Money and You: A financial â€˜to do listâ€™ for good times and bad

by Carrie_Schwab_Pomerantz

In the face of continuing economic challenges, more and more people are asking me for new ways to handle their finances. They're more than worried â€” some are downright scared that they'll never reach the financial dreams they once had for themselves and their families.

Granted, many of us are confronting new financial questions, but that doesn't mean the answers have to be new. In fact, I believe that the financial advice that made good sense in the past still makes sense today. You probably heard this advice from your parents or grandparents or have given it to your own kids: Live within your means; save for the future; create an emergency fund; stay out of debt.

Now I know these are general ideas that are easy to talk about. The tricky part is to put them into practice, especially today. So to help you, I've created a kind of "to do" list for financial security. I've started with what I think everyone should do all the time (and especially in times like these) and then added on some age-specific ideas of what you can do to make sure you're on top of things.

See how many items you can check off â€” and what you still need to work on. If you can turn this general advice into specific habits during your working years, you'll be in better financial shape regardless of the economic conditions.

What everyone can do to get through today's crunch

There's no use hiding our heads in the sand. We're in a recession and, no matter what your age or financial situation, you want to protect yourself. So stay on top of everything â€” your budget, your credit card debt, your savings. Set priorities and share them with your family. If you plan together, you're more likely to work successfully together to reach your financial goals.

Here are some essential things that everyone needs to take care of. You may have heard them before, but they're worth repeating:

â€” If you don't have a budget, create one and live within it. When you need to cut back, start with all those "nice to haves" like eating out, travel and entertainment. Better to use that extra money to build up your emergency fund.

â€” Make sure there's enough in your emergency fund to cover a minimum of three months of essential expenses and keep this money easily accessible. Depending on your job security and other assets, you may want to have up to twelve months of expenses in reserve.

â€” Stay on top of credit card debt, paying it off if possible. If you're carrying a balance, think about ways to reduce your interest rate. Can you negotiate with your credit card company? Would a home equity loan be a better way to pay off the balance?

â€” Keep saving for retirement a top goal. Contribute to your retirement accounts at least to take advantage of any employer match. Don't leave this "free" money on the table.

â€” If you think you're going to lose your job, start a search now. Network with friends and colleagues. Stay on top of opportunities. Keep your skills up.

Other things shouldn't go by the wayside, even in difficult times. For instance, don't let your health insurance lapse. And whatever you do, don't raid your retirement account unless it's absolutely necessary!

What to do at 20

You're just starting out, so you can't expect to have everything taken care of right away. To give yourself a good start, be sure to live within your budget, and don't be tempted to overspend. When it comes to credit cards, try not to carry a balance. With this under control you can then:

â€” Start saving for retirement. If you start putting aside 10 percent of your yearly salary now, and keep saving at this rate throughout your working life, you should be in good shape when you reach retirement age.

â€” Protect yourself â€” and your finances â€” with adequate health insurance. Being young and healthy is no guarantee against an accident or unexpected illness, either of which could cost many thousands of dollars. Don't even think about neglecting this important step.

â€” Begin to invest for the long term. Remember, it's not only how much you have to invest, but also how long you have to invest that counts. And given current market prices, I believe the stock market potentially presents a great long-term opportunity. To me, you have time and depressed prices on your side.

What to do at 30

Your financial obligations may be greater now as you consider buying a home or having a family. Whatever your obligations, don't short-change your retirement savings. Keep these things in mind as you plan for the future:

â€” If you're just starting to save for retirement, try to set aside 15-20 percent of your annual salary in your 401(k), an IRA, or another tax-advantaged account. You're still young enough to potentially be able to benefit greatly from today's stock market prices.

â€” Don't be tempted to overextend yourself to buy a home. Remember, a fixed mortgage offers the maximum security over the long term.

â€” If you have children, be sure to set up a will and choose guardians. Also think about life insurance. And start to save for college as early as you can.

What to do at 40

You're beginning your peak earning years but, at the same time, retirement isn't that far off. To protect yourself be sure to:

â€” Keep retirement savings a priority. If you're just getting started saving, you'll need to set aside at least 25 percent of your annual salary in a tax-advantaged account for the rest of your working life.

â€” Make sure that you have adequate disability insurance. If your employer doesn't provide enough, look into an independent policy.

What to do at 50

Strange as it may seem, retirement may be within sight. So start by carefully assessing your retirement needs, your expenses and sources of income, and how close you are to meeting your goals. Then, as you get closer to retirement:

â€" Look at your investment strategy, and consider slowly shifting to a more conservative asset allocation.

â€" Think about purchasing long-term-care insurance.

â€" Check with Social Security to make sure your earnings records are accurate.

â€" Review your estate plan or set one up if you haven't already.

What to do at 60

At this point in your life, you may be getting close to retirement. As this important transition approaches:

â€" Think carefully about how to turn your lifetime of savings into a reliable stream of income that can sustain you for many years to come. This is a good time to think about reviewing your plans with a trusted financial advisor.

â€" Plan when to take your Social Security benefits. If you can hold off until you're 70, you'll receive the maximum amount each month.

â€" You'll be eligible for Medicare benefits starting at age 65. If you plan to stop working earlier, make sure you have adequate health insurance.

Improving financial habits at any age

The ultimate goal of this financial advice is to help you keep your head above water during the hard times and keep moving ahead during the good times. Use this list to improve your financial habits now, and you'll not only be better able to survive today's difficulties, you'll be poised to make the most of your opportunities when things turn around.

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