

StrategicPoint of View[®]

TEN CRITICAL STEPS TO **FINANCIAL HEALTH**

“Without your health, you have nothing.” the saying goes. But should “health” only apply to physical aches and pains? What about your financial health? Good financial health ranks alongside physical well-being and strong personal relationships as part of life’s critical needs. Poor financial health can devastate a family and jeopardize physical health, while good financial health provides the means to pursue life’s goals.

Are you financially healthy? If you are like most people, you probably don’t know and don’t know how to determine whether you are healthy or not. You muddle along, unsure if you can do better. However, a simple check-up is all you need to determine if you are on the right track, and, more importantly, if you have done all you can to provide for your financial goals and your loved ones.

To help you, we have created the *Ten Critical Steps to Financial Health*. All you have to do is take the

following test to determine whether you have a clean bill of health or if you could benefit from a Financial Check-Up, designed to give you strategies to restore and preserve your financial health. We have assigned points to each step to help quantify the results.

The Ten Critical Steps to Financial Health:

STEP 1:

Pay down all consumer debt.

Many Americans have assumed more debt than they ever intended. Low interest rates combined with rising costs of education and health care have created a mountain of burgeoning debt. While some debt can be good (liabilities tied to income tax deductions, like a mortgage), much of the debt racked up by consumers has been “bad debt” — credit cards, car loans, personal loans. Bad debt has no tax advantages and carries substantial costs in the form of high interest rates. In the long run, debt jeopardizes lifestyle choices. Individuals with consumer debt should pay off their balances and resist the urge to rebuild the debt load.

- Monthly debt payments (excluding mortgage) < 10% of take home pay = 2 POINTS**
- Monthly debt payments (excluding mortgage) 10-20% of take home pay = 1 POINT**

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- Monthly debt payments (excluding mortgage) 20% or more of take home pay = 0 POINTS

One caveat: no more than 40% of your take home pay should go towards paying all debt, including mortgages and home equity lines of credit. During the recent housing boom, when housing prices were skyrocketing, it was not uncommon for homeowners to assume large amounts of debt in order to be able to afford their dream house. If your total debt is more than 40% of your take home pay, subtract one point.

STEP 2:
Establish an emergency reserve fund.

Everyone needs to set aside three to six months of liquid reserves (cash, savings, CD's) to protect against unforeseen events. An emergency reserve helps to avoid dipping into retirement savings or accumulating unwanted debt when disaster strikes.

- Six month reserve = 2 POINTS
- Three to five month reserve = 1 POINT
- Less than three months reserve = 0 POINTS

STEP 3:
Let Uncle Sam help you — utilize tax strategies to reduce your tax liability.

Everyone hates taxes but few take full advantage of the deductions that can reduce tax liabilities. Itemizing deductions, maximizing retirement account contributions, taking advantage of expense and depreciation deductions for rental real estate property and investing in tax exempt securities are just some of the risk-free ways to improve your bottom line.

- Have taken full advantage of tax-reducing strategies = 2 POINTS
- Take advantage of some tax strategies = 1 POINT

- Unsure of tax strategies and if maximizing their use = 0 POINTS

STEP 4:
Purchase sufficient life insurance to replace income, pay off debt, cover education expenses and provide ample retirement funds for survivors.

Life insurance allows survivors to maintain their current lifestyles and to meet their remaining financial goals, like retirement or education funding. The first step in this process is to determine your need. It is not unusual for people to underestimate the amount of insurance they require. The amount of life insurance coverage also affects pension decisions, because those nearing retirement may have more payout options if sufficient life insurance is in place.

Having the right kind of insurance is also important. Level term life insurance often can offer an affordable choice of coverage for many people. Permanent insurance, a much more expensive alternative, should be reserved for estate planning and other special planning issues.

- Have sufficient life insurance coverage = 2 POINTS
- Have life insurance but am unsure if I am getting the greatest coverage at the most affordable price = 1 POINT
- Don't know how much life insurance is needed = 0 POINTS

STEP 5:
Check for adequate disability insurance coverage.

People are much more likely to become disabled than to die during their working years, but many do

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not carry sufficient disability insurance. Disability insurance provides income that replaces the earnings of an injured or ill person. A good disability policy will pay at least 70% of after-tax income and last until retirement, using a strict definition of the job the insured can no longer perform.

- Have adequate disability coverage = 2 POINTS
- Have some, but not adequate disability coverage = 1 POINT
- Don't have or don't know if have sufficient disability coverage = 0 POINTS
- Retired and no longer need disability coverage = 2 POINTS

STEP 6:
Investigate the need for long term care insurance and purchase a policy that is both affordable and reflective of your individual circumstances.

If you have experienced long term care issues with a parent or loved one, you know that it can be an agonizing and expensive process. Long term care insurance protects your portfolio and ensures a healthy spouse or dependent will not run out of money, should illness strike. After age 50, individuals should review their need for long term care coverage. Long term care insurance policies include a number of provisions that are negotiable—amount of daily benefit, years of coverage, months of self insurance before benefits are payable, and inflation coverage—to name a few. Select a policy that provides the benefits you need at the most affordable price.

- Have reviewed my long term care needs and purchased Long Term Care Insurance with maximum affordable coverage = 2 POINTS
- Determined I do not need Long Term Care Insurance, or I have developed a legitimate

long term care plan that will ensure my needs are met = 2 POINTS

- Am over age 50 and have not reviewed my long term care needs or possible insurance = 0 POINTS

STEP 7:
Plan for retirement: determine how much you need to save in order to reach your retirement goals and establish a funding plan that will allow you to meet those goals.

Retirement is closer than you think. In order to retire when you want and in the style you desire, planning needs to begin early. The first step is to estimate the income you will need in retirement. The second step is to determine the level of savings required to meet that income need. And the third step is to choose the investment vehicles that will maximize your savings plan.

If you are already retired, planning does not end. In order to ensure that you do not outlive your investments, retirees need to periodically review, and potentially adjust, their level of spending in relation to the balance in their accounts.

- Have determined my retirement goals and established a plan to meet those goals = 2 POINTS
- Am saving regularly but am unsure if I am saving enough = 1 POINT
- Have no idea how much I will need in retirement and/or if I am saving enough = 0 POINTS
- Am already retired and have sufficient assets to meet my needs = 2 POINTS
- Am retired but am unsure how long my investments will last = 0 POINTS

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STEP 8:

Update (establish) wills, powers of attorney and health care proxies and check for proper beneficiary designations on all accounts that require them.

Wills allow you to direct your assets according to your wishes and provide for guardianship of children. Powers of attorney and health care proxies protect your interests if you are unable to manage your affairs. It is extremely important that these documents be kept up to date, especially as tax laws change. In addition, many assets (such as IRAs, retirement plans, annuities, life insurance and some real estate) pass to beneficiaries outside of the directions of the will. Ownership of these assets as well as beneficiary designations should be reviewed frequently.

- Have updated all my estate documents and have ensured that beneficiary designations are current = 2 POINTS
- Have all the necessary estate planning documents but haven't reviewed them, or my beneficiaries, in the last few years = 1 POINT
- Do not have all the necessary documents or desired beneficiary designations = 0 POINTS

STEP 9:

Take advantage of the tax-advantaged savings plans for college funding.

Current federal law permits tax-free savings for college education through Section 529 College Savings Plans. As with retirement, there are three steps to college funding. Determine the amount of education funding you wish to provide. Determine a savings plan that would allow you to meet the education funding goal. Select an appropriate 529 plan. Be mindful that 529s can affect financial aid eligibility, although substantially less than assets held in a student's name or through custodial accounts.

- Have established an education funding plan and am investing accordingly = 2 POINTS
- Have saved for my child(ren)'s education, but am unsure if I am saving enough = 1 POINT
- Have no idea how much I need to save and/or if I have chosen the right vehicle or amount for saving = 0 POINTS

STEP 10:

Invest according to your risk tolerance.

Risk is the chance of a different outcome than the one desired. With investing, risk is often associated with the chance of loss. The first rule of investing is to understand your risk tolerance and buy only those investments that fit within your risk tolerance limits.

- Have measured my risk tolerance and am invested accordingly = 2 points
- Am unsure of my risk tolerance and whether or not my investments are too risky = 0 points

You know the score! Add up your points.

20 Points:

Congratulations! You have taken charge of your finances and been given a clean bill of health. Review all of your financial planning strategies periodically to ensure that your goals continue to be met.

16-19 points:

You are on the right track, but could use some help in a few planning areas.

0-14 points:

Time to get yourself to the financial doctor — pronto! Ignoring your financial health any longer could jeopardize your future lifestyle and the financial goals you have set for yourself.

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Anyone with less than 20 points should consider a financial check-up. A check-up will provide you with an action plan, designed to restore and preserve your financial health, whether your needs relate to estate planning, insurance coverage, tax strategies, retirement planning or college funding. Ask your advisor to give you a financial check-up. Or call 1-800-597-5974 for the StrategicPoint Financial Check-Up.

Questions about this article:

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