

Your Financial Health Checkup



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Your annual physical checkup and health screenings are scheduled. Your dental checkups, and perhaps those for your spouse and children, are on your calendar or Blackberry. Yet many people fail to schedule time for a regular financial health checkup. Whether you prefer to block out some time each month or review your financial goals annually, here is what you need to do at least once a year to make sure your money is working hard for you, and that you meet the goals most important to you and your family.

#1 Create a Snapshot of Where You Are Today

>Take a fresh look at your net worth.

Ideally, comparing where you were last year at this time with where you are today is encouraging, but it may raise questions. You'll find a Personal Balance Sheet or Net Worth worksheet on our website at clutewealthmanagement.com/forms/Balance_Sheet.pdf

Once you've completed the balance sheet, think about what the numbers are telling you.

Do you have enough money in your short term accounts to be able to cover six months of expenses and any emergencies?

Are you adding to your retirement and non-retirement accounts?

Have you insured your personal property?

Do you see an increase in total net worth from last year to this year?

>Compare your budget to actual.

It is revealing to track your expenses using Microsoft Excel, Quicken, or Microsoft Money, or any other method that helps you track where your money goes. If you find you've veered off course, just get back on track as soon as possible. If you don't have an annual spending plan, you will find a worksheet to help you at clutewealthmanagement.com/forms/Annual_Spending.pdf

Take a step back and make sure that you are comfortable with how you're allocating your money to savings and spending. For example, are you so bogged down with household expenses that you have little left for enjoyment or investing? Maybe you can reprioritize how you're allocating your money to both spending and investing so that you can take control of creating a stable financial life

you are excited about.

>Check your emergency fund

Everyone needs an emergency fund. You need to know if something unexpected comes up, you'll be okay. If you are young (perhaps in your 20s or 30s), you can probably get by with having three months' worth of expenses in highly liquid investments. (Most people use a money market or savings account.) As you get older and as your income increases, you'll want to increase that to cover six to nine months of expenses. That's because those higher-paying jobs are harder to snag should you find yourself unemployed. Every now and then your emergency fund may get depleted. So do a quick calculation right now to see that you've put away enough.

#2 Protect Yourself

You'll sleep easier knowing your family is protected.

>Is your estate planning in order?

Have you been procrastinating about getting this done? It's so important, yet so difficult to contemplate for many people.

- Find an attorney who specializes in estate planning to prepare your documents. You can go to www.lawyers.com and look under Trusts and Estates/Estate Planning for specialists in your area, or ask your financial advisor if she or he works regularly with a local estate planning attorney.

- If you already have an estate plan, do your documents need to be updated? Many people think of their pets as their family. Don't forget to plan for their care when you update your legal documents as well as your estate plan.

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>Are your family and your property protected with insurance?

Most people are familiar with common insurance products, but it is easy to miss the need for new financial protection and insurance as your life changes.

Life insurance: Most people need life insurance when their kids are little and they have a mortgage. There are also many other situations and reasons to hold more permanent types of insurance. Assess this need with someone who is both qualified and objective. So you can decide what amount and type of coverage is appropriate for you.

Disability insurance: Unfortunately, people get hurt. Injuries, auto accidents, and a whole host of other things can happen that may prevent you from working. Usually policies cover about 60% of your current income.

Homeowners insurance: Most of you will have homeowners or renters insurance. This will protect you from fires, storms, and other disasters, but not necessarily floods or hurricanes. Read your policy closely to know what's covered as well as what is excluded.

Car insurance: Everyone who drives needs auto insurance. Make sure yours covers at least \$250,000 per individual and \$500,000 per accident. Check with your property and casualty agent for specific advice.

“Umbrella” insurance: Personal liability coverage is often referred to as an “umbrella” policy. It provides additional coverage for your home and auto. Most of you should have a minimum of \$1 million of coverage in case you're sued for an accident on your property. The cost—usually \$100-\$300 per year—is minimal given the peace of mind you'll get in return. Check with your property and casualty agent for specific advice.

Health insurance: Review your elections and adjust as necessary. Be sure to account for higher medical costs as you do your retirement planning. If you retire before age 65 when Medicare begins, you'll need to self-insure unless your company provides retiree health insurance coverage.

Long-term care insurance: Everyone over 45 needs to consider how they would deal with a longer-term illness that requires ongoing care. This type of insurance can cover home health care and institutional nursing home

care. Long-term care can be very expensive and can quickly eat through your nest egg. The average cost of a nursing home stay is more than \$100,000 per year. But not everyone will need this care. At a minimum, educate yourself about the issues by reading “The Guide to Long-Term Care Insurance” at www.pueblo.gsa.gov/cic_text/health/ltc/guide.htm

>Protect yourself from identity theft.

It can take 500 hours of your time to undo the chaos created by identity theft. No doubt you have better things to do than to spend endless hours on hold in automated phone systems. Here's what you need to do:

If you haven't already, buy a shredder and routinely shred any financial paperwork or records. Shred credit card offers you get in the mail too.

Get a free copy of your credit report and check it for accuracy. The three credit companies that provide these reports are Equifax (888-766-0008 or www.equifax.com), Experian (888-397-3742 or www.experian.com), and TransUnion (800-888-4213 or www.tuc.com). If you find something wrong, you can contact the company to rectify the situation.

Don't leave your laptop in your car or in your hotel room. Some of the worst cases of identity theft have happened when a thief gets a laptop with lots of sensitive financial information on it. If you must travel with your laptop, learn how to encrypt and password-protect your hard drive.

>Update your beneficiary designations.

Make sure your beneficiary designations on your life insurance, retirement plans, and other contracts specify the beneficiary you want today. It's easy to forget to update these over time. Make sure they coordinate with your estate plan. Don't forget to name secondary beneficiaries in case something happens to your primary beneficiaries.

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#3 Strategic Planning for Tomorrow

>Review your investment plans.

Have you defined your goals, asset-allocation targets, return expectations, and risk tolerance? By committing your intentions in writing, you've taken a major step in getting your investments on the right track. You can use this document to set up your investments and then to monitor them over time. If you decide you would like to have some objective advice to help you decide on an asset allocation plan that's right for you, you can go to the Financial Planning Association at <http://www.fpanet.org> and look under Find a CFP® Professional for Certified Financial Planners in your area.

“Save more money” is not an investment plan. The only way you'll make any real progress is to make your goal specific and measurable — set a dollar amount to save each month — and then automate the investment process. Have you set this up? Your retirement savings plan at work is a good way to automatically invest money. Start with at least the minimum contribution to get any employer match. By the time you're in your 40s or older, you should consider if you should max out on allowable contributions.

Rebalance your portfolio periodically. Compare your current portfolio's asset allocation to the parameters you've set in your asset allocation plan. If you find too much or too little in various asset classes, think about how you can make adjustments to your portfolio to keep rebalanced to your desired mix. As you regularly invest you need to decide if you should max out on your retirement contributions or add to your non retirement accounts. It is important to consider tax efficiency in your portfolio design. Retirement plans do not have to be as tax efficient as your non retirement portfolio.

>Review how much you've saved for the kids' college expenses.

You can gift up to \$12,000 to any one person free of gift tax in 2007. If you are using 529 Savings Plans to fund college, you can contribute five times the gift tax annual exclusion in one year—or \$60,000. Those funds are treated as ratable gifts over the next five years.

>Check your progress on investing for retirement.

Do you know how much you need to put away? Have you contributed as much as possible for the year? If you've maxed out all retirement plans start building up your after tax non retirement accounts. Read “Seven Pitfalls on Your Way to Retirement” at <http://www.clutewealthmanagement.com/archive/pdf/pitfalls.pdf> for more on these and other retirement-planning ideas.

#4 Results of Your Financial Health Checkup

Congratulate yourself. Financially, you are healthier and closer to meeting your goals simply because you've made the time to complete this checkup. If you think you might benefit from taking your financial health to a higher level, but aren't sure if you need a financial planner or advisor, a complimentary guide is available at the Paladin Registry, a free public service that helps consumers avoid the risks and consequences of bad advice and select high quality professionals who have the competence and integrity to help them achieve their goals.

paladinregistry.com/external/general/home_free_guides_1.php

Heidi Clute is the owner of Clute Wealth Management in Plattsburgh NY and South Burlington, VT, an independent firm that provides strategic financial and investment planning for individuals and small businesses in the Champlain Valley region of New York and Vermont.

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