

TAX TIME: By Steve Franklin

A Good Time to Reevaluate your Future

It's never too late to start planning

Just like a trip to snowy slopes or sunny shores, arriving at the land of financial security requires planning.

Have you or your advisors developed a strategy to adjust for the stock market's poor performance during the past three years? Tax reporting presents an opportune time to start developing your financial plan or to evaluate your investment strategy.

Plan The Basics

Financial planning can be complex. Understand the process by thinking of it as something familiar, such as planning a vacation. You need to know where you want to go, when you will arrive and how you are going to get there. You will improve your future significantly by answering the questions for your financial life individually or with a financial advisor.

Key Information

While any time is a good time to start, the first quarter of the year presents special opportunity.

Year-end investment statements from banks, brokers and mutual funds have arrived. Your employer has sent a W-2 report of last year's income. You need these items for tax filing and their arrival collects your investment information. Also, use them to help build a better financial future for you.

Calculate the percent of your income that you were able to invest. If it is less than ten percent, consider

looking at your spending to find sources of additional investment capital.

Likewise, consider investing any bonuses as "extra" money for your financial security. If you recently received a raise in compensation, one approach would be to allocate a portion of it to regular investments in employer-sponsored plans, an IRA or investment account.

Determine if you contributed the maximum allowed to employer-sponsored retirement plans and your IRA. With a few exceptions, you should fund these programs to the maximum allowed. They present opportunities to compensate for the damage done by the stock market over the last three years. Good news, higher contributions are permitted this year, especially if you are over 50.

Ask yourself the following questions: Have I effectively maximized the tax implications of capital gains and losses for last year? What strategy will I use this year? Should I be converting a traditional to a Roth IRA?

Your employer's human resource department can initiate a report of the value of your retirement plan(s). For a copy of your Social Security benefit statement, call 1-800-772-1213 or visit www.ssa.gov on the Internet. If you have cash value building in life insurance policies and plan to use the funds in retirement, ask the insurance company for the current and projected value at retirement.

All this information will tell you what you have. Use it to organize, which is an essential first step in taking control of your financial future.

Specify Goals

A plan begins with specifying your goals. Frequently, goals include retiring, educating children, purchasing a home, achieving financial independence or purchasing items on your wish list. Ask yourself what you want to do and when.

Key Questions

Answers to these questions will help you develop your personal financial plan.

- When do you want to retire?
- How much money will you need annually in retirement?
- How much will be required in addition to the payments from retirement plans and Social Security?
- At the present rate of saving and investment growth, how much will you have at your anticipated retirement date?
- What income will your investments produce and for how long?
- What will you pay for your children's education cost?
- Is there a new home in your future?
- Do you have other needs such as care for your parents?

Making the Numbers Work

Everyone has unique circumstances and your decisions will determine your own financial plan. Many financial publications and web sites provide help with calculating the numbers.

Do not be surprised at the initial results. Frequently, individuals find current levels of savings and investments are not enough to produce the income desired in retirement, particularly when adjusted for inflation and full life expectancy.

Do not become discouraged. The challenge and value of planning lies in considering alternatives, such as saving/investing more, improving investment performance, delaying retirement or working part-time in retirement.

Avoid assuming too much certainty of continued employment to your retirement target date. The fortunes of employers, health and circumstances alter actual retirement dates for many people. Be conservative with assumptions in forecasting investment returns and future personal earnings. It is more pleasant to reach retirement with more resources than expected, rather than face a reduced standard of living or unanticipated need for employment.

Emergency Funds

Your planning should include funds for emergencies and opportunities. Generally, planners recommend maintaining a reserve of three to six months of income. Your personal circumstances and judgment on the time required to replace employment may increase the amount needed. These safety funds should be available and therefore invested in readily marketable investments of low risk.

Write Key Elements & Review

Record your assumptions, estimates and judgments. You will

develop a basis for deciding between spending versus investing.

If your situation is complex and requires investment analysis, hiring an objective, professional financial advisor to help organize, analyze and chart your course for future financial success makes sense.

Take time every year to evaluate how you are doing compared to your plan. It's like an annual medical checkup and can be quite comforting – or, if you discover that things aren't going as planned, it enables you to make needed adjustments.

Much satisfaction is derived from methodically working toward your goals. It's never too late to start!

Stephen H. Franklin is a financial consultant with Roof Advisory Group, Inc., an independent investment management and financial planning firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that manages assets and preserves wealth for individuals & institutional clientele. Contact them at 260-9281 or by e-mail at roofadvisory@earthlink.net.