Instead of hauling out those familiar New Year’s resolutions about eating less and exercising more, how about focusing on something that’s also very good for you in the long run – and even sooner? We’re talking about your financial plan – your fiscal health, if you will. The approach of 2012 is a great time to review your plan and make whatever revisions might be indicated. With that in mind, here are 12 suggested resolutions that, if followed, will go a long ways toward helping to ensure that your later years will be financially secure.
You can’t realistically expect to reach a goal without knowing where you’re starting from. Using 12/31/11 as the effective date, update your personal balance sheet (assets versus liabilities, broadly speaking). You should already have – or develop if you don’t – an idea of what you’re going to need to reach important financial goals. If you’re already retired, you also need to know if the income you receive from Social Security, pensions, retirement plan assets or other sources is still going to support your current lifestyle. Either way, you’ve got to have a scorecard. Everything else really proceeds from this, so take the time to bring all these numbers up to date.

How close did you come to what you had planned to spend last year? Where did you go off-track and what can you do about that? Has something fundamental changed in your life that affected your expenses, and is that a one-time item or an ongoing cost? Where can you trim expenses? Although some budget items are fixed, a sharp pencil can produce significant savings on other costs. Some businesses engage in a process called zero-based budgeting in which every anticipated expense must be justified again every year (at the personal level, this approach is sometime called zero-sum budgeting). In other words, the $2,500 you spent last year on travel would have nothing to do with what you budget for travel this year. Instead, you start with what you realistically expect to have as income, then assign those dollars to your various expense categories, while also maintaining flexibility to account for cost areas such as healthcare that can’t be pinned down precisely.

Account titling often occurs haphazardly – an individual opens a bank or brokerage account, meets Mr. or Miss Right, they live together or get married and … down the line there’s a problem. If one partner dies and that bank or brokerage account is still titled only in the original holder’s name, those assets can’t be readily accessed by the survivor. The solution may be as straightforward as changing to joint accounts, but it’s not always that simple. In fact, titling has implications across a wide range of estate planning issues, as well as other situations such as Medicaid eligibility, special needs qualifications, and borrowing power, to mention just a few. Account titling is more than just using the right form – it can also be a tool for estate planning. Review your account titling and determine if that’s still the arrangement you want.

Everyone should have a certain amount of their assets set aside in cash
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<td><strong>Designate and update your beneficiaries</strong></td>
<td><strong>Evaluate your cash holdings</strong></td>
<td><strong>Revisit your portfolio’s asset allocation</strong></td>
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If you don’t correctly document and update your beneficiary designations, who gets what may be determined not according to your wishes, but by federal or state law, or by the default plan document used in your retirement accounts. When did you last update your beneficiary designations? Has something changed in your life (divorce, remarriage, births, deaths) that necessitates changing your beneficiaries? You should update your beneficiaries on anything that affects your heirs (wills, life insurance, annuities, IRAs, 401(k)s, qualified plans ... the list goes on). If you’ve designated a trust as a beneficiary, has anything changed in the tax laws regarding trusts that could affect your heirs? Have you provided for the possibility that your primary beneficiary may die before you? Have you provided for the simultaneous death of you and your spouse? You need a good estate planner to walk you through the various scenarios.

Everyone should have a certain amount of their assets — six or more months of living expenses is a common rule of thumb — set aside in cash accounts that can be quickly and easily accessed. Think about where your cash reserves are located, bearing in mind that only member banks of the Federal Deposit Insurance Corp. can offer FDIC insurance, and only up to a maximum of $250,000 per account. However, the FDIC provides separate insurance coverage for funds depositors may have in different ownership categories. This means that a bank customer who has multiple accounts may qualify for more than $250,000 in insurance coverage if the customer’s funds are deposited in different ownership categories and the requirements for each ownership category are met. Ownership categories include single, joint, certain retirement accounts, revocable and irrevocable trust accounts, employee benefit plan accounts, and certain corporate and government accounts.

Many investment professionals believe that market volatility is here to stay. If it is, are you comfortable with the level of risk in your portfolio? Risk tolerance isn’t static — it changes based on your net worth, age, income needs, financial goals and various other considerations. The events of the past few years have made many investors more risk-averse. That’s certainly understandable, but it may be that you need to — very carefully — take on somewhat more risk to make up for declines in your portfolio value. It may be that the market’s gyrations have made you determined to lower your risk level. It also may be that your current asset allocation and the resulting risk profile is just fine. But you want to make informed decisions here. Review your holdings and your overall asset allocation and make whatever adjustments are indicated.
Most retirees have several sources of income such as Social Security, pensions, retirement portfolios, rental properties, notes receivable, inheritances, etc. Every individual picture is different. Think about how secure each source is. Can you really count on that inheritance, are there likely to be vacancies in your properties that would interrupt the cash flow, are the notes receivable backed up by collateral? The point is to know which income sources are reliable and which are less certain, and how much of your total income each category represents. If too much of your retirement income is from sources you consider less than solid, it may be time to reposition your assets.

If you’re not yet retired, you need to go online and establish an account with the Social Security Administration – the SSA isn’t going to be sending individual statements of accrued benefits in the mail anymore. Review your statement, and be sure all your earnings over the years have been recorded. Use the SSA’s online calculator to compute your benefits at various retirement ages (it’s generally best to wait as long as possible to begin collecting). Revise your spousal plan if indicated – this won’t apply to everyone. And if you’re already retired – good news: Your benefits will increase by 3.6% in 2012 under the Cost-of-Living Adjustment (COLA) provision.

Deductions for charitable donations (and other itemized deductions) may be limited starting in 2013, so it may be wise to step up your donations in 2012. Think strategically about your contributions — donate low-basis stocks rather than cash, for example. Consider establishing a Donor-Advised Fund, which enables you to take an upfront deduction next year for contributions made over the next several years — and provides other benefits. Give, but do so with an eye toward reducing your tax liability.

There is no assurance that any investment strategy will be successful. Investing involves risk and investors may incur a profit or a loss. Asset allocation and diversification do not ensure a profit or protect against a loss. Past performance is not indicative of future results.
Since we all know that many New Year’s resolutions don’t survive that long, add one more to make this a baker’s dozen. **Resolve to really follow through on these** – and give yourself permission to spend a day lazing around watching movies and eating ice cream when you’re done! Just one day, though.