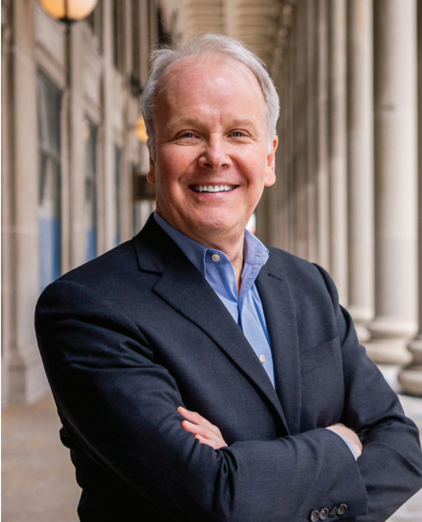

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7 Ways to Spring Clean Your Personal Finances

It's time to dust off your old money ideas and get your financial house in order.

We all know we should regularly perform a mix of cardiovascular and muscular strength exercises to maintain our health. But does that mean we don't hire personal trainers? No. Many of us still must hire trainers to encourage (or force) us to do these things — despite knowing it's for our own good. Of course, a good personal trainer will also design a physical fitness plan customized for you and correct your technique in performing the prescribed exercises when necessary. Nevertheless, I contend that the most important role of the trainer is to root you on, pushing you to complete the workout that you already know you should be doing.

As a personal financial planner, I sometimes feel like a personal trainer. I design and develop personal financial plans that are appropriate for each client, and I correct their technique by identifying the things they should not be doing and replacing them with my recommendations for the steps they should be taking to improve their chances of financial success. But, largely, I encourage them to do the things they already know they should be doing, like saving and investing, to improve their financial lives.

None of these concepts are revolutionary; you've likely heard most or all of them before. Nevertheless, sometimes it's good to hear them again, perhaps presented somewhat differently, to push you into action. And since it's spring, you might think of these ideas as some "spring cleaning" for your personal finances.

1. **Set aside an emergency fund.** The first step in improving your personal finances is making sure you have an adequate reserve to meet unforeseen expenses and emergencies. How much is enough? The rule of thumb of six-to-nine months of living expenses is a good first cut, but I recommend you look at your employment situation. If you were laid off or terminated by your employer, how many months would it take to find a new job? Multiply that number by your average monthly expense amount and you'll have a pretty good estimate of an appropriate emergency fund balance to maintain.

2. **Pay down and pay off debt.** Once you've set aside your emergency fund, tackle the debt that acts like a financial noose around your neck — excess credit card balances, student loans, car loans, mortgages, any consumer debt you may have. If you have multiple outstanding debts and loans, try paying off the smallest debts first — you'll find it will motivate you to pay down the bigger loans. Depending on the balances and loan lengths, you may also want to consider tackling the debts with the highest interest rates first. The quicker you bring down these debts, the less interest you pay and the more money you save, which could make a substantial difference in your ability to pay down other debts or save and invest later.

3. **Get adequately insured.** As a fee-only financial planner, I am never paid by an insurance company to promote their products. Yet, I strongly recommend that clients have all their bases covered by purchasing appropriate amounts of coverage, whether that be for medical, life, long-term disability, long-term care, auto, renter's or homeowner's, or other relevant insurance coverages. Why? Insurance serves to provide people with the

financial resources to pay for major damages that occur to them and their loved ones, or their property, which they cannot easily cover on their own. I also strongly advocate for appropriate long-term disability coverage for income earners as there's a greater likelihood of becoming disabled than of dying throughout the duration of the average worker's career. And I believe that some form of long-term care insurance is appropriate for most people for whom neither Medicaid nor self-financing of elder care is realistic.

4. **Save for your retirement.** The best way to build your retirement savings is to automate it by having a portion of your salary automatically deposited into your employer-sponsored 401(k), 403(b), or 457 plan account. If the tax-deferred or tax-free growth on the income and appreciation of the funds in these accounts isn't incentive enough, don't forget that your employer might match your retirement account contribution. If so, this is free money that should never be turned down. Now, if you happen to be ineligible to participate in a plan like this, or your employer does not offer one, then an individual traditional IRA or Roth IRA is likely to be the next best bet for you. Younger professionals and those who expect to be in higher income tax brackets later in life should seriously consider using the Roth option in their employer plan if available or establishing a personal Roth IRA first.

5. **Give to your favorite charities.** Unless you're donating enough for a tax break, this won't exactly help your financial status. That said, I believe we have an ethical obligation to help those less fortunate than us, so I encourage my clients to give financial and other gifts to well-run charitable organizations and causes they care about.

6. **Set aside savings for a goal.** Everyone has long term goals in addition to having a financially sound retirement. It might be saving for a home, college for children or grandchildren, or a bucket list vacation. Whatever the case may be, more than likely you'll need to spend several years saving and investing to make that goal a reality. So, if there's something important to you that's going to require a large sum of money, start setting aside funds specifically to meet that goal — or goals — now (or at least as early as you can afford to). How much and how soon you'll need this money will determine the savings and investment vehicles it should be held in.

7. **Invest appropriately for your financial position.** There is a world of investments available to (hopefully) make your money grow and meet your financial goals. It is important to understand the significance of the timing of your goals when selecting the appropriate investments. Whenever possible, I recommend that stocks be used to largely fund goals that are five or more years into the future. Investment-grade bonds can be used to fund goals that are one-to-five years into the future. And cash and short-term government bonds should be used for goals with less than a one-year time frame. The general concept is that the sooner you need your money, the less risk you can take with it. There are other factors to consider as well, including your investment risk tolerance and the resources you have available to meet your goals, which may alter these decisions — that's what a good personal financial planner will help you figure out.

As with cleaning the winter cobwebs out of your residence, spring is a great time to dust off these old money ideas and put them in place in a shiny new personal financial plan — maybe you can even use your tax refund to spruce up your savings.

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