

FINANCIAL FEATURE



Moves to Make Before Year's End

{By Peter Eickelberg}

For many people, the end of the year represents a hectic time, so probably the last thing you want to do is add to an already full plate. But building the following financial moves into your fourth-quarter routine can really pay off over the long run and give you greater peace of mind for the coming year.

First, get a head start on organizing your financial records. This could involve downloading online account statements, making sure your financial management software is up to date, and gathering all personal income records into one place. I like to stash pay stubs, receipts for tax-deductible payments, and any IRS forms I receive during the year in a single file drawer. Then, when tax time comes, I don't have to go searching for the information. December is a great time to get a general idea of how much tax you will have to pay in April. If you have a refund coming, you'll want to file early so you can use the money. If you owe, maybe you can make an extra deductible contribution before January. It's best to take a two-year view of your taxes, however, so that you can choose the best year for deductions.

Review your taxable investment accounts for gains or losses. If you have losses, you can take advantage of the government's "subsidy" by selling the losers and reducing capital gains for the year. Any remaining net losses can reduce taxable income by up to \$3,000. But be careful: you must wait 30 days after the sale to buy back the same or "substantially identical" security if you want to take a loss for that year.

When deciding what to sell, take a look at your overall asset allocation and use this

opportunity to rebalance your portfolio. If you don't yet have a plan, you can take advantage of the many free tools on the internet to build a sensible allocation.

Find out how much you can still contribute to your retirement plan. You may have time to increase your salary deductions in order to make up for any shortfall below the maximum. If you can contribute, it is generally more efficient to use incoming cash to rebalance your portfolio when you don't have losses to harvest in taxable accounts.

If you have reached age 70 ½, the IRS requires you to begin withdrawing funds from your traditional IRA and qualified retirement plans. You get until April 1 of the following year the first time, but all future withdrawals must be made by December 31. If you need to sell something to generate cash, be sure to place a trade several days before the year is up to avoid missing your deadline and incurring a 50% penalty.

Pay special attention to your liquid cash reserves. Make sure you have three to six months' living expenses set aside in savings, or if you don't, begin building your reserves by watching holiday spending, avoiding consumer debt, and even revising your lifestyle. When your car's transmission suddenly goes out and you can pay cash for

the repairs, you will thank yourself. If cash reserves look solid, you can begin setting aside next year's IRA contribution so you are ready to invest at the turn of the year.

Go over expenses for the past year and anticipate your future monthly spending. The better a handle you have on your spending habits, the better you can plan your saving and make needed changes. I get a receipt for every purchase during the year, categorize my expenses in a monthly spreadsheet, and then observe how much goes to each category. Many years ago, I noticed I was spending a lot on coffee at cafes, so I started brewing it at home to save money.

Make a list of all revolving consumer debt balances you carry. Consider making more than the minimum payments to reduce the amount subject to interest. Ask the lender for a lower rate if you have been paying on time. Order your free credit report and review it for errors and open accounts you no longer need.

Review your insurance coverage and make sure you have adequate life, health, disability, long term care, and homeowner insurance, all of which can help protect you from a financial calamity. Look over your estate planning documents (wills and trusts, etc.) to make sure they reflect your current wishes and desires. And review your financial

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plan and see if any changes need to be made based on changes in your circumstances.

Finally, calculate your net worth to see if your wealth has been increasing. If it has, reward yourself for a job well done.

About the Author

Peter Eickelberg is an investment advisor at Keats, Connelly and Associates, a Phoenix-based, fee-only financial planning firm specializing in managing the complexities of accumulated wealth and U.S./Canadian

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