New Year's Financial Resolutions

With the dawn of every New Year, we make resolutions to ourselves to lose weight, exercise more, and the like. But you may want to consider making resolutions that improve your financial health as well.

1. Don't overspend—Whether you are retired or not, it is important to live within your means. An increasing amount of credit card debt is a telltale sign that you need to curtail your spending.

2. Pay off high interest rate debt—Focus on the debt where you are paying the highest interest rate and where the interest cost is not deductible, such as credit cards and personal loans.

3. Refinance an adjustable with a fixed rate mortgage—Interest rates on which adjustable rate mortgages are based are near an all-time low and are expected to increase with an improvement in the economy. If you have an adjustable rate mortgage and do not plan on selling your home before your rate resets, consider refinancing to a fixed rate mortgage. When refinancing, refrain from extending the payment term or taking out cash.

4. Establish separate savings accounts—For reasonably predictable expenses it often makes sense to establish separate accounts and regularly contribute to them. For example, you may want to save for holiday gifts, vacations, and home improvements. By saving in advance of your need, you are less likely to use your credit cards or home equity to finance purchases, thereby living within your means.

5. Evaluate your investment strategy—To make your money work for you, review your investment strategy at least annually, including your portfolio's asset allocation and diversification. Remember to adjust your asset allocation to a more conservative mix as you grow older and your investment time horizon shortens. COMPASS takes care of this for clients as part of its wealth management service.

6. Increase retirement contributions—If your employer provides a 401(k), 403(b), or 457 plan and offers matching contributions, you probably want to contribute at least enough to obtain your employer's "free money." Consider using any pay increase that you receive to increase your contribution level up to the annual maximum. COMPASS works with its clients to determine how much to save.

7. Fund educational savings accounts—As with retirement, the sooner you begin the less money you will need to contribute to your children's or grandchildren's education due to the compounding of returns. Also, if you have a large estate, educational savings accounts can be an excellent estate planning tool by removing assets from your estate, but retaining control. COMPASS assists clients with recommending the best savings vehicle for their situation.

8. Keep estate planning documents current—Or, if you don't have them, obtain them. It is important that you indicate your desires in what are considered to be basic estate planning documents: a will, durable power of attorney, health care proxy/living will, and HIPAA release, which authorizes the release of your medical information. Depending on your situation, a trust may also be appropriate.

9. Review beneficiary designations—As with your estate planning documents, it is critical that you keep the beneficiary designations current on your life insurance, annuities, and retirement accounts. This is especially true if your listed beneficiary is an ex-spouse or has passed away.

10. Assess insurance coverages—Review your various coverages (e.g., health, life, homeowner's, disability, long-term care) for applicability and adequacy. Be especially mindful that your home is adequately insured for its full replacement cost.