

Learn From Last Year, and Resolve to Organize Finances in 2014



Q: My New Year's goal is to organize my finances. Where should I start?

A: A financial plan leads to financial independence! Review actual expenses for last year and determine which will repeat this year. Estimate your income, subtract your expenses and review your liabilities. If you have credit card debt, now is the time to plan to pay it off. If you got into trouble with credit cards last year, then keep a log of every dollar that you spend. When you write it down, you'll spend less.

Take an inventory of what you own and what you owe and calculate the difference. When you're young and in school, you're investing in yourself. As you age, your assets should grow so you will be able to create an income from them.

Review last year's taxes. It's too early to send in this year's return, but you can learn from last year. If you are due a large refund, then adjust your withholding and pay off debt with the monthly savings.

Do you have money in the bank for emergencies? How is your credit score? If you don't have good credit, you're better off keeping three to six months of expenses in the bank.

Review your investments and calculate the percentage that you have in stocks and stock funds. It's time to rebalance when you've drifted from your target allocation.

How did your portfolio perform relative to its benchmark? If you have half your investments in stocks and half in bonds, compare your return to a balanced portfolio benchmark. And remember to diversify.

What's new or different? Review your home insurance and compare your dwelling coverage to the replacement value of your home, minus the value of your land. Did you get a diamond ring or new gun for Christmas? Be sure that your liability insurance is sufficient. Is your vehicle usage profile correct or did you take a job closer to your home?

How old are the kids and how much has been saved for their college? Will they qualify for Bright Futures or grants? Be sure that they're online and applying for scholarships

now. Send them to www.fastweb.com. Can you afford to fund your retirement and their college savings accounts?

Retirement planning is best done with pre-tax dollars. If you're under 50 you can defer to your 401(k) up to \$17,500 this year and the catch-up for the older crowd is \$5,500. If you're self-employed, consider a SEP IRA or Solo 401(k).

Are your Estate Planning documents in order? Review beneficiary designations on all life insurance policies, bank and investment accounts, and retirement accounts. If you prefer to decide where your stuff will go, check your documents. Otherwise, the state will decide for you.

Remember, financial independence starts with small steps. Plan today.

Mary E. Baldwin, CFP is an independent, fee-only registered investment advisor located in Melbourne. You can contact her at 321-722-0511 or Mary@MEBaldwin.com. Send finance question to Business@floridatoday.com