CPA℠

America Counts on CPAs

American Institute of Certified Public Accountants

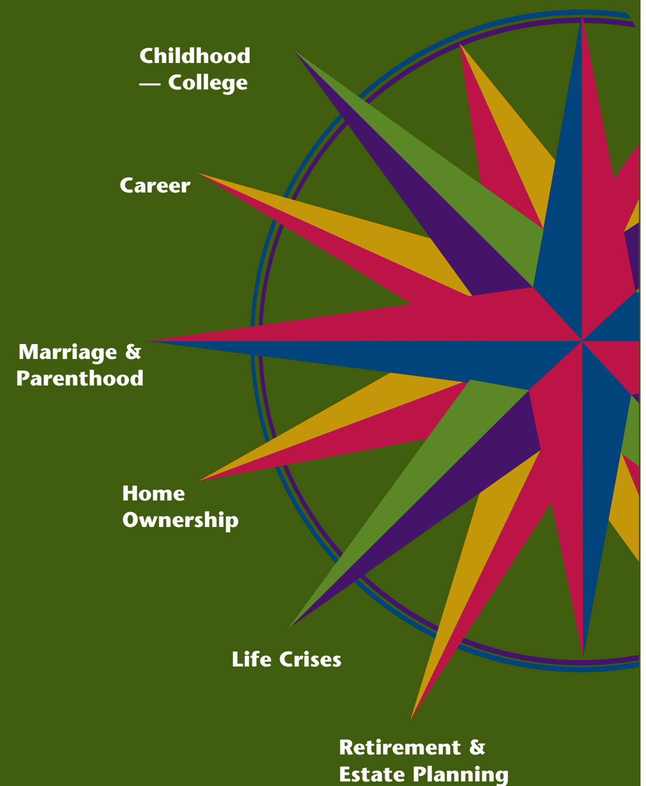
CPAs across the country are participating in the AICPA's 360 Degrees of Financial Literacy program to educate the American public, from school children to retirees, on financial topics that apply to their particular life stage. For more information, visit ***www.aicpa.org/financialliteracy***

©2004, AICPA

8004-311A

Financial Planning **Tips for a Lifetime**

360 DEGREES OF FINANCIAL LITERACY



Advice from CPAs

Lifelong Financial Tips

Wherever you are in life, these tips may help you get on solid financial ground and help you stay there.

Get specific with your goals. There's an old expression: "If you don't know where you're going, any road will lead you there." When it comes to your money, you need to have specific goals. They can be as simple as: "Put aside $500 a month for a down payment on a new home until we have $20,000," or "Pay back credit card debt in one year with $300 a month minimum."

Focus on needs, not wants. Wish lists can be wonderful things to have — as long as you don't use your credit card to turn every wish into immediate reality. Understand the difference between niceties and necessities, and be willing to forego what you don't really need to stay on plan.

Keep it simple. Often we get too complex in our planning. Result? Plans turn into burdens and are quickly abandoned. So don't try to become an investment banker overnight. Just focus on what's most important to you. Is it having enough money for retirement, financial security for loved ones, college? You decide and then take simple, straightforward action.

Know your weak points. Understand your own personal psychology and avoid the triggers that will make you spend more or save less. For example, if you know you're undisciplined, try to have money taken out automatically for saving or investing.

Be realistic. If you've never saved a penny in your life, you're not going to magically put aside thousands of dollars a month. So start small. It's all about consistency. Far better to build up, than give up!

Be prepared. Life is all about change. Good things or bad can affect your financial planning. Be ready. Planning for the unexpected can make seemingly disastrous events like a job layoff, a house fire, or a long-term illness far less devastating than they might otherwise be.

Know when you need advice and how to get it. Get help when you need it: a banker for a mortgage, a lawyer for your will, a CPA (Certified Public Accountant) Financial Planner for more complex financial planning needs.

Consult a Financial Adviser When . . .

- *Getting married*
- *Purchasing or selling a home*
- *Getting divorced*
- *Having a baby or adopting a child*
- *Buying or selling a family business*
- *Developing an estate plan*
- *Coping with the death of a spouse*
- *Receiving an inheritance/financial windfall*

Financial Planning Tips for Specific Life Stages

Find the life stages that are currently most important to you or your family and begin to implement the tips. It won't take long to see results, bolstering both your financial picture and confidence in your financial future.

Childhood Through College

Getting on a sound financial footing is rated "G" — good for any age.

- ***6–8:*** This is the right time to start with allowances. Monthly is often better than weekly so kids learn a bit about planning ahead. Also, teach youngsters to comparison shop.

- ***9–12:*** A critical time for children to start earning money to supplement allowance. Lemonade stands, dog walking, fence painting, leaf raking and snow shoveling are all ideal for this age group.
- ***Teens:*** Finding and keeping a job, budgeting what's earned, learning the do's and don'ts of spending and overspending are critical life skills for teens. Teens should have a checking account or savings account, but NOT a credit card.
- ***College:*** Debt is often a more serious problem than academics for college students. Staying within budget needs to be part and parcel of the lessons they learn. Bailing themselves out, curbing their spending lust, and foregoing nonessentials are absolute musts. Too often parents with the best intentions enable the worst financial patterns.

Your Career

Vital tips, whatever your job, whatever your income.

(1) Understand your benefits package. That includes health insurance, pension plans, savings options, life and disability insurance. Make a list of questions and be sure they are answered.

(2) Take advantage of direct deposit if your company offers it. It ensures that there is money in your checking account so bills can be paid. Some employers allow you to split your deposit between checking and savings to ensure that you put something away on a regular basis.

(3) Be on top of your tax situation. Make sure the correct amount is being withheld from your pay, so there are no surprises when you file your return.

(4) Look to the future. Find out when you are eligible to participate in your company's retirement plan and contribute to the max. Also, give serious consideration to disability and life insurance.

Marriage and Parenthood

Getting married and having children are as much financial milestones as emotional ones.

Marriage: A few questions you should consider before and shortly after marriage. Do you need a prenuptial agreement? What are your mutual and individual financial goals? How do you budget as a team? Should you and your spouse mingle your funds in whole or in part? Do you need two health plans? If not, whose is preferable? How about retirement plans?

3 Tips for Financing Your Child's College Education

(1) Start Early. The key to any college investment plan is to allow enough time for your money to work for you.

(2) Maximize Your Return. Create a diverse investment strategy that takes into account the child's age, your risk tolerance, and the estimated education costs.

(3) Investigate Student Aid. No matter what your financial situation, look into public and private aid.

Parenthood: An average family in 2000 spent about $165,600 to raise a child to age 18. Those numbers DON'T include college. It is critical that you protect your family's financial security by making sure funds are available to care for them in normal times and in times of disaster. Also be sure to have a will detailing how your children should be cared for — and by whom —- in the event of your death.

Home Ownership

Here are some tips that will keep the dream of buying a home from turning into a nightmare.

- Decide first whether this is the right time to buy.
- Investigate financing early on. Shop around for the best rates and terms.
- Be certain you can afford the monthly mortgage payments. A rule of thumb: mortgage should never exceed 30% of your gross income.
- When budgeting, include amounts you'll pay for real estate taxes, insurance, utilities and general repairs.
- Secure the services of a real estate attorney, at least for your closing.
- Always consider the future marketability of your home. You never know when you will need to sell or move.
- Secure adequate home owner insurance.

Life Crisis

A good plan can provide a financial safety net at a time when it's most needed.

Unemployment: Having a rainy day fund can be an enormous help in warding off financial disaster. Your goal should be to save 6-12 months of expenses or take-home pay. Also, take full advantage of everything your company, the government and your community offer.

Divorce: Whether or not you hire counsel, you should consider the following issues: What are your wishes regarding custody, visitation, and child support? Do you earn enough money to adequately support yourself? Which assets do you really want, and which are you willing to let your spouse keep? Do you want/can you afford to keep the family home?

Disasters: Disasters can take many faces: health crises, fire, flood, earthquake, death of a spouse. Whatever the disaster, there are some common financial strategies that will help you weather the crisis: get advice from professionals such as insurance agents, financial advisers and/or lawyers, locate important documents and financial records, evaluate short term income and expenses, avoid making hasty decisions.

Sandwich Generation: That's the term coined for those caught in the middle between raising and educating their kids and tending to the needs of aging parents. First, you need to identify priorities: setting aside funds for retirement, paying for your kids' schooling, and helping your parents with the cost of long-term care. Also, it's vital to learn about your parents' ailments so you can make a realistic budgeting assessment. Elder care experts can be especially helpful.

Retirement

With a little planning, retirement can be a time to enjoy the good things in life. Some retirement planning musts —

Take full advantage of retirement investment options. Make the most of everything your employer has to offer including pension contributions and matching dollar opportunities. Invest the maximum allowable amount in an IRA (per individual) and do it every year.

Be realistic about needs. Most people underestimate the cost of retirement. Remember it's more likely you'll live to 100 and on average you'll need about 70% of current income to finance your retirement. Social Security generally covers less than 30%.

Start early. $2000 a year invested at age 25 in a tax-deferred account earning 10% average annual return will become $885,000 at age 65. Start at 35 and the nest egg would total only $329,000. The $20,000 not invested in those 10 years cost $556,000.

Estate Planning

A will is one of the single most important documents you can prepare for the protection of your loved ones. It makes certain that your assets are handled according to your specific wishes. It allows you to formulate a strategy that preserves from taxes the greatest amount of your assets for your heirs. And, it determines who will be guardian of any minor children. A lawyer and a CPA financial planner are critical team players in helping you formulate a will.