

Making the Right Money Resolutions Can Lead to a Much Healthier, Happier 2006

A 2004 survey by the American Psychological Association reported that 61 percent of Americans considered money issues their No. 1 cause of holiday stress.

Want to get a head start on a better holiday season in 2006? Start with some important 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. 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 Certified 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 5-10 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 consider prepaying 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 refinance: Interest rates are still at historic lows, and now may be a good time to consider consolidating all your debt under the lowest possible fixed rate if you can resist taking on more debt in the future. At the same time, Fannie Mae and Freddie Mac, the nation's two federally chartered stockholder-owned mortgage finance companies, are raising their national conforming loan limit to \$417,000 after Jan. 1, which means more homeowners will qualify for a lower-rate conventional mortgage than a higher-rate jumbo loan.

8. To redefine the way you shop: If you're an impulse shopper, break the habit in '06. As a suggestion, get a legal pad and make that your centralized shopping list – separate it for groceries, stock-up goods (it's wise to start buying essentials in bulk), 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 2002, the average household spent \$2,276 in restaurants, equal to \$910 per person. Start small – resolve to cook at least one or two meals a week you like that will be cheaper at home.

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 cut back on. 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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8 Things You Should Know About Medicare Part D Prescription Drug Coverage

On Jan. 1, Medicare formally launched its first prescription drug coverage, known as Part D. Enrollment began Nov. 15, 2005, for the program, which gives Americans 65 and older access to coverage from dozens of private insurers subsidized by the agency. Current Medicare recipients have until May 15, 2006, to enroll or risk a penalty.

For many seniors, the sheer number of coverage providers assigned by the government will make Part D complicated. But if you are already working with a financial planner, it might be worth asking their help as well. Signup is not mandatory, but experts advise even those who already have private drug coverage to check out Part D just to understand the proper ways to transfer to the program if they need to later on. Children of seniors might also want to brush up on Part D in case they need to help their parents decide.

Here's a start of some basic information about Part D. For a more extensive overview of how Part D works, go to www.aarp.org/health/medicare/drug_coverage/medicarerx_coverage.html.

Obtaining the coverage: Part D has a "standalone" version of the plan that provides drug coverage alone to those who wish to stay in the traditional Medicare fee-for-service program for all their healthcare needs. There is also the managed care alternative, Medicare Advantage, a plan that covers both medical services and prescription drugs.

Types of coverage: This is where it gets tricky. In your state, there may be a dozen or more companies providing plans, and it's very important you get advice on which plans cover what drugs you're currently using or may be likely to use. You might also want to chat with your doctor about possible replacement prescriptions if alternate medications may make your choice easier. You will have the option to change plans once a year, so if you don't have to take many drugs now, then go with the lowest premium plan and then switch later. For a full overview of the available plans by state, go to www.medicare.gov.

What it costs: Under the standard benefit for 2006, participants will have to pay a premium between \$20-40 a month (each plan varies) with an annual deductible of \$250 before coverage kicks in. Afterward, participants would have to pay \$500 of the next \$2,000 of drug costs. After that, the next \$2,850 in drug costs will have to be borne by the participant since Medicare requires recipients to pay \$3,600 out of pocket before they'll pay any more. This is called "the doughnut hole," but people who also have drug coverage through a state drug plan or employer or union drug benefit might offer backup coverage through the gap, though it'll cost you more.

How you pay: Premiums may be automatically deducted from monthly Social Security checks or be paid directly to the plan. Unfortunately, spouses don't get a break. Everyone picks a plan and pays separate premiums. You'll be able to keep track of your spending from a monthly statement from your Plan D provider.

How do you compare your private insurance vs. Plan D? Your employer or union drug plan has to inform you by mail whether your coverage is "creditable," meaning, at least as good as the Part D benefit. If the answer is yes, stick with it. If not, then you need to decide whether to stick with it and pay a late penalty to join Part D.

What about current Medicare drug discount cards? Those go away next May 15 or until you sign up for Plan D coverage, whichever is sooner.

What about Medigap coverage? If your Medicare supplement insurance doesn't pay for drug coverage, you can add Part D. If you are receiving prescription drug coverage through Medigap, then you won't be able to join Part D, but if Part D looks better, then it's likely you'll be able to drop the drug coverage from your Medigap plan and lower the premium.

Avoiding scams: Companies with valid Part D plans can market by phone or mail, but not door-to-door. But they cannot enroll you over the phone – you will have to complete formal enrollment forms – which will require you to study your options – before you can join a plan.

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More Audits This Year? Here's How to Protect Yourself

It's that letter no one wants to get.

In 2006, the Internal Revenue Service plans to conduct about 1 million audits, up 37 percent from 2001. The agency says it will target roughly 200,000 filers earning over \$100,000 – nearly double that of four years ago.

Even if you aren't that wealthy, the increasing number of self-employed individuals may also be part of the government's expanding tax dragnet. In any event, it's always smart to be vigilant against the expensive and stressful possibility of a tax audit. A qualified tax professional can assist you in the preparation of your return to minimize the chances of questions on your return.

There are three types of audits:

Correspondence audits happen when the IRS sends a letter asking for clarification on relatively simple items. It's usually handled and completed through the mail.

Office audits are conducted on the IRS's turf. You meet with an examiner who wants to see documentation intended to answer their specific questions. It's wise not to volunteer any other information beyond what they ask.

Field audits are the stuff of TV cop shows. That's when the IRS comes to your home and starts nosing around to see why that Jaguar is sitting in the driveway of someone who reported \$28,000 in income last year. These tend to be pretty serious.

However, the government looks for particular signs and signals that may put you in the audit pile. The following measures won't guarantee you'll avoid an audit, but they're key issues that the IRS focuses on when deciding which returns to target:

Goofing the basics: This is an obvious point, but remember to sign the return, add the Social Security Number and double-check the math. Fill out every applicable line on the return, or better yet, get a tax preparer to do it since professionally prepared returns tend to be easier to read and understand because you're paying qualified people to get it right. Bottom line -- sloppy returns tend to draw scrutiny.

Rounding can be a problem: Precise numbers suggest precision. It's always best to use the precise number you need for an item than rounding up or down – rounded numbers tend to draw attention from the IRS, even if you're trying to be conservative.

Note sales of stocks or bonds carefully: Anytime you sell stocks or bonds, the IRS and the taxpayer receives a 1099 noting the sale price. Your tax professional can show you the proper way to account for these sales on your return. Also remember that income items such as interest, dividends and other sources of income are matched with the return from documents that are already on file with the IRS.

Scores are everywhere: In case you didn't know, the IRS – like the lending industry – assigns you a score. It's called the Discriminate Information Function (DIF), a computer program that compares, among other things, the deductions you're taking against others in your income bracket. It's the way an increasingly technology driven IRS is screening for suspicious returns. One of the best ways to avoid a high DIF score is to report all income – don't let yourself think that any amount is not worth reporting.

Itemized deductions: You should claim every deduction the law entitles you to, but a good tax professional can advise you of reasonable limits that are less likely to trip your return. In particular, the IRS looks for overblown charitable deductions – make sure you make cash contributions by check or credit card so there's a record, and that all donations above \$250 have receipts or other acknowledgement from the charity. If you do get audited, you need to prove the original value of the items donated and their fair market value.

Keep scrupulous mileage records: If you use your vehicle for work or business, keep a notebook or chart in the car so you can complete mileage information as soon as you complete it. The records should list beginning and ending odometer figures, location and reason for the trip. Keep the same records for mileage claimed for medical expense and charitable purposes.

Watch that home office: Even though the government loosened restrictions on home office deductions in 1999, make sure you can substantiate that business area of your home if you're asked.

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