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### Get money advice online

For more information you can trust on banking, credit, insurance, personal finance, and related topics, go to:

**ConsumerReports.org**

## Tune up your finances for a wealthier, happier 2014

Once the hectic holidays are over you can sit back and figure out how 2013 left you off financially and make any necessary adjustments.

Whether you're retired and living on a fixed income, in the midst of a busy career, or just starting out, a few days of financial housekeeping at the start of the year can help you save money, get the most out of your investments, and avoid the mistakes of the past. Here are some areas to concentrate on that can lead to a more prosperous 2014 and beyond.

### Update your budget

A properly organized and managed budget can help you avoid getting into debt and achieve your financial goals, whether it's a well-funded savings or retirement account, a college savings plan, an emergency fund, or anything else. As long as you're within your spending limits, you can splurge on extra goodies without having to feel guilty. And despite what you may think, budgeting doesn't have to be complicated (see page 5).

As you review your spending to create your budget goals, figure out where you can save on regular expenses. Do you really need 500 cable channels? Are you even using all of those additional cell-phone minutes? Go to the websites of the companies you do business with and their competitors, and look for less-expensive options. Call customer service to try to negotiate better deals on ongoing services.

### Create your home inventory

Got a new television or digital camera as a holiday gift? Now is the time to update (or create) your home inventory for insurance purposes.

If you don't already have an inventory, you can use a simple spreadsheet or table from Microsoft

Excel or Word, or similar applications in the free Apache OpenOffice suite ([openoffice.org](http://openoffice.org)). Place the file in a folder where you've put photos or videos of the covered items or rooms. Keep an up-to-date backup of the folder, including one in a location away from your home. Another option is to use the free inventory service Know Your Stuff from the Insurance Information Institute ([knowyourstuff.org](http://knowyourstuff.org)).

### Adjust your insurance

Now that you've updated your inventory, check your homeowners insurance coverage. Do you need to increase it or perhaps add a rider to cover new valuables, such as fine jewelry or artwork? Have circumstances changed that would make you eligible for discounts? For instance, did you install an alarm system?

The same goes for your auto coverage. Are you or your spouse now driving fewer miles? Is your teen driver getting straight A's in school?

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## Tune up your finances

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Letting your insurer know about either could result in a reduction in your premiums. And ask about other discounts.

Also, has your car aged to a point where you can drop collision coverage? We generally recommend doing so when the annual premium exceeds 10 percent of your car's value. Separately evaluate comprehensive, which protects your vehicle against non-collision damage and damage caused by an impact with an animal. It's typically less costly than collision coverage, so it might be worth keeping.

### Check your credit standing

You're entitled to a free copy of your credit report from each of the three major credit bureaus every 12 months from [annualcreditreport.com](http://annualcreditreport.com). A smart trick is to order one report every four months, starting in January. If you find an error, immediately dispute it with the credit bureau and check your other reports, too. If your reports are error-free and you handle credit responsibly, your credit score will take care of itself, so there's no need to buy it.

### Re-evaluate your investments

A solid investment strategy shouldn't require an overhaul, but it might need some tweaking. If you have a financial adviser, make an appointment. If you need one, get recommendations from friends and relatives, or go to the National Association of Personal Financial Advisors website ([napfa.org](http://napfa.org)). If you're handling your own investments, examine the big picture, perhaps by listing all of your holdings and their value.

Have there been changes in your life that affect how you should position your port-



For the new year, resolve to create a simple budget of monthly income and spending goals and actual expenditures.

folio? For example, if you're retired (or your spouse is) or one of you will be retiring soon, verify that you're not overexposed to risk. Also look at changes in market conditions. With interest rates poised to head up, it might be time to take a new look at certificates of deposit and savings accounts. While you're at it, compare your bank's rates and fees with the competition (one good resource is [Bankrate.com](http://Bankrate.com)). It may be time for a change.

Even if there's no need to change your investment strategy, you might need to rebalance your portfolio to restore your planned mix of stocks, bonds, and other investments. For example, with stock values up 30 percent in the past year as bonds have fallen, the proportion of your stock holdings may now be higher than you planned, while your bond holdings may be lower.

### Examine your financial systems

Have you inadvertently overdrawn your checking account during the past 12 months? Have you forgotten to pay a bill or two? Are you letting checks pile up on your desk until you get a chance to cash

them? Now is the time to review your financial systems to figure out what works and what doesn't.

**Direct deposit.** If you're eligible for direct deposit but aren't taking advantage of it, now is a good time to sign up. With many financial accounts, regular direct deposits can help you reduce bank fees. Some employers let you split your direct deposit into more than one account, such as savings and checking, or into separate checking accounts.

**Automatic payments.** You can avoid writing checks, paying late fees, and enduring dings to your credit score by having companies you routinely owe money to withdraw the amount from your checking account or bill your credit card directly.

If you've already done this successfully for some payments, find out whether you can do it for more. Conversely, if automatic bill payments have gotten you into trouble—perhaps by overdrawing your checking account—decide whether it's a good option for you.

One trick to avoid overdrafts is to enter the amount of the bill into your check register when you receive the statement, instead of when the amount is withdrawn. That way, you won't mistakenly spend the amount needed for the payment. Remember, automatic bill payments don't relieve you of your responsibility to check your billing statements and immediately report an error.

**Alerts.** Another way to avoid overdrawing your accounts is to have your financial institution send e-mail alerts. You can set them up to be sent when your credit-card or checking account balance reaches a certain level, for example, or when there's a deposit or debit to your checking account. Adjust your existing alerts based on how useful they've been over the past year. Check whether your financial institution has added more options for alerts.

**Other reminders.** Missed the deadline for those quarterly tax payments last year or for paying back that no-interest loan you got when you bought that new dining room set? How about the one for submitting those rebate forms? Set up or revise your own

#### Brokerage services

We investigated what financial-services firms were really providing to their customers. Find out more at [ConsumerReports.org/cro/broker0114](http://ConsumerReports.org/cro/broker0114).



reminders using computer- or smart-phone software such as Microsoft Outlook or Web-based apps such as Google calendar.

**Record keeping.** When it comes to keeping receipts, warranties, bank statements, and other important paperwork, think back to what did and didn't work in 2013. Maybe you need to replace your file cabinet with an electronic one. Or maybe you simply need to resolve to not let paperwork accumulate, and instead set aside a couple of hours or so every month to squirrel away things so that you can find them later on without causing an avalanche.

You've probably adjusted your system for keeping tax records after filing your 2012 taxes back in April. If not, now is the time to buy a couple of accordion folders or a computer scanner.

Also weed out documents that you no longer need. Have you been hoarding six previous versions of your will? Are you still keeping warranties for products like the television you discarded years ago?

Review the contents of any safe-deposit boxes. Toss whatever you no longer need. Among documents that shouldn't be in one are wills and other items that your loved ones will need if you're incapacitated or die.

**Reduce paper.** More companies are offering to send billing and account statements electronically or make them available online. That may be an option if you're overwhelmed by clutter.

On the other hand, if you have already signed up for electronic statements but find that you're leaving them sitting in your inbox unread or you're not logging in

to view them, consider going back to good old paper. But find out first whether you will have to pay a fee to get those paper statements. **\$**



## A simplified budget

If you've found keeping a budget exasperating, you might be making it too complicated. Having separate categories to track everything you spend, such as groceries, restaurant meals, pet food, and toiletries, sounds nice but can be frustrating. You'll see why when you try to figure out where all of those items you bought during that trip to Walmart fit into your budget.

Create a budget that's simple enough for you to keep up with. If you want to use an online budgeting service or software to track how much you're spending on coffee and hair-care products, fine. But simple works, too. All you really need is computer spreadsheet program. Even a basic budget needs two sections: Monthly income and spending goals, and a section to enter the actual monthly expenditures as the year progresses, so you can see how well you're doing.

- **Start by estimating your income.** If your employer is withholding taxes, retirement-fund contributions, health care payments, and other pretax deductions, it's easiest to enter the net amount. Add any other sources of income, such as government benefits. Don't add interest or gains from your investments or savings unless you plan to use that income as part of your regular expenses.

- **Now plan your spending.** Instead of setting up lots of categories, try this:

Recurring costs: Set separate goals for all of those recurring items, such as your mortgage or rent, electricity, heat, cable, a child's allowance, gasoline, loan payments, and so on.

Nonrecurring, nondiscretionary costs: Set another goal for unexpected, nondiscretionary spending, such as minor car or home repairs. Consider using a separate credit card solely for those purposes so that you can easily track the monthly total.

- **Everyday spending.** Set a single goal for all of those expenses that you and your family can either avoid or curtail if necessary. Again, use one or more credit cards to track them. For cash, consider creating a separate checking account that you fund each month with a fixed amount, say \$500 plus an "untouchable" base amount to avoid checking fees, and use that for your debit card, miscellaneous checks, and pocket cash withdrawals. The difference between the \$500 at the beginning of the month and what's left over at the end goes into the "cash" category.

- **What's left.** Subtract the total projected spending from your total projected income. Whatever is left goes to savings and investments, an emergency fund, and special accounts. Or you might increase contributions to your pretax retirement fund, for example. If there's nothing remaining or a negative number (or if you develop a shortfall during the year), figure out how to increase your income, reduce your spending, or both. Are there ways to cut those recurring charges? Can you cut everyday spending by 10 percent? If that's not enough, look at other cuts, such as reducing contributions to your retirement fund or college savings plan.

- **Major purchases.** Planning a trip to Europe? Replacing the roof on your home? Such large expenditures don't belong in your monthly operating budget because they can easily wipe it out. That spending should come out of your savings or emergency fund, or from an account set up for a particular purpose, such as replacing your car.

If you're financing part of the purchase, take any significant down payment out of savings and include the monthly payments in your regular budget.

