

PERSONAL FINANCE JANUARY 25, 2017 11:01 AM

# Prepare your financial 'state of the union' assessment



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The beginning of the year is a great time for a financial “state of the union” assessment, especially if you are young or just starting to manage your finances. It may be time to put that raise to work, make changes to investments, or begin a new savings plan or debt-payoff plan.

## **Create a personal financial statement**

Creating a personal financial statement, or net worth statement, is a good starting point. This statement will list everything you own and everything you owe.

The personal financial statement should be categorized by type of asset and debt. Separate bank accounts, investment accounts and use-assets such as your home and vehicles.

Also separate debts into categories such as long-term debts like your mortgage, shorter-term debts like auto loans and revolving debts such as credit cards. Is your net worth positive?

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A personal financial statement will allow you to analyze your level of liquidity. Do you have adequate cash for emergencies? Do you have cash on hand to pay for any planned vacations or non-recurring expenses for the year such as home repairs? If the answer is “No,” you may find yourself adding to credit card balances and paying for these expenses over several years with high-interest costs.

## Review 2016 and set goals for 2017

Review last year's personal financial statement alongside this year's statement.

Are you making progress? If not, where can you improve? Review last year's goals and see how many of them you accomplished or at least made progress with. Set goals for the new year.

It's a good idea to have six months of savings in an emergency fund in the event you lose your job or have a health emergency. If you have credit card debt, create a plan to pay it off monthly, beginning with the smallest balance or the card with the highest interest rate.

Should you begin contributing to your company 401K plan? Many employer retirement plans will provide a match to your contribution. A matching contribution is the best investment you can have; the return is immediate and risk free.

Determine if you are eligible for an IRA or Roth IRA contribution. Each of these will offer a tax break while providing retirement savings later.

If you have children who will attend college, consider a tax-favored 529 savings plan for education expenses. The earlier you begin saving for an expense down the road, the easier it will be to afford it later.

Determine if your health insurance plan qualifies for a Health Savings Account. HSA accounts are typically tax-deductible when you deposit and tax-free when you withdraw.

## Beginning of year check-up

The beginning of the year is a great time to review your investments and rebalance your portfolio if necessary. Over time, stocks should outperform bonds so an investment allocation left unchecked could become too risky.

Also determine if your investment allocation is consistent with your age, objectives and tolerance for risk. A 401K or other work retirement plan is the largest asset many people own. While it's great to systematically make deposits into these plans, you should always know how you are invested and why.

Check credit reports on an annual basis. Each of the three major credit reporting agencies is required to provide a credit report for free each year. Make sure you understand your credit report and reconcile any discrepancies with the creditor and reporting agency.

The beginning of the year is a good time to review your tax withholding at work. Are you receiving a large refund or making a large payment with penalties when you file your taxes in April? If so, your withholding may need to be adjusted.

The new year is a good time to review insurance coverages including life, health, disability, and property and casualty. A pay raise at work or the birth of a child may require additional life or disability insurance coverage. Review your policies to ensure you are adequately covered for risks such as liability.

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*If you would like members of the Financial Planning Association of Greater Kansas City to address a general financial planning topic or answer your question on this blog, please contact at [brandy@fpakc.org](mailto:brandy@fpakc.org). Provide your first name, your age and hometown.*



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