Four Simple Steps To Improve Your Financial Health

By Eve Kaplan, CFF® Professional

Here are four simple steps to improve your financial health. If you're working with a financial advisor, you should be in good hands because these potential pitfalls should have been addressed from the get-go. A Certified Financial Planner ™ specializing in comprehensive planning is the best professional to help you. If you have a broker (or brokerage accounts) and you don't have a financial advisor, here are four critical items you can take care of yourself.

By way of example, Shira and Matt (both age 40) have two children (10 and 12):

1. <u>Don't Leave Your Family In the Lurch (Life Insurance).</u> Both Shira and Matt work and their employers give them $50,000 life insurance as a benefit. $50,000 is great but it doesn't stretch very far in terms of supporting your family. Inexpensive term life insurance is a must. A rough rule of thumb for Shira and Matt is approx. 8x their salaries (each). Shira and Matt each earn 120K a year, so they each should have at least $1 million 25 year term policies that cover them from ages 40-65. Even if they work past 65, $1 million may be sufficient because they should be closer to retirement at age 65 and they should have significant savings in place by then. Here's another example of life insurance need, using Judy and Tom. This is a 2nd marriage for both. Judy and Tom are 60; they have a 15 year 250K mortgage. If finances are of concern, it's smart to secure 250K insurance on each of them to cover this liability in the event one dies before the mortgage ends.

Term life insurance is relatively inexpensive but note your health status affects the cost of your policy. I advise working with an independent insurance agent who represent all major carriers instead of going to a specific company (e.g. Northwestern).

2. <u>Have Estate Documents That Reflect Your Wishes</u>. Shira and Matt recently put together basic estate documents with the help of an estate attorney: powers of attorney, wills, living wills/medical health care directives. They also have arranged for a guardian to step in to raise their 10 and 12 year old if they both unexpectedly die. In this unlikely – but not impossible – situation, they need to specify their preferred guardian. Matt has no siblings; Shira has a sister but they aren't on speaking terms. Matt does have a cousin both Shira and Matt like who is very attached to their children. Without wills and references to guardianship, state courts could designate Shira's sister as primary guardian, NOT with Matt's cousin. Another issue that concerns Shira and Matt is insuring their young children do not have free access to their inheritance. If both Shira and Matt die with $2 mln of insurance in total, that's a significant inheritance. They have paperwork in place to address the cost of raising two children (including college) and have specified that their son and daughter only receive 1/3 of their inheritance when they turn 21, another 1/3 at age 28 and another 1/3 at age 35. An estate attorney can help set up the correct documents very easily.
3. <u>Check Your IRA Beneficiary Designations</u>. As mentioned above, Judy and Tom are both in their 2nd Judy has an IRA at a brokerage house that still lists her former spouse (Marty) as 100% beneficiary. After she got divorced and remarried, Judy forgot to change her IRA beneficiary designation on her account. Her estate attorney (who drew up new estate documents for Judy and Tom) forgot to tell Judy to change her beneficiary designation. Judy's

broker didn't check into the matter, either. If Judy dies in a car accident, her largest investment holding (a $1,500,000 IRA) goes to her ex-spouse Marty because his name still is listed as primary beneficiary. Judy and Tom drew up new estate documents but IRA beneficiary directives take precedence over wishes in a will. Judy would want all of her assets to flow to her current husband, Tom, but that won't happen until she changes her account beneficiary designation.

4. Consolidate Your Investment Accounts. When new clients begin working together with me, the first thing I do is sort through all of their investment holdings in order to aggregate accounts under one roof. I use TD Ameritrade Institutional for my clients, but you can do this on your own if you have accounts at various brokerage houses – just pick one brokerage house to work with (preferably one with low cost mutual funds). You have no choice regarding where your active 401k, 403b or 457 Plan is held, but you DO have a choice when it comes to rolling out of old 401k plans (to aggregate them into one IRA) and merging all of your after-tax accounts under one roof. Once this is done, it's easier to prune out redundant holdings. For example, you don't need 5 different large cap growth funds – you only need 1 (or perhaps you only need to hold a US large cap fund that invests in both growth and value e.g. a S&P 500 proxy). Not sure what you own? Morningstar.com is a great resource to look up the types of funds or stocks you own, including their cost (underlying expense ratio) and what they invest in. Some public libraries subscribe to the full Morningstar premium service that gives you access to analysts' reports and market comments.

If you don't think you can push through financial inertia to get these things done, contact a Fee-Only advisor to help you consolidate your financial life. It's always a great time to get on the right footing, financially. Put another way, it's never too late to improve your financial health.