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Financial Review *Keeping you informed on Financial Services issues*



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How to Get Yourself on the Savings Track

Preparing a financial budget is a difficult task. Committing to it over the long haul may be even more difficult. That's why adopting a "pay yourself first" attitude can have a positive impact on your long-term budgeting, spending, and investing.

Here are a few tips to start your budget planning and get yourself on the savings track:

1) Watch what you spend. Begin the process by recording all your expenses, including living expenses, utilities, child care or elder care services, and necessities such as food, clothing, and medical care.

2) Treat savings like expenses. You will be more inclined to put money aside if you treat your savings as an expense that *must* be made on a regular basis.

3) Allocate income in terms of percentages. Many expenses can be trimmed a little at a time. Determine what percentage of your income goes to each expense, and then categorize them as either *fixed* or *flexible*. You have discretion over the latter but not the former. Generally, flexible expenses erode earnings.

4) Prioritize your expenses. Take your list of expenses and rank them from most to least important. Eliminate the unimportant expenditures and redirect this money to an investment and savings program. Gradually, try to reduce unnecessary expenditures. As you eliminate expenditure amounts, write a check for a like amount and deposit it into a special account.

5) Minimize taxes. Make pre-tax contributions to an employer-sponsored retirement plan (e.g., a 401(k)). All earnings in these retirement savings vehicles generally accumulate on a tax-deferred basis. Or, you can contribute up to $4,000 per year (for 2007) on a pre-tax basis into a traditional **Individual Retirement Account (IRA)** or $4,000 on an after-tax basis to a Roth IRA.

Remember, putting yourself first means making your financial future and well-being your top priority. A disciplined savings program can ultimately pay you dividends that will help solidify your financial future.

Transferring Credit Card Balances

If you have run up a large bill on a credit card that charges a high annual percentage rate, it may make sense to transfer the balance to another card that offers a lower rate.

But before you agree to move existing debt to a card that promises a very low APR on balance transfers, read the fine print. Even if you are offered a great initial rate on a transfer, it may only last for a short time. If you have a debt you are unlikely to pay off within the introductory period, you may be better off opting for a card that offers a slightly higher rate that does not expire. Watch out, too, for annual, late, and over-the-limit fees, as well as high rates on new purchases.

Life Insurance: Changing Times, Changing Needs

When Judy Fielding (a hypothetical example) purchased her **life insurance** policy ten years ago, she assumed her insurance planning was complete. She figured that if she just paid her premiums on time, she could sit back and not think about life insurance anymore. True, Judy's policy has provided her with peace of mind by helping to protect her family. However, that doesn't mean she should let her insurance policy run on autopilot. Life insurance is just like any other piece of your financial puzzle. It should be monitored periodically as your circumstances and needs change. This way, you can help ensure your life insurance is achieving its desired objective(s). Here are some of the things that Judy, like all policyholders, should review at least annually.

Is Coverage Up-to-Date?

Judy must first determine if her original reasons for purchasing her policy are still current. She should also evaluate whether or not she's developed any additional needs. For instance, when Judy initially purchased her policy, she was newly married and owned a modest home. Now Judy and her husband, Jim, have four children and a much larger home. Is Judy's existing policy appropriate for these new responsibilities—covering a substantial mortgage, funding college for four children, and contributing to the protection of her family's financial security? More than likely, Judy may require additional life insurance.

If Judy's existing policy is **term insurance**, she may want to consider ***converting*** it to a **permanent** contract. Permanent insurance contains a **cash value** component that offers the potential for *tax-deferred* accumulation, as well as the same **death benefit** features of term insurance. In later years, the cash value could come in handy to help supplement retirement income needs. Keep in mind that withdrawals and loans taken against a policy's cash value could affect the death benefit and may have tax consequences.

Beneficiaries May Change, Too

As it stands now, the primary beneficiary of Judy's life insurance policy is her husband, Jim. If Jim were to predecease Judy, the policy currently names Judy's nephew as a ***contingent*** *beneficiary*. However, now that Judy has her own family, she will likely want to update her policy's beneficiary arrangement to name her children as contingent beneficiaries in place of her nephew. In addition, if Judy and Jim eventually set up a **living trust**, their legal professional may suggest naming their trust as the policy's beneficiary.

Plan for a Growing Estate

Regardless of the type of life insurance Judy owns and the beneficiary she chooses, the death benefit proceeds from the policy will be included in Judy's estate. As their asset base increases, they should plan accordingly to help reduce the effects of estate taxation.

Life insurance can help play a significant role in solidifying the family finances of couples like the Fieldings. However, it is also important to recognize that, like all financial matters, life insurance policies need to be reviewed on a regular basis. A qualified insurance professional can be a valuable resource when it comes to evaluating your present situation and determining an appropriate course of action.

Taxes: Saving Documentation

After every tax season, you probably file away a copy of your income tax return for your own records. At one point or another, you've probably wondered, "How long should I keep these records, anyway?"

Generally, you should hold on to tax records, including all tax forms, investment statements, bank statements, proof of deductions, etc., associated with a particular return, for at least six years. In addition, any records pertaining to capital gains and losses, or the carryover of capital losses or charitable deductions, should be retained until they are no longer pertinent.

Be sure to *carefully* review the item's importance before you throw anything away. Once you have determined what should be retained, carefully store the records in a well-marked box or file drawer for future reference.

Did you Know?

Financial Priorities Shift among Couples

According to a survey by Harris Interactive, older couples are more likely to talk about investments and asset management, while younger couples are more likely to discuss spending, saving, debt, budgets, and financial responsibilities. When asked how many of their disagreements center around finances, 40% of couples between 18 and 34 said half or more, compared with just 14% of those 55 or older.

Younger Workers and Retirement Savings

Employees between ages 18 and 24 are less likely to participate in tax-advantaged retirement savings plans, according to a survey by CCH CompleteTax. While 56% of all respondents reported participating in an employer-sponsored retirement plan, only 28% of younger workers said they have joined their plan. In addition, few younger workers reported making the maximum allowable contribution to their 401(k) plan (4%) and contributing enough to get the full employer match (16%).

Health Insurance Costs Increase

The 2007 Employer Health Benefits Survey by the Kaiser Family Foundation reports that premiums for employer-sponsored health insurance rose an average of 6.1% in 2007, which is less than the 7.7% increase in 2006, but still higher than the increase in workers' wages (3.7%) or the overall inflation rate (2.6%). According to the report, the average premium for family coverage in 2007 is $12,106, and workers pay $3,281 of this cost out of pocket.

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