

Money and You: Simple steps to financial confidence

by *Carrie_Schwab_Pomerantz*

One of my crusades is to encourage "financial literacy." I believe everyone needs a practical understanding of personal finance so they can make smart decisions when it comes to money, both spending today and investing for tomorrow.

But in too many households just one spouse handles the money, and that's a recipe for trouble. Even if you're married to the world's greatest money manager and aren't involved with the day-to-day responsibilities, you need to know the fundamentals of your financial life and participate in the important decisions. The obvious reason is so that you'll be prepared in case something happens to your spouse. But two heads are better than one, and financial decisions clearly affect both of you.

So if for some reason you've let your spouse or partner handle the money, here are a few simple steps to get yourself back in the loop. That old cliché, "Money isn't everything" is certainly true; however, money gives you choices in how you can lead your life, which is why I believe every adult should have a firm handle on their finances. Let's get started.

Step 1: Take stock

Start by figuring out what you have in the way of assets. Make a list of all your financial accounts: savings, checking, and brokerage as well as your 401(k) and IRAs. Do you own any stocks or bonds in certificate form in your safe deposit box? Don't forget to put major assets like your house, a vacation home, or other properties on your list (and be sure you're named as co-owner if you own them with your spouse). Also include any life insurance policies you have, particularly if they have some cash value.

Next, figure out the other side of your personal balance sheet: debt. Make sure you know what you owe, to whom, and on what terms. For most people, this means credit card debt, a home mortgage and perhaps a car loan.

Step 2: Make a budget

Now it's time to look at how much comes in (your income) versus how much goes out (your expenses). This sounds so basic, but I'm always surprised by how many people don't have a sense of their monthly budget. On the income side, be sure to include any pension or investment income as well as your salary. The expense side should include fixed expenses (mortgage, insurance premiums, car payments, etc.) as well as variable costs (food, taxes, transportation, etc.). Looking at the two side-by-side is essential. If you're running a deficit, look for ways to cut expenses, increase your income, or both.

Step 3: Plan for the future

Now it's time to plan for your future. Start by setting aside six to nine months' worth of living expenses; put this proverbial "rainy-day" money somewhere safe and easy to access. Then articulate your investment goals. Retirement is obviously a priority (do whatever it takes to fund your 401(k) or IRA to the max), but you may have other goals: college for your kids, for example, or a home of your own. Assign a time frame to each goal and start putting money away.

Another part of planning for the future includes making a will (especially important if you have dependents). Unless you have a lot of wealth, it need not be complex - a will is just a tool to ensure your wishes are articulated in writing. Your own financial planning must also include insurance: medical coverage, of course, and term life insurance if you have dependents. And you might want to investigate disability insurance and long-term care insurance as well.

Step 4: Save more

If I had to reduce personal financial advice to a single idea, it would be this: Save more money. Life, particularly retirement, is more expensive than you think. Most Americans believe they can have a comfortable retirement, but the numbers suggest otherwise.

According to the 2007 Retirement Confidence Survey conducted by the Employee Benefit Research Institute, about 60 percent of people age 45 or older have less than \$100,000 in retirement savings. Even when you factor in Social Security benefits, that's not enough for a financially secure retirement. You may not know how much you're going to need for retirement (the subject of a future column), but if you have any sense that you're going to need more, the time to start saving is now. Save more and invest for growth.

Step 5: Stay up to date

And finally, once you've got your financial life organized and you've started to save and invest, make sure you review all money matters periodically; monthly for your basic budgeting, at least quarterly or semiannually with respect to your investments. It just makes sense that your financial life will continue to evolve as you do. Monitoring your progress will help you avoid problems and take advantage of opportunities.

Many people find personal finance frightening or confusing, but most of it is common sense; even investing need not be complicated. And it's vitally important all adults have a grasp of these basics: you simply don't know when you might find yourself on your own. Be prepared for that day.

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