

It's Summertime – Not a Bad Time for a Midyear Financial Checkup

The weather's great, so staying inside with your finances probably doesn't sound like a very entertaining option. But a midyear review of your tax situation, retirement and spending issues can be far more valuable than the rushed attempt most people make at the end of the year—or when it's too late at tax time.

Summer's actually a good time to do this task because there's still enough time to correct lapses in savings, spending or tax planning. Here's what most people should cover:

Retirement savings: Given the state of the economy, it's not a bad time to review your retirement funds and your current investment allocation. If you are on schedule to max out your contributions to your company retirement plan this year, great. But don't forget to check your existing IRAs and other retirement accounts to see if you'll have enough cash on hand to contribute the maximum in each account by their respective deadlines next year.

Health and health insurance: Increasingly, what we pay for health insurance will be tied to the state of our health. While the weather is good, commit to a plan to walk or hit the gym a specific number of hours a week. Many insurers reset premiums at mid-year in a rising cost environment, so make sure you're ready to switch plans or negotiate different coverage if necessary during open enrollment in the fall.

Taxes: If you got a sizable refund in April or found it necessary to empty savings to pay Uncle Sam, it's definitely time to reassess what you'll owe at tax time next year. Also, if you think you'll have some losing stocks in your taxable investment accounts, keep an eye on those in case you'll need to offset gains in your portfolio at the end of the year.

Spending: Either on your computer or on paper, take the time to figure out where you're money's going. A look at the last six months of spending may reveal opportunities to reduce spending and redirect money toward more necessary goals. Also, take a look at such things as gym memberships, magazines that are piled up and coffee expenses. If you're not using these things, you can probably live without them. Doing this exercise can identify a surprisingly large amount that's unaccounted for that can be redirected to debt payment, savings and investments.

Reserve fund: Most financial experts encourage you to have between three and six months of living expenses in an emergency fund. If you don't have that minimum, go back to your spending review and see where you can start socking money away.

College savings: If you are saving for your child's education or your own, check to see if you're on track with the goals you made for the year. It's also a good idea to read the latest news on financial aid since schools change their financial aid policies annually. Even if your kid's still in grade school, it's a good idea to learn as much about college financial aid while you've got plenty of time to learn.

Special goals: If your car is suddenly looking like it will need to be replaced or if this might be the last year for your furnace, see if you can direct more money into a reserve fund to cover replacement costs or at least a heavy down payment. If there's a vacation you want to take by the end of the year or a special household purchase you want to make, focus on the cash you'll set aside to make that happen. Of course, if you have credit card debt rolling over from one month to the other, maybe that should be your initial focus.

Credit: If you haven't set a schedule for receiving your three credit reports throughout the year, do it now. You have the right to get all three of your credit reports – from Experian, TransUnion and Equifax – once a year for free. You can do so by ordering them at www.annualcreditreport.com. By staggering receipt each of your credit reports at different points in the year, you'll get a continuous picture of how your credit picture looks. Also, you'll have the opportunity to focus on possible errors in a single report, which will give the other two credit agencies time to update their files.

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June 2009 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Kenneth B. Shapiro, CPA/PFS, CFP®, a local member of FPA. Mr. Shapiro is the owner of Shapiro Financial Security Group, Inc., a fee-based financial planning, investment advisory, and tax consulting firm. He can be reached at (800) 229-0168 or via email at KShapiro@ShapiroFSG.com. Please visit our website at www.ShapiroFSG.com for more information about our firm.