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# Money Management

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## A Financial Review Can Pay Off at Year End

Today, many people find themselves bombarded by a constant stream of financial news from television, radio, and the Internet. Yet, does all this "information age" data really help you manage your finances any better than in the past? Often, the "old-fashioned" practices, such as performing periodic financial reviews, lead to greater success in the long run. Why not spend a few hours reviewing your finances? The changes you make today could result in increased savings. Consider the following important items:

**Analyze your cash flow.** When your income is greater than your expenses, the excess is called a positive cash flow. When your expenses exceed your income, the shortfall is termed a negative cash flow. A positive cash flow means that you may have funds you can set aside as savings. A negative cash flow indicates that it may be time to reorganize your budget to minimize unnecessary expenses.

**Develop a plan for special goals.** For every financial and retirement goal you establish, identify a projected cost, a timeline (how long it will take to reach the goal), and a funding method (through savings, liquidating assets, or taking a loan). Consider your goals in terms of a "hierarchy of

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## Plan Carefully When Choosing Your Executor

When writing your **will**, one important decision is selecting an **executor**. Ideally, your executor will possess the tact of a diplomat and the administrative skills of a professional executive. You may want to choose someone who is close enough to you and your family to faithfully carry out your wishes, yet also has the ability to act objectively should conflict arise.

While any person you trust can be your executor, many people choose a spouse, close friend, or associate, who may also be a **beneficiary** of the estate. Large estates may require two executors: a personal representative to interpret your wishes and a professional representative or institution, such as your attorney or a bank, to make business or financial decisions, pay taxes, and maintain records.

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# Rent or Own: You Decide

Contemplating whether or not to buy your first home can be an exciting and time-consuming process. For many, the purchase of a home is the largest purchase they will ever make. Therefore, it is not a decision to be taken lightly. If you feel that you will be better off *financially* as an owner instead of a renter, one question remains: What mortgage amount can you afford?

A financial professional can help you analyze your situation. With his or her help, use the following worksheet to arrive at an estimate:

| | |
|---|---|
| **Income** | |
| Job-related income | ________ |
| Investment income | ________ |
| Yearly bonuses | ________ |
| Additional income | ________ |
| **Total Income** | ________ |
| **Expenses** | |
| Yearly taxes | ________ |
| Monthly savings | ________ |
| Groceries | ________ |
| Insurance | ________ |
| Medical bills | ________ |
| Car payments | ________ |
| Car expenses | ________ |
| Credit card bills | ________ |
| Student loans | ________ |
| Additional loans | ________ |
| Day care | ________ |
| Wardrobe | ________ |
| Recreation | ________ |
| Vacation | ________ |
| Charitable donations | ________ |
| Other | ________ |
| **Total Expenses** | ________ |
| Subtract total expenses from total income | ________ |

This amount is your discretionary income.

| | |
|---|---|
| Discretionary income divided by 12 | ________ |

This amount is your monthly disposable income after expenses have been paid and savings deposits have been made. Now that you know the amount available, you can decide how much will go toward a mortgage payment. Don't forget to budget for the additional expenses that come with homeownership, including utilities, property taxes, homeowners insurance, and home maintenance.


Once you've determined your budget, you can decide on the type of mortgage that best suits your needs. Mortgages come in two basic forms: the **fixed-rate mortgage** and the **adjustable-rate mortgage (ARM)**. A fixed-rate mortgage has a fixed interest rate that never changes, and your loan payment will remain the same for the duration of the loan. On the other hand, an ARM has an interest rate that can fluctuate with the market and the economy. The rate increase is usually limited to a specified number of points per year and can never go higher than the cap, which defines how many total points the interest rate can increase over the life of the loan.

Obtaining a mortgage is often half the battle. Another challenging aspect of buying a first home is the task of saving toward a down payment. Given the current credit environment, down payment requirements are higher than they were just a few years ago. Generally, the more money you put down, the better the interest rate you can receive. If the amount of your deposit is under 20%, your lender may also require **private mortgage insurance (PMI)**. If a 20% deposit seems out of reach, here are some points worth consideration:

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## Plan Carefully When Choosing Your Executor

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An executor's job is to finalize your financial affairs. This process begins with identifying and determining the value of the assets in your estate. (Trusts, life insurance policies, pension plans, and some types of jointly owned property may fall outside the executor's responsibility.) Certain assets may require a valuation by an **appraiser**, whose fee is generally paid from your estate's assets, as are expenses for lawyers, accountants, and other professionals. An executor is also responsible for paying your debts from the assets of your estate, filing tax returns, and distributing any remaining assets to your heirs.

Throughout this process, detailed records must be kept. Most **probate courts** will require a comprehensive, detailed account of all money received, spent, or held by your estate.

If you die *without* a will (**intestate**), the court will appoint an administrator to perform the executor's duties. Without a designated relative or beneficiary, the appointee is likely to be a civil servant or a creditor.

When choosing an executor, be sure that the person you select is willing to accept the responsibility. You may also wish to choose an alternate executor to serve should your initial executor be unable to do so. If you have not yet selected your executor, consider choosing one now to minimize potential complications later. *MM*

## Rent or Own: You Decide

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- Explore the possibility of buying a less expensive condo or house that needs do-it-yourself repairs. Sometimes even the simplest home improvements can greatly increase a home's value.
- A lease-option contract will allow you to rent a home for a certain amount of time, with the option to buy at a specific price within a given time frame.
- **Individual Retirement Accounts (IRAs)** allow for a penalty-free $10,000 withdrawal toward the purchase of a first home. Married couples can withdraw $10,000 each. For traditional IRAs, withdrawals will be subject to taxation, and for Roth IRAs, the five-year ownership requirement must be met to avoid taxes and penalties. It should be noted that borrowing from retirement accounts has the potential to affect the amount you are able to save for retirement. The importance of a *disciplined* savings program cannot be emphasized enough in view of your overall financial situation.
- Borrowers who have difficulty meeting stricter lending requirements may be able to secure a loan through the Federal Housing Administration (FHA).

There are many things to consider when buying a home for the first time. With a little research and creativity, and the help of a financial professional, you can become an educated consumer who is fully prepared for the steps ahead. Such deliberation may take some time, but the rewards of homeownership can make it worth every effort. *MM*

## A Financial Review Can Pay Off at Year End

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importance." The bottom or "foundation" tier may include emergency funds to cover at least three months' worth of living expenses. The middle tier may include essentials, such as your children's education. Place less important goals, such as renovating your home or taking a vacation, on the top tier.

**Boost your retirement savings.** Pensions and Social Security may not provide sufficient income to maintain your current lifestyle in retirement. Thus, it is essential to identify your retirement needs and plan a *disciplined* savings program for the future. Maximize your contributions to retirement accounts, and if possible, make "catch-up" contributions.

In accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), taxpayers who are 50 years old, or older, are allowed to make additional contributions to their retirement plans. In 2010, traditional Individual Retirement Account (IRA) and eligible Roth IRA holders can save an extra $1,000 a year, bringing the contribution limit for those 50 years and older to $6,000. Those with eligible 401(k), 403(b), or 457 plans can save an additional $5,500, bringing the total contribution for older individuals to $22,000 in 2010.

**Minimize income taxes.** Consider taking advantage of all income tax deductions to which you are entitled and exploring ways of reducing your income taxes. For instance, under appropriate circumstances, losses or expenses from prior years may be carried over to the next tax year. A qualified tax professional can help you implement a tax strategy that meets your needs.

**Beat inflation.** Your income and retirement savings must keep pace with inflation in order to maintain your buying power. This means that if the inflation rate is currently 3%, you need to achieve at least a 3% annual increase in income just to break even. If your long-term savings plan fails to keep pace with inflation, you may be unable to maintain your current standard of living.

**Manage unexpected risks.** Without warning, a disability or death can cause financial hardship for your family. Adequate **insurance** is an important foundation for your financial plan—it offers protection to help cover potential risks and liabilities.

**Consult your financial professional.** In today's complex financial world, everyone needs help making informed decisions. Planning can help ensure that your financial affairs are consistent with your current needs and long-term goals.

A financial review can help bring focus and clarity to your overall financial picture. In the future, you may wish to modify your plans according to changing goals and circumstances. By reviewing your finances periodically and tracking your progress, you may be in a better position to build financial security and realize the retirement of your dreams. *MM*

## A Parting Thought...

**Life insurance** can be a cost-effective method for meeting economic needs. Instead of trying to amass a sizable emergency fund—a task that may be difficult to achieve—life insurance can help create a fund for your family in the event of your death. Life insurance proceeds may be used to help pay off a mortgage, fund a child's education, or supplement your family's income. Life insurance on your spouse, who may provide a second income or important home and childcare services, can add a greater amount of flexibility and protection.

When purchasing a life insurance policy, your premiums, and those of other policyholders, contribute to a large pool of funds. The issuing company manages this financial pool and uses it to pay death claims. It is the pooling of premium values that may make the ultimate amount of a **death benefit** greater than any one individual's contributions.