

Coming Clean: A Valentine's Day Money Checklist for New Live-In Couples

Very few couples reach across the table on Valentine's Day, look deeply into each other's eyes and swap credit reports. Yet, it would be fascinating to know how many relationships would be saved – or mercifully curtailed – with a thorough knowledge of each other's finances.

Even if marriage or a civil union is in the distant future, it's never too early for a serious couple to start discussing money issues. It's worthwhile for two reasons. First, it allows couples to plan for the long haul. Second, it helps both parties identify ideological and behavioral differences that can sink a relationship if they're not properly addressed.

Here's a checklist that potential live-in couples should review before they set up housekeeping. Find some time to sit down at the kitchen table and discuss the results, and if you're not sure where to go from there, enlist the help of a financial expert such as a financial planning professional.

Discuss how household expenses will be split. Since your relationship isn't legal, the first logical step in the money discussion is how you'll handle household expenses in light of your respective incomes. Creating a joint budget is critical. If you're setting a lifetime plan, it's definitely appropriate to discuss your respective salaries and how to budget those household expenses so you'll have savings to play with separately or jointly.

Talk about debt. The best gift a couple can give each other before they move in is full disclosure on their respective finances. If you plan to rent an apartment or buy a home together, a poor credit history can alter plans suddenly. If one or both partners has significant student, credit, business, mortgage or other debt, those amounts need to be disclosed and both sides should address a repayment plan. Start by obtaining your most current credit reports –for your free annual series of reports, go to www.annualcreditreport.com -- and not only share that information, but address how any problems or inaccuracies will be fixed.

Talk about the kids. If one or the both of you are bringing children into the relationship, you'll need to cover all the emotional, logistical and money issues associated with blended families. You'll need to know how your partner's obligations will affect the household budget, and looking ahead, how they will affect your joint finances and retirement plans if you tie the knot in the future. Also, if you're both childless, have you fully discussed your plans for a family at a later date?

Discuss long-term housing plans. For now, one of you might be moving into the other's home or apartment, but is that the plan long-term? If one partner wants to live in a mansion and the other is content with a three-bedroom ranch, that's a critical difference in financial goals. Consider setting a "spending trigger" – a dollar amount over which partners need to agree on what's being spent for housing expenses.

Review each other's spending habits. They say opposites attract, but if one of you is a spender and the other's a saver – or worse, if both of you are spenders -- you need to have a tough discussion about money behavior.

Check each other's bankruptcy record. You really need to know your partner's bankruptcy or default record. This will show up on your credit report if the filing was made within the last 7-10 years, but if he or she filed earlier, you really need to know when, and most important, why.

What about retirement? At whatever point in life you're entering a relationship, you need to discuss not only how set you are for retirement but what you hope your retirement will be. Talk about assets in your 401 (k), IRA and other investment accounts. If one or the both of you haven't taken any steps to plan for retirement, you're going to need to change that. If you vary widely in age, it's wise to ask for advice since one spouse will be retired long before the other.

What is your estate plan? It's never too early to think about the possibility that one of you might die suddenly or be incapacitated. Many people wait until they're married to get wills, durable powers of attorney, health care directives and life insurance/ retirement plan beneficiaries in order, but if you have a specific desire for a non-legal partner to gain custody of your children, your assets or the direction of your business, meet with an experienced estate attorney and tax professional now, not later and plan to discuss those goals fully with your partner.

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The Windfall You've Fantasized About Just Happened. Now What?

Money fantasies are nice, particularly in a tough economy. Some of them even come true – unexpected inheritances, yearend bonuses and yes, in even one in several million chances, a winning Powerball ticket.

What would we do with found money if it ever found us? We'd make ourselves happy, make other people happy and hopefully banish the words "financial stress" from our lives. But how many of us have supplemented that fantasy with a game plan for making that windfall do the most good for our families, our friends, the causes we care about and ourselves?

Keep these ideas in your hip pocket if your ship ever comes in:

The taxman wins first: Adopt the 50 percent rule for any kind of lottery or sweepstakes win to avoid possible tax or expense problems later. Say you won \$10 million in a lottery. Give yourself an immediate reality check and consider yourself the recipient of only 50 percent of that prize. Depending on your tax situation, you may indeed be giving half of that prize to state, local and federal government. And if you don't have to surrender that full amount in taxes, keep in mind that professionally managed money – should you enlist a professional manager – will cost you in fees. Which leads us to our second important point...

Connect with solid tax, legal and financial planning advice: This is a good idea if you *never* receive a windfall. A qualified tax advisor, attorney expert in estate matters and a financial planning professional will ground you in reality before your fantasy comes through. Should a windfall appear, each expert should be able to look at your personal situation and assess the risks and strategies necessary to accepting and managing the funds without costly tax or investing mistakes. Remember, a windfall shouldn't be a quick spend; it should be the foundation of a lifetime of financial comfort for you and hopefully, your heirs. While inheritances are not in themselves subject to income tax, bonuses and gambling winnings may be taxable at your highest marginal rate or even place some of your winnings in a higher tax bracket. State and local taxes may also apply. The result can take considerable wind out of your windfall.

Force yourself to think about true necessities before luxuries: The adage "Pay yourself first" also works in the fantasy world. What are the biggest financial problems you'd like to solve today? That might be the best approach to thinking about your reaction to a windfall. Have you always dreamed about buying a home and owning it outright if the tax consequences aren't too severe? What about shoring up a retirement and healthcare strategy that would protect you for the rest of your life no matter what investment markets do? How about being able to pay for your kids' college tuition in cash so they wouldn't have to shoulder debt after graduation? As noted, taxes can eat away a significant portion of unexpected wealth, so it is best to focus on long-term goals and set priorities aimed at creating a lifetime of financial health. Forget the Lamborghini and focus on what will give you and your family true financial security.

Pre-think a plan for helping others: The news media are littered with stories about poor souls who waste sudden fortunes after being preyed upon by friends, family members and strangers with a “cause.” Giving to others – whether part of a wealth management strategy or simple yearend tax strategy – should be planned with the best advice available based on the circumstances and solid guidelines for saying “yes” and “no.” As long as you’re fantasizing about wealth, consider fantasizing about the people and organizations you would really want to help with any extra money you had, and commit to getting the right financial and tax advice before writing a single check. With a little effort, charitable gifts can be enhanced while providing improved control and maximum tax advantage.

Know your fellow winners before you win: It’s one thing to go in with co-workers or family on a weekly lottery pool on a casual, fun basis. Unfortunately, that friendly group dynamic could change significantly with a big windfall. This is clearly a question for your legal advisor, but some experts suggest that people who regularly gamble together draft a partnership agreement that can be reviewed by a qualified attorney. The partnership might also obtain a Federal Employer Identification Number that enables the winnings and the tax burden to be distributed along agreed-upon lines if you and your partners ever win.

Know the tax impact of any court award: If you win money in a court case, you might be sharing it with Uncle Sam. Generally, compensatory damages for personal physical injury or physical sickness are not taxable. However, other types of court-related compensation could be taxable as ordinary income, including: Interest on any type of award; compensatory damages for lost wages or lost profits; punitive damages; amounts received to settle pension rights if you did not contribute to the plan; compensation for patent or copyright infringement, breach of contract, or interference with business operations; back pay; and damages for emotional distress in a Civil Rights Act claim. Get proper legal and tax advice on these payments.

So, what about your job? Plenty of people say they’ll never quit their job if they come into money. But this is another thing that really makes sense to think about in advance. Money may change relationships, including relationships at the office, and your relationship to money. If you decide to quit, make sure you know whether your windfall will really assure a lifetime income if that’s what you want it to do. A financial planning professional can help determine the amount needed as well as enhance the management of assets and the production of income for life.

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Credit Score Computing Will Change in 2009 – Do You Know How it Will Affect You?

It's always a good idea to be vigilant about your credit score, but if you're planning on borrowing in 2009, you might want to monitor your credit behavior a little more closely.

Fair Isaac, the company that created the FICO score, has been working on a new version of its landmark credit scoring method that might have serious consequences for you if you're planning on borrowing for a home or establishing any other new credit in 2009.

The new version of FICO is going to be particularly focused on your balances, not only on your on-time payment records.

The bottom line: get those balances down.

Reports say that the new FICO revision will actually allow a bit of lenience on late payment – something that might affect more than a few consumers with the downturn in the economy. Obviously, this won't mean that someone can chronically pay late, but once or twice won't make the same impact as in earlier FICO versions.

Yet credit utilization – essentially the amount of credit you're actually using relative to your credit limit – is a much bigger deal simply because high balances are so prevalent right now. From the lender's perspective, high balances mixed with a tough economy means a higher risk of default among customers.

So what's a good target utilization rate for all your revolving credit accounts? No more than 50 percent of your credit limit, and if you can get it significantly lower than that over time, that's a good plan. So, the lower your credit utilization, the better your score.

What does that mean for ordinary Americans who don't meet that under-50 percent goal? It means you shouldn't be applying for new credit or refinancing for awhile. But here's the silver lining – since most lending institutions are probably continuing their strict lending requirements due to the recent credit crunch, it might be a good idea to defer borrowing goals in favor of reforming your credit behavior.

So instead of bemoaning your tougher chances of getting a loan for a home or a car, why not use the current environment to launch a credit makeover that will position you for a better shot six months to a year from now? Some ideas:

You'll need at least a 740 score for the best rates: You'll often hear that credit scores of 700 and up will get you best customer status with lenders. Forget about it. For the lowest rates and best terms, you need to get your credit score above 740 (the top credit score is 850), so keep that target in mind.

Budget: If you've never reviewed your spending and picked out areas where you can cut, you've never done a budget. Start tracking your spending either on paper or with financial planning software and start pinpointing what spending you can shift over to paying off debt.

One more time -- get those balances down: Get all your non-deductible debt to under 50 percent of your credit line in each account. Go after your balances with the highest interest rates first, and once you hit 50 percent...keep trying and get those balances down further.

Get some advice: You might be focused on pulling together a down payment, but it might not be a bad time to sit down with a tax professional or a financial adviser – such as a financial planning professional -- to talk about the way you're going to manage your debt going forward.

Keep an eye on your credit reports: Remember that 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. Don't order all three of them at the same time, though. By staggering receipt of each of your credit reports, you'll get a continuous picture of how your credit picture looks because the three bureaus feed each other the latest information. You'll also be able to clean up errors as you find them -- errors can drag down a credit score – and you'll also keep an eye on identity theft. Oh, and by the way, keep in mind that all “free” credit report sites are not free – if they ask you for a credit card number, remember they're doing that because they want to *charge you*. Just go to the site above and you'll be fine.

Get on time and pay more than the minimum. Yes, we indicated above that you might get a bit of a break on late payments with the new FICO system, but that's a break you should consider only in a dire emergency. Electronic bill payment will allow you to save on postage while guaranteeing on-time postage, and the budgeting advice mentioned above will allow you to put a few more bucks toward getting that loan or credit card bill paid off.

Once you're paid off, don't close the account: In the world of credit scoring, closing accounts (even those that have not had balances for years) is a lousy 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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