, and you might be able to save up to a quarter of what you'd pay in annual premiums.

File claims only for major items: If you keep filing claims for damage under \$1,000 several times during the course of three to five years, you'll see your premium creep up and up. Try and keep your claims behavior confined to larger events and go out-of-pocket for the rest.

Check all available discounts: Security and fire alarms – provided they're working – are great ways to keep your premium lower on a long-term basis. If you haven't purchased a system, ask your agent how significant the cost benefit will be over time. There are other discounts as well. Buying home, auto and other coverage from the same insurer might lower your overall rates considerably, and depending on the insurer, they might give you a break for a brand new home or new hail-resistant roofs.

See if those dwelling with you will cost you more...or less: If your entire family smokes, you'll pay more – for that matter, you'll pay more if one person smokes. If you have a senior in the home, you might get a discount because they're home more and can watch for problems in the home and in the neighborhood. Also, give some attention to the pets you have in your home – certain insurers are asking more questions about breeds deemed to be more predatory, and therefore greater risks for liability.

Consolidate coverage: Buying both home and auto insurance from one carrier has long been a way to cut the overall cost of premiums, but see if a competitive life insurance, disability or other insurance product you legitimately need might also lower your overall insurance bill if you buy those coverages together. An outside expert like a financial planning professional might be a good resource on any insurance you're buying and may offer good tips to follow when buying in your community.

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One-Size-Fits-All Target Funds Can Miss Their Mark

Consider how great it would be if all your retirement investment planning could be done with a single checkmark and absolutely no decision-making until you picked up your gold watch years from now.

That would be terrific—if you could really plan a successful retirement that way.

Unfortunately, that's what many Americans are assuming with so-called asset allocation funds that carry the names "target date" or "lifecycle" funds. This particular variety of mutual funds use pre-determined asset allocations that change at set time intervals between now and an individual's expected year of retirement. Here's how they work. A target fund invests in a combination of stock and bond mutual funds or individual stocks and bonds that is designed to reduce the level of risk over time based on an investor's number of years until retirement. The portfolios move from more aggressive combinations to more conservative combinations as retirement approaches.

Money has been gushing into these funds, according to the Investment Company Institute. By year-end 2006, this particular category of funds held \$114.3 billion in assets, up from only \$12.3 billion in 2001. Why the demand? In part such funds have been positioned as "no-brainer" investments for individuals without the time, inclination or knowledge to choose investments for themselves. Yet there's another critical reason – the Pension Protection Act of 2006 gave employers the right to put 401(k) participants in target funds as the "default" choice if the employees don't make their own choices. 401(k) plan architect Ted Benna was quoted earlier this year as saying that within five to 10 years, more than 75 percent of 401(k) plan assets could be invested in target funds.

Is that a good thing? One could argue that if people feel more comfortable investing for retirement when decisions are made for them, it's better for them than doing nothing at all. But on the other hand, are target funds the most appropriate investment choice based on the individual's accumulation goal for retirement?

Probably not. The fund industry itself is asking tough questions of how well these products will perform over the long haul. Fund giant Vanguard released a paper in August stating that existing performance benchmarks for these funds focused too much on short-term results rather than long-term performance.

While many targeted funds may provide intelligent asset allocation based upon Modern Portfolio Theory, a trained financial expert, such as a financial planning professional, can help individuals meet specific goals in retirement that aren't addressed by these one-size-fits-all plans. For instance, some critics say life-expectancy issues are not adequately addressed in target-date plans, and they definitely don't address scenarios in which you plan to work in retirement or spend your assets in unconventional ways. Also, some critics offer that many people may under fund such plans without realizing the correct amounts they should invest to meet their goal. A planner's job is to help advise individuals on an ongoing basis about meeting such goals.

That said, how should you evaluate a target-date fund? Here are some questions you should ask:

Do you know how much money you'll need to retire? This is one of the questions you should start with based on your age and the vision of retirement you have. It is one thing to invest in a fund that promises consistent growth until your retirement date, but what if you need more growth? What if there are specific tax and spending issues that might interfere with putting the right amount of money into such funds each year? This is why individual advice makes sense. A mutual fund can't ask you what your goals are, nor can it make sure you're investing enough.

How did your employer select the funds it's offering? Obviously, most employers want to make the right fund choices for employees, but just because they're offering target funds doesn't mean they're offering the right target funds for you and your needs. Keep in mind that most fund choices offered to companies are heavily marketed and might not be the cheapest or most efficient investment choices out there. Always check the Morningstar rating of any fund your 401(k) invests in.

What if you leave your job and take your 401(k) with you? What happens to your targeted investment plan then? Obviously you'll roll over these assets into another tax-advantaged retirement plan, but what will happen to your annual retirement savings strategy at that point?

What are you paying for a targeted fund? Granted, the investment choices are being made for you, but what are you paying for those choices? Often, these funds are constructed based on a fund-of-funds structure that layers a fee on top of the fees incurred by the individual funds. Always understand the fee structure of any fund you invest in.

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