

A Financial Checklist to Last a Lifetime



Budgeting

Most people do not have complete control over their income, but they can control many of their expenses. Always keep your expenses less than your income. If you are not saving anything on a monthly basis, then you are probably spending more than you earn. If your credit card balances are rising, your expenses must be managed to decrease your balances.

A growing credit card balance is a slippery slope toward financial disaster. When you fail to make timely credit card payments, you may be subject to penalties and interest on the principle, thereby increasing your monthly expenses. This only makes it more difficult to keep total expenses lower than income.

- ✓ Pay off your credit card balances in full each month.
- ✓ Set up bills for automatic payment on a bill-pay system. You can enter the amount as soon as you receive the bill and not have to part with the money until the due date.

Establish an Emergency Fund

Have some cash set aside for unexpected expenses, such as a car or major appliance repair or purchase. Other possible scenarios, such as medical costs or unemployment, should also be considered when determining how much to save. Experts recommend

having enough to cover three to six months' worth of expenses.

- ✓ If your pay is directly deposited into your checking account, you may be able to have a set amount transferred to a savings account. Pay yourself first.

Credit Score

The calculation of your credit score may not be yours to make, but you should consider the impact your actions have on your score. Consistent, on-time payments are one of the best ways to improve your score. Late payments may be due to not having the money or just forgetting about a bill. If you have too many credit cards or are frequently opening and closing credit accounts, it may hurt your score.

The number of times potential creditors check your record also affects your score. Therefore, don't use credit from more sources than necessary.

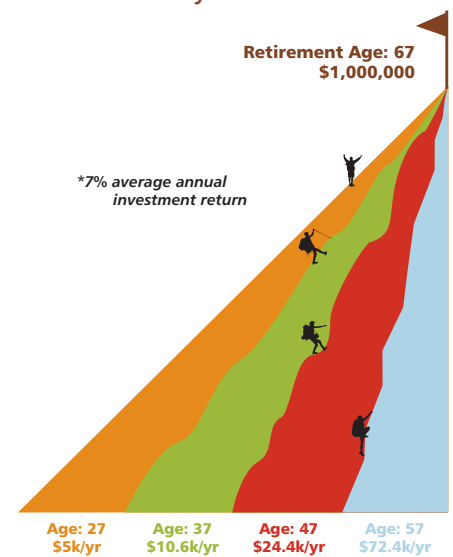
Your score can make a big difference on the interest rates you receive and the availability of fringe benefits provided to more qualified customers. Credit scores are like trust – it takes a long time to build and a short time to ruin.

- ✓ Limit the number of credit cards to about three, and pay them on time.
- ✓ Set up bills to be paid automatically a few days before the due date.

This can be done either directly with the creditor (if the amount changes from month to month) or through a bank's bill-pay system.

- ✓ Check your free credit report annually for incorrect information. Getting your credit score may cost you, but you will be able to see where you stand. This does not impact your score, unlike checks by third-party creditors.

Time Is Money



Savings per year to reach \$1,000,000 at age 67

Whether you're saving for retirement or to fund a college education, the earlier you start the more likely you are to reach your goal (see chart above).

A Financial Checklist to Last a Lifetime



- ✓ Start saving as early as possible to achieve your financial goals.

Retirement

If you have a retirement plan, such as a 401(k), that allows you to put a portion of your earnings into an account for your benefit, start contributing now. Don't take the funds in cash until you retire, even if the plan allows you to. By taking funds from a 401(k) before age 59½, you may incur a 10 percent penalty as well as trigger tax. Doing so also prevents you from enjoying the full benefit of compound returns and tax-deferred growth.

- ✓ Contribute at least the amount of your pay that maximizes the employer's match to your 401(k) plan, if available. This is free money.

Education

An education savings plan, known as a 529 account, can be a good place to financially prepare for educational costs. There are two general types of 529 accounts: investment-based accounts and prepaid tuition credit accounts. Plans are available from most states around the country. A child does not have to attend a school located in the state that offers the plan, but using a plan in the state of residency

may provide additional benefits. Contributions may only be deductible for state taxes, but all the earnings are tax-free if the account is used for qualified educational expenses.

- ✓ Start saving soon after a child is born.

Social Security

If you can wait until your full retirement date or later to start collecting Social Security, you have many more options to maximize the value of your benefits (especially if you are married). Receiving benefits early will substantially reduce your options.

- ✓ Visit www.ssa.gov to calculate your expected benefits, estimate how much you need for retirement, and more.
- ✓ Visit a CPA to develop a plan that works best for your specific situation.

Advance Planning for Your Estate and Incapacity

This is a critical area for everyone. Incapacity can occur over time or in a matter of seconds. Appointing a person to handle your financial affairs and make medical decisions for you

when you are not able is very important. Also, stating your wishes ahead of time may reduce conflicting family opinions on what services, treatments, or procedures you would want and not want done.

Wills and trust documents are not just for the wealthy. Although the federal estate tax does not currently apply to most estates, an estate plan is still needed to be sure your assets are distributed according to the amounts, recipients, and timing of your choosing. There is a state inheritance tax in certain states (Pennsylvania included) that will apply to most estates where assets are passed to nonspouses. This tax should be considered, but it is far less costly than the federal estate tax when applicable.

- ✓ Create an estate plan if you don't already have one. It may be an uncomfortable topic, but it's necessary.
- ✓ Create an estate planning team, which should include a lawyer and a financial adviser.
- ✓ Gather and organize all your financial documents before visiting your estate planning team.



The PICPA offers resources for a variety of financial topics.

Visit www.picpa.org/resources to learn more.



The Pennsylvania Institute of Certified Public Accountants, with more than 22,000 members, advocates to strengthen the accounting profession and serve the public interest.