Your 2013 New Year's Financial Resolution Plan

By Pat Brooks, CFP®

As we begin the New Year many of us will declare new personal and professional goals that we hope to achieve in 2013. This is a wonderful idea but should be approached with a plan and specific goals in order to increase the chances of success. Unspecific goals like "be a better person" or "lose some weight" are noble but not defined enough to have real meaning. On the other end of the spectrum, high, unrealistic goals can be doomed to fail and are also of little value in most cases.

If you attend a gym with any regularity you will see the annual January spike in membership followed by the subsequent emptiness in February. It is as predictable as the migration of birds. While we aspire to make positive change, in most cases we revert to our old habits in just a few weeks.

Often, it is a case of trying to alter behavior too quickly and it makes the goals unattainable. Instead of starting with a goal of running a 26.2 mile marathon, most people should start with something like a 3 mile or 6 mile event. Once those are attained then raise the ante.

Financial fitness has many parallels to physical fitness. Both require discipline and long steady effort. While many people have added 20 pounds from their old football and cheerleading days, we desire to remove those extra pounds in just a few months. It is not practical or healthy to go to the extremes to undo 20 years of neglect in just a few short months.

In the same fashion, we all got to where we are financially over many years of making both good and bad financial decisions. Regardless of where you are today, there are practical and sustainable steps that can be made to help you move forward. Below are some steps that I recommend for the New Year to help you get moving in the direction of financial fitness:

Increase Your Emergency Fund

Most of us spend all that we make (or more) on a regular monthly basis. The past few years have highlighted the uncertainty of the future and the need for personal savings. A goal of having six months of living expenses is recommended. Start moving toward this goal by having a savings account that is separate from your primary checking account. This can be used during times of unemployment or to fund an emergency expense like a high health care plan deductible. It is not used for routine expenses or things like buying a car or a family vacation.

Participate in Your Company Retirement Plan

In the past, retirees received income past their working years from the three sources of a company pension, Social Security and personal savings. Going forward, many of us will not have a company or government pension and the reliance on Social Security is not a rosy assumption. That leaves relying on your personal savings as the part of the retirement income plan that you have the most control over. If your employer has a company match make sure you are at least contributing up to that level to obtain the matching dollars. If you are self employed you may want to consider a SEP IRA or a SIMPLE IRA depending on your contribution amount and business profile.

Know Your Numbers

If you go to your doctor for an annual checkup you will get your baseline cholesterol and blood pressure and other important health numbers. In the same manner, you should have a baseline idea of your investment mix based on asset classes. Typically you want to know the percentages you have in the following categories: US Stocks, Non-US Stocks, US Bonds, Non-US Bonds and cash. Beyond those basic numbers you may want to specify small company and mid size companies as well as the bond type, quality and bond duration. Bonds may be under pressure in 2013 if interest rates rise or if there are defaults in certain bond markets. Knowing how sensitive your bonds are to rising interest rates is something bond investors should know, but most do not.

Review Your Beneficiary Designations

Things change over time. In reviewing beneficiary designations for clients it is not uncommon to see listings for deceased or divorced spouses as primary beneficiaries. Make sure the beneficiary designations on your IRA's, insurance policies and company plans are up to date. If appropriate, add contingent beneficiaries in the event that your primary beneficiary predeceases you. Review the Pro Rata and Per Stirpes designations to clarify your wishes regarding distributions to the surviving family members of your beneficiaries. If this is all new to you then make sure your advisor or attorney explain the difference to you.

Consider Trade Authorization on Accounts for Incapacity

If you want your spouse or another person to be able to provide direction on an investment account or retirement account make sure you meet with your advisor to add trade authorization to the account. Without this authorization, the person you may be relying on for help may not be able to access the account on your behalf. Don't assume that a power of attorney is adequate. Many investment and insurance companies have their own forms and it may expedite things if this is already in place before you become incapacitated. In most cases, having a joint account with someone other than a spouse is a bad idea. Having another person on your account as a co-owner may expose your account assets to their creditors or be a mess if they are involved in a lawsuit. If they are simply on the account for trade authorization it is not treated as their asset. Where appropriate, you may also want to consider adding a Transfer on Death stipulation to your account. This can allow a non-IRA account to pass directly to your named beneficiary. While this does not avoid estate taxes it can expedite the transfer process of the assets in the account.

In closing, many of these steps can be addressed in reviewing or completing an estate plan. Typically you will want to coordinate the process with your attorney, financial advisor and insurance professional. While doing the entire plan may seem like a daunting task, it is possible to start with one step and move forward incrementally. While we cannot control the stock market or the actions of the Federal Reserve, we can take actionable steps to improve our financial picture. I hope that 2013 finds you and yours off to a healthy and happy start both personally and professionally.

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