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FINANCIAL PLANNING
PERSPECTIVES

Prevent Financial Fireworks This 4th – Do a Midyear Financial Checkup

Very few people are in the mood to hunker down with their financial files when the summer weather beckons. But a midyear review of your tax situation, retirement and spending issues can be far more valuable than the rushed attempt most people make at the end of the year -- or when it's too late at tax time.

Summer's actually a good time to do this task because there's still enough time to correct lapses in savings, spending or tax planning. Here's what most people should cover:

Taxes: If you got a sizable refund in April or found it necessary to empty savings to pay Uncle Sam, it's definitely time to reassess what you'll owe at tax time next year. Also, if you think you'll have some losing stocks in your taxable investment accounts, keep an eye on those in case you'll need to offset gains in your portfolio at the end of the year.

Retirement savings: If you are on schedule to max out your contributions to your company retirement plan this year, great. But don't forget to check your existing IRAs and other retirement accounts to see if you'll have enough cash on hand to contribute the maximum in each account by their respective deadlines next year.

Health and health insurance: Increasingly, what we pay for health insurance will be tied to the state of our health. While the weather is good, commit to a plan to walk or hit the gym a specific number of hours a week. Many insurers reset premiums at mid-year in a rising cost environment, so make sure you're ready to switch plans or negotiate different coverage if necessary during open enrollment in the fall.

Spending: Either on your computer or on paper, take the time to figure out where you're money's going. A look at the last six months of spending may reveal opportunities to reduce spending and redirect money toward more necessary goals. Also, take a look at such things as gym memberships, magazines that are piled up and coffee expenses. If you're not using these things, you can probably live without them. Doing this exercise can identify a surprisingly large amount that's unaccounted for that can be redirected to debt payment, savings and investments.

Reserve fund: Most financial experts encourage you to have between three to six months of living expenses in an emergency fund. If you don't have that minimum, go back to your spending review and see where you can start socking money away.

College savings: If you are saving for your child's education or your own, check to see if you're on track with the goals you made for the year. It's also a good idea to read the latest news on financial aid since schools change their financial aid policies annually. Even if your kid is still in grade school, it's a good idea to learn as much about college financial aid while you've got plenty of time to learn.

Special goals: If your car is suddenly looking like it will need to be replaced or if this might be the last year for your furnace, see if you can direct more money into a reserve fund to cover replacement costs or at least a heavy down payment. If there's a vacation you want to take by

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the end of the year or a special household purchase you want to make, focus on the cash you'll set aside to make that happen. Of course, if you have credit card debt rolling over from one month to the other, that should be your initial focus.

Credit: If you haven't set a schedule for receiving your three credit reports throughout the year, do it now. You have the right to get all three of your credit reports – from Experian, TransUnion and Equifax – once a year for free. You can do so by ordering them at www.annualcreditreport.com. By staggering receipt of each of your credit reports at different points in the year, you'll get a continuous picture of how your credit picture looks. Also, you'll have the opportunity to focus on possible errors in a single report, which will give the other two credit agencies time to update their files.

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Thinking of Buying Your First Home or Refinancing?
Here's How to Improve Your Credit Before You Apply

While no one can count on rate forecasts, the prospect of lower mortgage rates later this year should have borrowers thinking about taking advantage of cuts if they happen.

The first step anyone should take is a regularly scheduled check of his or her credit report. The second is taking the necessary steps to improve any troubling aspects of their credit picture. Here's how to get started:

Schedule a visit with your financial planner or tax adviser – or both: You may be focused on all the money you're going to end up paying for a home or the cost of a refinance, but it's a good idea to meet with a tax professional or a financial adviser. Trained experts who know your overall financial picture can talk to you about your credit and how the biggest single debt of your life should be managed over time.

Set a credit report schedule: You have the right to get all three of your credit reports – from Experian, TransUnion and Equifax – once a year for free. You can do so by ordering them at www.annualcreditreport.com. Yet don't order all three at the same time. By staggering receipt of each of your credit reports at different points in the year, you'll get a continuous picture of how your credit picture looks. Also, you'll have the opportunity to focus on possible errors in a single report, which will give the other two credit agencies time to update their files.

Reform your late payment behavior: If you've failed to make on-time payments of credit card bills, car loans or your utilities, stop it for good. Nothing will sink a credit rating faster than lackadaisical payments. Do any of the following. First, get a calendar and when bills come in, mark payment days 5-7 days ahead of due dates so the U.S. Mail gets your payment in on time. Second, check out the electronic bill payment service at your bank—and program in payment reminders so you never forget to push that button. You can also use your creditor's electronic payment option, but pay a few days ahead at the start so you can see how quickly your payments are recorded (some electronic payment systems still delay recording payment by a day or two even if the debtor pays on the due date).

Get current: If you have missed payments on an account, do whatever it takes to get current and then never let yourself fall behind again. According to myfico.com, the longer you pay bills on time, the better your credit score.

Understand the real penalties of bad credit: It takes at least seven years to remove a collection account or a bankruptcy from your credit record, even if you've paid any amounts owed in full. Write down the exact month you settle a collection account or when your bankruptcy will leave your credit report and make sure those black marks leave your credit reports on time.

Get rid of balances in sequence: Pay off your highest-rate balances first. There's a temptation to move around outstanding balances if you get a good credit offer, but remember that when

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you have debt problems, the last thing you should do is open new accounts. It’s fine after you fix the problem as long as you plan to pay off all balances quickly.

Before you do borrow, ask lenders which credit agency they use. If you know your credit is in good shape, this won’t be a concern, but it always pays to ask a potential lender – particularly a mortgage lender – if there is one credit bureau they favor over others. It’s important because you may have a significantly higher or lower credit score on one report compared to another.

Cut up unnecessary cards, but don’t close the account: Closing accounts – even those that have had zero balances for years – is a bad idea. Lenders want to see a long record of credit management, and longtime accounts that you haven’t touched in years may actually help your score because it shows you have some restraint.

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Your First Job Can Be the First Great Move in Your Financial Life

New college graduates will be entering the workforce this summer with plenty of excitement – and plenty of debt. This year, the average college debt stands at $20,000 for the first time ever.

Though your first job is probably not going to be your last job, the financial moves you make on that first job can create benefits and good money habits for a lifetime. Here are some of the best moves to make coming out of school:

Talk to a financial planner: A financial planner can look at your new income, your debt and your particular financial goals and give you a road map. Sure, you can do it yourself, but an expert can spend the time developing a plan while you're developing a career and a new life. It's a good idea. Ask your parents for a referral or go to www.PlannerSearch.org to find a CERTIFIED FINANCIAL PLANNER™ professional in your area.

Sign up for the company 401(k) the minute you're eligible: A 401(k) plan accomplishes more than retirement savings. It teaches a new worker the value of "out of sight, out of mind" savings – when money goes to savings before you have a chance to spend it. That's why new grads should sign up for their 401(k) retirement savings the moment they become eligible. But it's important to stress that even if it takes a year before you can join the company plan, start putting money away in a personal IRA. You'll be capturing funds from the start, which experts say is the absolute best way to build a financial future.

Always aim for the maximum: It's a tremendous challenge to put away the most you can put away in any retirement plan once you get out of school – you have a household to set up, school loans to pay off and you need to have a little fun, too. But even if you can't set aside the maximum in your various retirement options at the start, make it a goal to get there as soon as your income rises and your debt falls.

Check your investment balance each year: Studies show that many people will pick a handful of mutual funds for their 401(k)s at the very start and not change them. That's one of the great reasons to have access to a financial planner because you can examine whether your investment choices and style fit your age and goals.

Hold off on buying a new car: Mass transit is best, but if you need a car, think about buying a quality used car that you can pay off quickly. A new car with a low down payment means you'll be doubling your debt if you owe the national average of $20,000. That's a tremendous burden for a new professional.

Don't forget about insurance: If you're single, it's not time for life insurance, but you must have auto, health, rental apartment and yes, disability insurance. Even if your employer does not offer you health insurance right away, you must find another insurance resource since you probably won't be able to piggyback on your parents' health plan for awhile. If you're driving a used car, you may not need to keep as much collision on your car. Don't forget to insure the contents of your apartment – one break-in can cost you thousands of dollars you don't have. And if you think about "old folks" being the only folks who can become disabled and cut off from a paycheck until they can work again, guess again. Think of how losing a paycheck for six months would hurt your finances.

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Start laying away an emergency fund: Even if all you have is the proceeds from two missed lattes a week, start putting money in a special account you will not touch unless you are out of work and need to find some way to pay the rent. Make the trigger something as serious as that, or you'll never have a serious reserve for emergencies.

Figure out taxes: New workers tend to do one of two things when it comes to taxes – they either withhold too much or too little. It makes sense to sit down with a planner or a tax professional to make sure your annual tax set-aside is correct, because withholding too much means Uncle Sam gets to hold the money that could go to your retirement or your emergency fund.

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