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financial monitor

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Money Management throughout Life Stages

On your way to developing and maintaining good financial health, you know you must accumulate emergency funds for a rainy day. A good plan often begins with saving three to six months' worth of income and progresses into developing the capacity to meet your personal financial goals in the short term, as well as the long term.

A solid plan can play a big role in building financial security for you and your loved ones. And yet, are you *regularly* reviewing your finances? Doing so becomes particularly important whenever you reach a new life stage. New additions in your life, such as a spouse, a new home, or the birth of a child, make reviewing your plans a necessity. You may need to give your finances extra consideration upon reaching the following milestones:

First Job. When you obtain your first "real" job, it's likely that you will be presented with employer-sponsored retirement savings plans. It is never too soon to begin saving for retirement, and taking advantage of your employer's retirement savings plan as soon as possible will give your account the maximum amount of time and potential to grow. The combined effects of time and compound interest are powerful, and the sooner you start, the better. Try to contribute enough to your fund to take full advantage of any employer-provided matching contributions.

Also, learn about the insurance provided by your employer's benefit plan including health, life, and disability income insurance. If your employer's plan offers insufficient coverage, or if a plan is not offered at all, consider obtaining coverage independently. If you change jobs, pay attention to the benefits. Benefits will often vary greatly from employer to employer, and changes in insurance coverage and retirement options must be factored into your plan.

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Tips for Getting—and Staying—Out of Debt

Sound debt management is a practice that is always "in style," whether economic times are good or bad. Effectively managing your debt prepares you to weather tough economic times, as well as to capitalize on a healthier economy. Here are some tips to help you get out, and stay out, of debt:

- **Cancel all credit cards except one and pay the balance off monthly.** If you don't have them, you can't use them. By limiting yourself to one credit card, you prevent yourself from maxing out several cards.
- **Use a debit card instead of a credit card.** A debit card offers all the convenience of a credit card, without adding to your indebtedness. The cost of a purchase is immediately deducted from your bank account. Since you can't buy something unless you have the funds to cover it, using a debit card can help you live within your means.
- **Avoid using credit for items that depreciate or have no income-producing potential.** Buying on credit for items such as clothing, dining out, groceries, and vacations may cost you more in the long run. The value of these items doesn't increase over time, and they may end up costing you even more if you don't pay off your account each month and finance charges are added to the balance.
- **Limit monthly installment payments to 10% of income.** Credit may derail your budget if it exceeds amounts that you can repay. A good, general rule of thumb is to limit payments on monthly installment debt (excluding a mortgage) to 10% of income.
- **Comparison-shop for the lowest interest rate.** Even a small difference in interest rates can make a big difference in the total interest you will pay over time.
- **Set aside a cash reserve.** A cash reserve can actually help you pay down your debts. Each time an emergency arises you won't need to borrow additional funds—you can use your savings to handle the crisis.
- **Be cautious using your savings to pay off debts.** Although it sounds reasonable to use low interest savings to pay off high interest debt, delaying a savings program will cause you to lose the benefit of months or years of compound interest. A better approach may be to continue to pay down your debt in regular monthly installments, take on no new debt, and retain your current savings.
- **Beware of debt consolidation loans.** You can't borrow your way out of debt. Debt consolidation loans reduce your total monthly payment by spreading your debt over a longer term, but you will end up paying more interest in the long run.
- **Use credit wisely.** Not all credit is bad. Wise uses of credit are those that help you prepare for the future by purchasing assets that appreciate, such as a home.

One of the chief causes of financial failure is credit *abuse*. Easy, accessible credit may tempt many people to "buy now and pay later." Credit card purchases that offer instant gratification with "no money down" will sink any ship if you lose track of spending. Reining in excessive spending habits may be difficult, but a little fiscal discipline can help you clear your debt and prepare for a sound financial future.

Personal Insurance: Society's Safety Net

What if you were to get in an accident, damage your car, and become disabled? What if your house was to burn down or your business was burglarized? What if something were to happen to you and your loved ones were left to fend for themselves? For each of these potentially disastrous situations, insurance can help provide a safety net.

Insurance has become a necessary and valuable part of our lives. Personal insurance, including **automobile**, **umbrella liability**, and **property insurance**, fulfills vital societal needs and, in many ways, promotes public safety. By helping people restore their property and belongings to their original condition, insurance serves a valuable function.

Not a Cure-All

Obviously, insurance cannot eliminate or prevent liability lawsuits, but it *can* protect the owners of homes, automobiles, businesses, and other property from the financially devastating effects of a lawsuit. Insurance cannot finance the purchase of a home, automobile, or

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Pros and Cons of Probate

The responsibilities of the probate court are to determine that a **will** is valid and to ensure that it is faithfully executed. Although most states have exemptions for smaller estates, a will ultimately falls under the jurisdiction of the probate court.

A **trust** is similar to a will in that it deals with the transfer of assets. **Testamentary trusts** are subject to probate because they are created by a will at death. If you wish to avoid probate, one option is to use a "**living**" or **inter vivos trust**.

The probate process has advantages and disadvantages. Here are some points to consider in determining how probate could affect *your* estate.

Advantages

- **Fair Estate Value.** If your heirs believe your property has been overvalued, thus potentially increasing the estate tax, a lawyer or executor can bring in an independent appraiser. The judge may approve the new appraisal or take a position between that of the independent appraiser and one appointed by the court.
- **Protection from Creditors.** Once an estate has been probated and its assets distributed, creditors cannot make any further claims against the assets.
- **Lower Legal Costs.** Drafting a will is often less expensive than drafting a living trust or other legal document in an attempt to avoid probate.

Disadvantages

- **Higher Costs to the Estate.** Probate can be a costly process. Fees are set by law in some states, and they may be based on gross, rather than net, values. They generally cover only "ordinary" services. If an attorney performs "extraordinary" work, the fees may be even greater. The executor may also charge fees, and unless those fees are waived, the cost to the estate may double.
- **Delay Transferring Assets.** Settling an estate in probate can take as long as one or two years. During the settlement period, assets in probate often suffer from overly conservative management. In some states, it can take a month or more simply to receive court permission to sell an asset. This may often prevent an executor from being able to respond to sudden changes in market conditions. Executors may also tend to act conservatively during probate since they may be financially liable if they are judged to have been less than prudent.
- **Public Knowledge of the Estate.** The probate process is a matter of public record. Thus, a will is open to public scrutiny.

Probate laws vary from state to state. Meet with a qualified legal professional to determine how the probate process may affect your estate, and whether you might wish to consider a living trust as an alternative.

personal insurance: society's safety net

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business, but it *can* make facing the risks involved in owning a home, operating an auto, or running a business manageable. Insurance cannot prevent property from being damaged or destroyed, but it *can* help provide the money to replace property or find a suitable place to live. **Health insurance** alone cannot save human lives, but it can help pay for timely medical attention and treatment that may eventually save lives. **Life insurance** can help families maintain their financial independence by providing much needed funds when a loved one dies. **Disability income insurance** can replace a portion of the insured's income in the event of a disability, helping to preserve a family's quality of life. In short, insurance can—and does—help protect individuals, families, and businesses from potential financial ruin.

Lighten Your Burden

People may buy insurance because the law or lenders require it, or because they want to know that they will be indemnified for unpredictable losses. The decision may be based on the amount of risk they are willing to tolerate and the amount of security they desire. Simply stated, the *appropriate* insurance coverage can help to lighten your burden when facing difficult circumstances.

To learn more about personal insurance coverage for your specific situation, speak to a qualified professional—because it never hurts to have a safety net.

money management throughout life stages

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Marriage. Weddings are special occasions that become cherished memories long after the bouquet has been tossed and the rice has been thrown. They are also events that bring about financial changes. After getting married, you may consider opening a shared bank account, owning property jointly, and sharing auto or medical insurance. You may also want to begin saving toward the purchase of your first home and start preparing to raise a family.

Obtaining and/or updating life insurance to reflect a name change, if applicable, and to include your spouse as your beneficiary will help to ensure that financial goals will continue to be met. Review retirement plans and goals to establish a savings plan that aims to fulfill your retirement needs. Getting married will also most likely affect your tax situation. Think about the most effective tax strategies that will help with annual filings, as well as your long-term goals.

New Home or Refinancing. Buying a first home is a happy event. Now, the money you may have spent on rent will build equity in a place that you own. Whether you are a first-time homeowner or you are looking to refinance, research the various mortgage types available to find the one that best suits your needs. In addition, you will have to find a homeowners insurance policy that will suit your coverage needs. This is also a good time to review life insurance policies to assure that mortgage obligations will remain covered in the event of your death.

Children. With the added joy and responsibility of a child comes the need for extra financial security. Update your medical plans to include the child. In addition, review your life insurance policy to ensure you have adequate coverage amounts, and include the child on the beneficiary list.

For an infant, college is 18 years away. Yet, the sooner the family starts saving, the better. A college fund that has many years to earn interest and contributions is ideal. Children may also change your estate plan. Writing or reviewing your will becomes especially important to make sure the child will be provided for and suitable guardians will be named.

Starting Your Own Business. If you leave your job to start your own business, you will have to assume responsibility for benefits that were previously provided by your employer. It is important to maintain retirement, medical, and life insurance plans as you continue building financial security.

Retirement. Now is the time to enjoy the fruits of your labor. You may be considering relocating to a warmer climate and anticipating all of the adventures you will have there. However, your funds will still require attention as you continue to manage your money. Remember to maintain adequate health care coverage, and know your care options. Proper planning can help protect your hard-earned assets from being spent on potential medical expenses.

Perhaps one of the most secure feelings in life is knowing that you are financially prepared for whatever may happen. Conduct annual checkups to assess financial goals, help provide for your loved ones, and help build for the future. As you approach each new life stage, you may find that additional consideration and planning are well worth the effort.