

Time to Re-Check Your Financial Plan

By Samuel A. Dodson, M.S. (Tax)

The years 2008-2010 have wreaked havoc on many financial plans. Even with the stock market recovery of the latter half of 2009 and all of 2010, many financial plans remain in disarray. So we suggest that the beginning of 2011 is an ideal time to re-check your plan and take the affirmative steps you may have been putting off until “things get better.”

Every financial plan has four components: insurance, savings, investments and legal awareness. Each component needs to be re-evaluated at least annually to ensure some discipline in your planning and more frequently if there is a major financial event (job change, retirement, etc.). Outlined below are some suggestions for each of these components.

INSURANCE

Insurance is the foundation of any financial plan. It is that financial instrument that provides some certainty to the financial plan. One of the life insurance carriers we periodically work with, Mass Mutual, has a phrase that we believe is quite pertinent: “You can’t predict; you can prepare.”

This is a good time to re-evaluate the adequacy and type of insurance coverage you have/or may need. As you do, consider these questions:

- Is your life insurance coverage adequate? Maybe it needs to increase because it was your supplemental retirement plan in the event of an unanticipated death, and the retirement account has been significantly reduced due to the market.
- Do you have disability insurance coverage? Is it adequate to protect your earnings?
- Do you have long-term care insurance to protect your retirement savings from being depleted by the high costs of nursing homes, at home care, etc.
- Should you recalibrate your homeowners, auto and other coverage at this time (e.g., higher deductible to lower the premium)?

A well laid out insurance program can pay for itself in the long run.

SAVINGS

Many Americans are now saving more than in the past, for a variety of reasons. Whatever your reasons, an emergency fund is always appropriate, despite the fact the interest rates are quite low. While it's an obvious point that has been made forever, it really is important to build that reserve fund for the unanticipated event. You should be able to access the funds quickly. You don't want to borrow from a retirement account to fix the car. The old standard of an emergency fund equal to 3-6 months of expenses is still sound and yet challenging for many people. The beginning of the year is a great time to start the discipline.

INVESTMENTS

There are many types of investments, but we want to focus on investing for retirement. Here are some ground rules to consider as you continue your re-evaluation of your financial plan:

- ✓ Retirement investing should be a long-term program. Securities markets go up and down, so quick re-allocations of your retirement investments should probably be avoided or at least handled very carefully.
- ✓ Re-evaluate WHEN you truly want to retire, so that if you do choose to re-allocate your retirement funds, it is consistent with you anticipated retirement date. By this we mean you truly stop working, not going on to be a consultant for your old firm.
- ✓ Estimate as best you can HOW MUCH you'll need in retirement. As you can see, these points are interrelated, since when you'll retire and how much you'll need go hand in hand.
- ✓ Consider WHERE you might live in retirement. If that ideal retirement place is somewhere you occasionally spend time (a vacation spot), plan on spending a year (all four seasons) there as a renter BEFORE you investing your funds in a new residence. Also evaluate the cost of living in the new place.

LEGAL AWARENESS

A periodic (preferably at least annual) review of legal issues is important. It does not have to be a lengthy review, unless some major life change calls for an in depth analysis. There are at least two areas that should be reviewed: the

standard legal documents-wills, medical directives, and other powers of attorney. This will ensure that your documents continue to reflect your desires. This may be particularly important for couples who spend most of their time together.

The other critical element in this area is a beneficiary designation audit. There are several key areas where a beneficiary designation will not be overruled by a will-retirement plan beneficiary, life insurance beneficiary, and annuity beneficiary. The courts have heard many cases in this area, and are generally unforgiving when a beneficiary designation has not been changed to reflect a new situation. So while second marriages, blended families and other special situations especially call for such a review, it remains valuable even if you think you live a dull unconventional life.

CONCLUSION

The four areas of your financial plan discussed above are interrelated and should be periodically evaluated so you don't have an unexpected surprise. The beginning of the year is a great time to engage in this process with your spouse and the rest of your family as appropriate. As financial coaches, we stand ready to help you.