A New Year time for a financial check-up

It's a good idea to review your finances at least once a year, to check how well you are managing your money and whether you're moving smoothly towards your financial goals. The New Year – when we may be thinking of fresh beginnings and new year's resolutions – is the perfect time to do this.

One way of checking your financial health is to use a financial checklist. It will help you identify any specific areas you might want to focus on in the immediate future, including the following.

Home loan review

Revisiting your progress is a good place to start. Can you increase your payments or frequency of payments to save interest? Fortnightly, rather than monthly, payments effectively add a thirteenth monthly payment each year and can make a big difference to both the total interest paid and term of your loan. If your loan has a redraw facility, you can still have access to your extra payments in an emergency.

Are you still happy with the conditions of your loan? The simplest loan may be the cheapest, and there's no point in paying for extra features if you don't use them. Is it a good time to consider a fixed interest rate for all or part of your loan?

Credit cards and other debts

Have you worked out how much you are paying each month for hire purchase, personal loans, credit card and other debts? If the total of all your loans is more than 10% of your household income, you probably need to put a plan in place to reduce them.

Set yourself an achievable goal – say, paying off all debt over a period of two or three years – and work out what you can pay each month to clear your debt. It's important not to add to your debt by taking out new loans or continuing to use your credit cards.

If you're thinking of consolidating several loans into a single one, look at the conditions of the new loan carefully to make sure you will be better off. Be wary of adding debts to your home loan, unless you plan to increase repayments to clear the debts as soon as possible – otherwise you might find yourself paying off last year's holiday over a period of twenty years!

Insurance – protection for you and your family

Accidents and illness can strike at any time, and people can find themselves insufficiently protected. Review your insurance policies regularly so you can be certain that you and your family have enough cover. Consider how the family would cope with mortgage repayments and other living costs on just one income – or no regular income. Life insurance, and accident and sickness insurance can give peace of mind and security if the unexpected happens.

Perspective

Are your home and contents fully insured? Many people under-insure – in other words, cover only a fraction of the cost of replacing their home and household goods. Insuring for only a fraction of the value means you will get only a fraction of what you need in the event of a claim.

Superannuation and saving for retirement

How much have you saved towards retirement? The latest annual statement or benefit statement from your superannuation fund will show you how you're going.

It is estimated that, in retirement, you will need at least 60% of your current income to maintain your current lifestyle.* As a rough guide, that means you will need savings of around 14 times your annual retirement income by the time you reach 65.**

When it comes to super, the one thing nearly everyone agrees on is that your compulsory employer contributions probably won't be enough to pay for a comfortable retirement. Saving even a little extra can make a big difference to the amount you'll get on retirement. And the longer you can make those additional contributions, the more time compound interest has to work for you.

One of the big benefits of saving within superannuation is that, for most people, contributions are taxed at a lower rate than their income or any other investments, so super is a tax-effective way to save for retirement. New rules introduced over the past few years have been designed to encourage people to put more money into super, so you might want to take advantage of co-contributions or spouse contributions, for instance.

Since 1 July 2005, there have been some significant changes in superannuation legislation. Many members of superannuation funds now have the ability to choose where their employment related contributions are made. When was the last time you reviewed your super position to see if you were on track for your retirement?

Annual savings

Savings are essential for emergencies, but they can also be the secret to meeting your financial goals. How much money did you save this year?

If you're finding there's nothing left to save at the end of the month, put your savings aside on pay day, before you meet any of the other demands on your pay packet. That's often called 'paying yourself first', and it puts the priority in the right place – meeting your goals. It's a good idea to allocate up to 10% of your income to a regular savings plan. Take advantage of any direct deposit facility that your employer offers so that the money is safely stashed away before you are tempted to spend it.

As with super, the trick is to get into the savings habit early. Even if you start with just a small amount, regular saving over a long period allows your savings to grow with the benefit of compound interest. As your savings accumulate, spread them across a variety of investments to achieve higher earnings rates and capital growth. Think beyond the bank account and term deposit to managed funds. Many managed funds have savings plans that allow you to invest small amounts regularly after an initial investment of, say, $5,000. Diversifying your savings and investments gives you some protection against the ups and downs of investment markets.

Your will

Everyone has heard about how important it is to make a will and keep it up to date. Making a will itself is not difficult, nor should it be expensive. It is a fact of life that people get divorced, form new relationships, change old relationships and establish new interests. Any of these can result in a will being challenged through the legal system, creating long-term resentment and delay in finalising the estate. The only way to ensure that your property goes to the people you choose is to have a valid will. Review both general estate planning matters and your will regularly.

Five tips for financial well-being

1. Work out your financial goals for the short, medium and long term, and decide how you will reach them.
2. Work out a budget to manage your money and control spending.
3. Put in place a regular savings plan so you can reach your goals.
4. Clear your debts, paying off the loan with the highest interest rate first.
5. Shop around for the deal that best suits your needs, whether it's interest rates or bank fees.

So – start today. Those other New Year's resolutions might become much more achievable! And remember, your financial adviser can help you develop strategies for meeting your financial goals.

Sources
* ASFA Calculator – Assumptions, Planning your future – ASFA Super Smart Planner, viewed 28 November 2005, http://www.superannuation.asn.au/calculator/rpm.cfm?page=assumptions
** ASIC, Your money, November 2005, p 38