



## Financial Checkup

Just like it's a good idea to get a health checkup every year, it's a good idea to get a financial checkup as well. Doing so can help you detect problems early (while they're still treatable) and will also help you gauge your progress and make sure you are on track for a healthy retirement. Below is a checklist of items to review.

### Investments

- Performance review:** How did your investments do over the past year? Did they perform in-line with peers and/or appropriate benchmarks? Were there significant gains or losses?
- Risk review:** Is the overall risk level of your investments appropriate? Being too aggressive could expose you to big losses. Being too conservative means that you probably won't keep pace with inflation. Take steps to identify and manage risks.
- Allocation review:** Is your asset allocation still appropriate or do you need to make changes? Have significant gains or losses knocked your allocation off target? If so, consider rebalancing.
- Savings rate:** What percentage of your income did you save during the past year (divide amount saved by gross income)? Can you increase that by a percentage or two in the coming year?
- Savings to Income Ratio:** Divide the total value of your investments by your annual income. According to author Charles Farrell, you want that ratio to be 12 when you retire. Shoot for 3 by age 45 and 6.5 by age 55.
- Efficiency:** How many different savings and investment accounts do you have? The more you have, the more complicated it will be to manage your investments and the more you will pay to different custodians and advisors to hold those accounts. Consolidate where possible.

- Fees:** Are the fees you pay your adviser and others (e.g. mutual fund managers, variable annuity companies, etc.) appropriate and reasonable? A small change in the fees you pay can make a big difference in the value of your investments over a long period of time.
- Professional advice:** Some people are well suited to handle their finances on their own, but most people could benefit from a second opinion. If you work with an adviser, how did he or she do this past year? Were they proactive, realistic and focused on helping you achieve your goals? If not, is a change in order for the New Year?

## Budget

- Budget Worksheet:** It's a good idea to periodically review your budget to make sure that your income and expenses are in alignment. If you haven't made a budget, you can download a free worksheet at [www.intentionalretirement.com](http://www.intentionalretirement.com).
- Pare expenses:** Examine your budget for things you can cut or pare back. For example, how much could you save by brewing your coffee at home or brown bagging your lunch? Bundling cable and phone service or increasing deductibles on car or home insurance could also save money.
- Emergency account:** Do you have a rainy day fund? Having 3-6 months of cash would be ideal, but start small and build it up over time.
- Define priorities:** Budgets reflect choices. What are your spending priorities? Read *The Benefits of an Extravagantly Modest Lifestyle* at [www.intentionalretirement.com](http://www.intentionalretirement.com) for some ideas on how to set your spending priorities.
- Automate and simplify:** Most people prefer to spend as little time as possible on household maintenance type activities like budgeting. Look for ways to simplify and automate the process, such as automating investment contributions or using electronic bill pay.

## Debt

- Debt to Income Ratio:** Most people borrow money to pay for things like college, cars or houses. Ideally, your debt load should get smaller and smaller during your working years and eventually reach zero at retirement. Divide your total debt by your income. That ratio (again, according to author Farrell) should be around 1.0 by the time you're 45 and should be zero by 65.

- ❑ **Debt payoff plan:** Make a list of all your debts (e.g. mortgage, auto, credit card, etc.). Use an app like *Debt Free* to put a payoff strategy in place and track your progress.
- ❑ **Refinance:** Mortgage rates are at generational lows. If you haven't already, talk with your banker to see if it makes financial sense for you to refinance your loan.
- ❑ **Evaluate your credit cards:** Look at the fees, interest rates and credit limits on your different credit cards. Consider cancelling those that you either don't use or that have high fees or interest rates.
- ❑ **Credit report:** Each year you can download a free copy of your credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com). Download the report and look for any inaccuracies or accounts you don't recognize (which could be an indicator of identity theft).

## Insurance

- ❑ **Inventory and evaluate:** Not surprisingly, your insurance needs will change over time. It's a good idea to periodically review your policies and make changes as necessary. Make an inventory of your policies (e.g. Life, health, homeowner's, auto, disability, long-term care) and talk with your financial adviser and/or insurance agent to see if any changes are in order.
- ❑ **Fill holes in your planning:** During his or her working years, the typical person is five times more likely to become disabled than to die. Yet more people have life insurance than disability insurance. Meet with your financial adviser to see if there are holes in your insurance planning that need to be filled.

## Legal Affairs

- ❑ **Will:** Review your will to make sure that it is accurate, up-to-date and reflects your current wishes. Work with your estate planning attorney to make changes as necessary.
- ❑ **Powers of Attorney:** We all need financial and health care powers of attorney so that someone can take charge if we become incapacitated. Review your documents to make sure that they name the person you have chosen and reflect your current wishes.
- ❑ **Estate Plan:** Review your estate plan (will, trust, etc.) to make sure that it passes property to the correct people, designates the correct people to take charge, and minimizes expense, hassle and taxes. To help, use the Annual Estate Plan Review Checklist at [www.intentionalretirement.com](http://www.intentionalretirement.com).

- **Beneficiary designations:** You might be surprised to learn that beneficiary designations (like those on your 401k, IRA or insurance policies) override your will. Review your designations to make sure that they are up-to-date and work with your attorney to make sure that your designations work in conjunction with your plan and not in opposition to it.
  
- **Organize:** A well conceived and executed plan loses some of its effectiveness if your family is forced to dig through the junk drawer, your office desk and the safe deposit box to try to piece the information together. Make sure your affairs are in order and well organized. To help with this process, visit [www.intentionalretirement.com](http://www.intentionalretirement.com) to get a copy of my book *If Something Happens to Me*.

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