

**SPRING-
CLEANING**

For Your

FINANCES



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SPRING-CLEANING FOR YOUR FINANCES

Spring is the perfect time to clean up your life. Most of us already spend some time each year doing spring-cleaning. But most of us limit it to the physical clutter in our lives. Have you ever considered spring-cleaning your finances? We all accumulate financial clutter that needs to be dealt with if we want to keep our finances in good condition.

Financial challenges are one of the most stressful aspects of life. Finding happiness is challenging when your finances are a mess.

This spring, take advantage of the strategies in this guide and put your finances back on track. You'll be delighted when you discover the results!

Most of us have a less than spectacular filing system, so let's start there.

***"Part of your heritage in this society
is the opportunity to become
financially independent."***

- Jim Rohn

DEVELOP AND MAINTAIN A FILING SYSTEM

If you want your spring-cleaning to be easy, the key is to refrain from making a mess in the first place. Your finances aren't any different. ***Everything is easier if you maintain good records and have an intelligent system to keep everything organized.***

Consider the following simple, but effective, system:

1. **Minimize before you file.** Everything doesn't need to be kept and filed. Determine what is important to save and what can be tossed. Before throwing documents away, shred any that contain account information or your social security number.
2. **A simple alphabetical filing system works well.** One drawer of hanging file folders is sufficient for most of us.

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3. **File things immediately!** Avoid creating a pile that sits for an extended period of time. Eventually the pile starts to get intimidating, and you'll procrastinate instead of dealing with it. Items also tend to get lost the longer they sit.
4. **Consider keeping your documents online.** Many of your financial records are probably already available online. It may be unnecessary to print them all out. It's time consuming and expensive. ***You might want to consider scanning your documents and keeping everything online.*** Just remember to back up your data religiously.

You can develop your filing system as you work through the rest of your financial spring-cleaning. Since spring-cleaning involves putting things in the proper places, it's the perfect time to develop a filing system that works for you.

EVALUATE YOUR SPENDING

Getting an accurate picture of your spending is very important. The money that you have left after paying your bills serves as the seed from which everything else grows.

Without extra money left over at the end of the month, you simply have nothing to save or invest. If you have nothing to save or invest, it's difficult to deal with life's inevitable financial challenges, plan for your retirement, or leave anything to your heirs.

Get started by following these steps:

1. **Record every penny you spend for the next 30 days.** This might seem like overkill, but most people are surprised by how much they spend on the little things over the course of a month. It's the coffee, magazines, lunches, and sodas at the gas station that can really add up. That money could probably be better spent elsewhere.
2. **Develop a tracking system that you can follow**

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regularly. It's important to capture 100% of your spending.

- ▶ Some people elect to pay for everything with a debit card and then rely on banking records. This will account for every penny, but it's challenging to know exactly what the money was spent on. Ensure you can break the spending down into different categories.
- ▶ ***The most reliable method when tracking your spending is to keep every receipt and enter the results into a spreadsheet at the end of each day.***

3. **Categorize your budget.** Knowing exactly how your money is spent can be just as important as where it's spent. Consider the following budget categories when tracking your spending:

- ▶ Charitable donations
- ▶ Food (divide the total amounts spent at the grocery store and in restaurants)
- ▶ Pet expenses (break out food, vet care, and other expenses)

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- ▶ Mortgage or rent
- ▶ Property taxes for the month
- ▶ Household enhancements or repairs
- ▶ Homeowners Association (HOA) dues (if any)
- ▶ Utilities (such as electric, water, gas, home phone, cell phone, internet, cable, and garbage)
- ▶ Clothing
- ▶ Gas for your car
- ▶ Any other automobile expenses
- ▶ Any monthly recurring bills such as car payments, credit cards, and other loans
- ▶ Medical care: separate into doctor, dentist, medications, and medical device expenses
- ▶ Insurance: differentiate the various types
- ▶ Household supplies: detergent, toiletries, paper towels, tools, and other items
- ▶ Items for school
- ▶ Personal items: haircut, gym membership, cosmetics, magazine subscriptions
- ▶ Child care

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- ▶ Child support or alimony
- ▶ Savings
- ▶ Investments
- ▶ Retirement
- ▶ Entertainment
- ▶ Any other expenses that aren't mentioned on this list

These categories provide an excellent overview of how your money is being spent each month. ***Make it a habit to record your spending regularly, so you have an accurate picture at the end of the month.***

4. **Evaluate your spending.** After keeping careful records for a month, you might be surprised at where you're spending your money. Do you see any areas that stand out as being excessive? Where can you cut back and how can you put that money to better use?
 - ▶ The common areas that can get out of hand include: Groceries, eating out, entertainment, clothing, and personal items. Think about ways you can reduce these costs.

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- ▶ ***Minimizing or eliminating your car payment and moving to a less expensive home can result in big savings.***

Controlling expenses is important for everyone. The less money you're spending each month, the more money you'll have for saving and investing.

The other primary drain on your finances is most likely debt.

REVIEW YOUR DEBT

Debt is a real financial challenge. It's like trying to run a marathon uphill.

Sit down and look over all of your debt. Develop a reasonable plan that will eliminate it as quickly as possible. Most importantly, develop habits that prevent your debt from growing larger. Just think about all the extra money you'd have each month if you were completely debt-free!

“Our incomes are like our shoes; if too small, they gall and pinch us; but if too large, they cause us to stumble and to trip.”

- John Locke

DEVELOP A BUDGET

Since you've already done a detailed analysis of your spending, it's simple to create a new, more realistic budget.

Hopefully, you found several places to cut back on spending and can increase the amount you save and invest each month.

A simple budget is a necessary part of life:

1. **Go back through your spending records and develop a budget that's realistic and attainable.** You already have most of the data. It simply needs to be tweaked and adjusted appropriately.
2. **It can be helpful to continue to track your spending daily or weekly.** Sit down daily or once a week and review your spending. Keep your records up-to-date.

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- 3. Evaluate where you are relative to your budget.**
Staying on track is quite easy, provided you constantly review your status versus your budget. Things are easy to fix if you notice the issue early, but much more challenging if you find yourself hundreds of dollars off-course.
- 4. Create a plan to get back on track.** Many months, you'll end up with unexpected expenses. That's part of the reason that emergency funds exist. Taking money from other categories can mitigate many challenges. ***It might be necessary to limit other expenses to reach your budget goals for the month.***
- 5. Continuously assess your budget.** The one-month snapshot you took at the beginning is a great starting point, but spending can vary from month to month. You might find that your initial budget was too strict or lax. It will probably take a few months to figure it out.

It doesn't matter how much money you have, everyone needs a budget. Living without any financial boundaries is a recipe for disaster.

“Adhering to budgeting rules shouldn't trump good decision-making.”

- Emily Oster

INSURANCE

Most of us would like to refrain from thinking about insurance. It's a considerable amount of money for something that rarely gets used. Banks require us to have insurance when we have a mortgage or car loan. And there are so many different types of insurance.

What kinds of insurance do you really need and how much coverage is required?

Life Insurance

Life insurance serves to replace your income if you die.

The trick is determining how much life insurance you need. If you're without dependents or heirs, it makes little sense to invest in life insurance. The only benefit to life insurance then is to pay for your funeral expenses.

Check out this quick method for determining your life insurance needs:

1. Think about your current lifestyle. Ideally, life insurance will permit your family to continue living in the same

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way they currently live, even without the benefit of your income.

2. Most experts advise having enough life insurance to cover your debts, including your mortgage. The idea is to leave your family debt-free, but there's also the consideration of living expenses.
3. It's important to have enough life insurance to cover your share of the monthly bills and college expenses. Without debt, your spouse might easily be able to cover the monthly expenses. Then again, it might be difficult. Also, college is expensive and can be a significant financial challenge.
4. You can reduce the amount of life insurance needed depending on your savings and the value of your investments and retirement accounts. The more money you have, the less life insurance you'll need.

Life insurance isn't an enjoyable topic, but it's definitely worth talking about. Your family will thank you, and you'll sleep better at night knowing your loved ones are free from financial worries.

“Capital is that part of wealth which is devoted to obtaining further wealth.”

- Alfred Marshall

Disability Insurance

Many people opt out of disability insurance. However, consider how you'll survive if you're ever unable to work for an extended period of time. How will you pay your mortgage or rent? What about your other bills?

Social security pays relatively little and it only compensates in the event that you're completely unable to work. It also doesn't pay for the first 5 months.

Think about how much you need to pay for your critical expenses and consider getting a policy that will cover that amount. ***Keep in mind that disability insurance payouts aren't taxed, so the replacement percentage of your income is less than you think.***

Talk to an insurance expert to analyze your situation and obtain the disability coverage that's right for you.

“Rounding to the nearest cent is sufficiently accurate for practical purposes.”

- Alexander John Ellis

Other Types of Insurance

There are numerous insurance policies available. Different types of policies make sense for certain people and situations.

Examine your insurance policies at least once a year:

1. Look over all of your policies:

- ▶ Life
- ▶ Homeowners or renters
- ▶ Auto
- ▶ Business policies, if you're a business owner
- ▶ Disability
- ▶ Medical

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- ▶ Liability: ***Those with considerable assets are advised to consider liability insurance.*** The United States is a very litigious country and the wealthy are frequently targets. Those with minimal assets usually aren't worth the time and expense that come with a lawsuit. Liability insurance is frequently referred to as an "umbrella policy."

After looking over your policies, assess your coverage. Do you have everything you need? Do you see any changes that are necessary?

2. **Get a few quotes to ensure that you're paying a fair price.** Some companies have much lower premiums for certain types of insurance or for specific parts of the country. Your premiums ought to be in the average range. You want to avoid overpaying!
 - ▶ Are you getting all the discounts you're entitled to? For example, if you have multiple policies through a company, you're usually entitled to a discount. If you have a home alarm system, your homeowner's policy could be less.
3. **Review your beneficiaries.** Circumstances change and your insurance needs and beneficiaries can

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change, too. Ensure the correct individuals will be getting your assets after you're gone.

4. **Sit down with an expert.** It can be difficult to determine how much coverage you actually require. Just be careful! Most insurance experts are the same folks trying to sell you a policy. Be skeptical of advice given by someone that stands to make money if you follow their advice.
5. **Adjust your budget accordingly. *Whether you end up spending more or less each month for insurance, adjust your budget to reflect the changes.*** Hopefully, you'll have more money for saving and investing!

Review your insurance just as you would any other aspect of your finances. It's a necessary expense, even if the benefits are only realized rarely.

"Owning a home is a keystone of wealth - both financial affluence and emotional security."

- Suze Orman

SAVINGS AND INVESTMENTS

Now that you have a realistic budget and your spending and insurance are under control, it's time to consider your savings and investments. Did you remember to include these categories in your budget?

Many individuals save and invest whatever is left over at the end of each month. That mindset often results in having no money at all left over. Most of us are good at spending whatever is available to us. The smart approach is to treat your investment and savings accounts like any other bill and “pay” them each month.

Nearly all financial experts advise contributing to your savings and investment accounts first, even before paying your other bills!

Try this process for spring-cleaning your savings and investments:

1. **Set up an emergency fund.** If you're a college graduate and you lose your job, it takes approximately

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nine months to find another position similar to the job that was lost. ***Experts recommend setting up an emergency fund that will pay for nine months of expenses in case you lose your income.***

- ▶ For most individuals and families, nine months of expenses is a considerable amount of money. It doesn't make sense to keep the entire amount in a simple savings account
 - ▶ Shop around for different accounts and consider short-term bonds. You can probably find a higher interest rate and still have decent liquidity. ***You want to avoid having to wait too long to access these funds or to be charged a penalty for cashing them in early.***
2. **Review your investment plan.** Just as your spending, budget, and insurance need a spring-cleaning each year, the same is necessary for your investments.
- ▶ **Risk.** Do your investment practices reflect the appropriate amount of risk? If your timeframe is long-term, you can take on a greater amount of risk. However, if you're saving for your child to go

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to college in three years, lower risk investments make more sense. ***Risk management is a critical part of investing.***

- ▶ **Returns.** How are your returns relative to the market as a whole? Remember that an index fund will essentially match the performance of the market at a minimal expense. It might be time to dump your underperforming investments.
- ▶ **Expenses.** How much are you paying for the returns you're receiving? Could you be doing better? Some mutual funds provide good returns, but the expenses are unreasonable and eat up any extra profits.
- ▶ **Allocation.** Do you need to reallocate your investment assets? Over time, some investments will grow better than others. It may be necessary to redistribute funds from time to time.
- ▶ **Diversification. *Diversification is investing in a variety of different companies and assets.*** Do you have the proper amount of diversification? The primary purpose of portfolio diversification is to minimize portfolio losses.

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3. **Make the necessary changes.** Based on your review, adjust your investment plan and put those changes into effect.
4. **Invest automatically.** One of the best ways to ensure that your investments grow over time is to invest regularly. It's very easy to set up an automatic withdrawal that will take money out of your bank account at regular intervals and place it into your brokerage account or a specific investment.
5. **Consider getting some expert advice.** There isn't a shortage of resources when it comes to investing your money. There are books, websites, and financial advisors that can provide information and guidance. Get the information and make better investment decisions this year.

Pay yourself first and optimize your investments each year. If you can do that and develop an emergency fund, you're doing great.

"If saving money is wrong, I don't want to be right!"

- William Shanter

CREDIT

Reviewing your credit report and making the necessary corrections is also important. A poor credit score results in higher interest rates on loans and credit cards. A poor credit report can even inhibit your ability to find a job. More and more employers are looking at credit reports before making hiring decisions.

Poor credit can cost you dearly.

Keep your credit report in good shape with these steps:

1. **Order copies of your credit reports.** The three major credit bureaus will provide one free copy of your credit report each year. You're also entitled to a free copy if you've recently been turned down for a loan or credit card.
2. **Get your credit scores.** Your credit report usually includes an estimation rather than your official credit score. ***To be considered for financing and conventional loans, your credit score needs to be in the range of 620 or higher.*** If your score is lower,

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interest rates will be considerably more costly. The best rates go to those with scores above 720.

3. **Review all of the negative information.** Make a note of all the negative information that's incorrect on your credit report. Take the time to examine your reports carefully. Nearly everyone finds errors.
4. **Challenge any negative information in writing.** While the credit bureaus provide a means to challenge your credit online, this helps them, rather than you.
Did you know that any challenges that aren't verified and responded to within 30 days will be found in your favor?
 - ▶ Avoid making things easy on them. Send your change requests in writing and use delivery confirmation. Keep track of how many days have passed.
5. **Be persistent.** Persistence will eventually get you what you're after. Credit bureaus want to make money by selling credit reports. It costs them money when they have to deal with you and your correspondence. Just keep challenging the negative information and you'll see your credit score increase.

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Fixing your credit report errors is only half the battle. You may need to add positive credit and develop good habits to take your credit score to a higher level.

If your credit score could use a boost, consider the following:

1. **Obtain two or three credit cards and use them occasionally.** *Most experts agree that having two or three credit cards is good for your credit.* It's important to use them occasionally and avoid carrying a significant balance.
2. **Keep your balances low.** One component of your credit score is your utilization ratio. This is the percentage of available credit that you're using.
 - ▶ So, if your credit limit is \$10,000 and your debt is \$6,000, you're utilization ratio is 60%. The recommended maximum is 30%. If it's higher than that, your credit score will suffer.
3. **Take out a loan.** While having a loan won't help your credit score, showing that a loan has been paid off, without late payments, will help significantly. *If your*

credit history is sparse, consider taking out a loan.

The cheapest loan will have excellent collateral.

- ▶ Regardless of how bad your credit might be, there's an easy way to get a loan. Simply deposit some money in a savings account. Then approach the bank, ask for a loan, and use the funds in that account as collateral. Pay it off on time and your credit score will go up.
4. **Ensure that you're paying all of your bills on time.** Late payments have an extremely negative effect on your credit score. Develop a system to pay your bills on time every month. This can be as simple as sitting down one evening each week and paying your bills consistently. Give yourself enough lead-time to mail or process the bill payments.
 5. **Ask someone else to add you to their credit card.** It might sound extreme, but this can raise your credit score a hundred points or more practically overnight. ***Ask a trusted friend or family member with excellent credit to put you on their credit card.*** They can just put your name on the account without providing you with an actual card.

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- ▶ All of their credit history related to that credit card now becomes your history, too. It's worth asking, especially if you need a quick credit boost.

Spend the time each year to fix your credit report errors. Take the steps to add positive information, if needed. Avoid underestimating the importance of your credit history. A poor credit score can create many financial challenges.

***“Banks introduced the installment plan.
The disappearance of cash and the coming
of the credit card changed the shape
of life in the United States.”***

- Jerzy Kosinski

ESTATE PLANNING

Who wants to think about dying? It isn't a pleasant topic, but it's important nevertheless. Estate planning is best done with the assistance of an expert.

Review your estate planning each spring:

1. **Estate planning is important for everyone. *An estate plan helps to ensure that your family's financial needs are met after your death.***
2. **Review your will.** If you haven't drawn up a will, it's time to do so. Many think that only the rich need wills, but nothing could be further from the truth. If you have children or want to decide who will get your assets, a will is necessary. The other option is to let the courts decide for you.
 - ▶ ***Wills are commonly amended after a marriage, divorce, or the birth of a child. Deaths in the family will also require a review of the will.***
Perhaps you've started a business or have a new,

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significant asset.

- ▶ Talk to an attorney if you have questions or want to make changes.
3. **Review your assets.** Take an inventory of all your assets. These include your bank accounts, retirement accounts, real estate holdings, insurance policies, and any business interests.
 4. **There's more to it than just a will.** An estate plan has several components:
 - ▶ **The will.** Keep this document in a safe place and let your loved ones know where it is.
 - ▶ **Power of attorney.** *A power of attorney allows you to designate someone to make financial decisions for you in the event that you're unable to decide for yourself.*
 - ▶ **Living will or health care proxy.** A living will spells out how certain medical and life-saving measures are applied if you're unable to make decisions for yourself. A health care proxy designates someone to decide for you.

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- ▶ **Trust.** There are several types of trusts. A trust is simply an agreement that decides how certain assets are managed and held for another person. Although a trust can be an excellent tool, many people won't require them.
 - ▶ Figure out who you want to inherit your various assets.
5. **There are 2 primary types of taxes that affect estates:**
- ▶ **Inheritance tax.** Some states have an inheritance tax. It's important to consult the appropriate legal or tax expert for advice on how to minimize this tax. The solutions will vary from state to state.
 - ▶ **Estate tax.** This is primarily a federal tax with the current exemption set at \$5 million and it adjusts for inflation. If you have more than \$5 million in assets, an estate tax professional can help you to minimize your tax burden.
6. **Ensure that everyone is on the same page.** Squabbles are common when it comes to inheritances. ***Talking to everyone in your will ahead***

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of time can help to minimize confusion and arguments after your death. Ensure that your wishes are clear.

These are just the basics regarding estate planning. But, the details ought to be discussed with an attorney who specializes in this area because the topic is quite complicated and details vary from state to state.

Just be sure to review your estate plan each year and seek the expert advice you need.

“As a novelist, I tell stories and people give me money. Then financial planners tell me stories and I give them money.”

- Martin Cruz Smith

CONCLUSION

Use the spring season to get a better handle on your finances. Since you're already in the cleaning mode, why wouldn't you clean out your finances, too?

Start with your filing system and then work through the other aspects of your finances. Hopefully, this simple guide has made you start thinking.

Consider how your financial situation will change for the better once you get organized, assess your spending, deal with your debt, save some money, increase your investments, optimize your insurance coverage, and complete your estate planning. How would your life change?

Your situation is unique in many ways. Adopt this process or adjust it to fit your requirements.