Six Steps For Financial Spring Cleaning

When I was a kid, the first weekend of spring was typically spent shopping for white Easter shoes and an appropriate spring coat. (I remember a particularly fabulous pastel plaid cape with a white faux-fur collar when I was about eight.)

In recent years, my rites of spring have involved a similar shopping excursion for my kids; blowing dead leaves out of the bushes; and the ritual changeover from winter to spring clothing -- a daylong bacchanal of laundry and storage that's about as much fun as doing taxes.

Happy Financial New Year

If April 17 marks the official end of fiscal year 2006, then April 18 is a kind of financial New Year's. As you celebrate the arrival of spring, consider a financial spring cleaning to put yourself on solid ground for a new fiscal year. Six ideas to consider:

1. Calculate your net worth.

Net worth is a strong barometer of your overall financial progress. Revisit your personal balance sheet to see where you stand, and help refine money goals for the coming year.

First, total the sum of your assets -- cash, checking and savings accounts, stocks, bonds, mutual funds, retirement savings, life insurance policies that have accumulated cash value, and so on. Add to this the value of your personal property, including your house, investment real estate, car and other possessions. (Imagine you've decided to sail around the world and sell everything you own on eBay.)

Next, determine your liabilities: Credit card debt, student or auto loans, mortgage -- any money that you owe. Now subtract the latter from the former: That's your net worth.

This simple spring check-up provides an early-warning system. For instance, a negative or declining net worth should make you consider whether you've taken on more debt than you can handle.

Obviously, your net worth should increase by a greater annual percentage in your younger years versus your 40s or 50s. For instance, say your net worth is $1,000 at age 20. You could easily grow it 40 percent in a year ($400) as you save and pay down debt. By contrast, if your net worth is $100,000 at age 40, to grow it 40 percent ($40,000) is a much tougher climb.

One formula suggests you multiply your age by your pre-tax household income and divide by 10. So, if you're 35 years old and earn $80,000 annually, your net worth should be 35 x 80,000 ÷ 10, or $280,000. But that's just a rule of thumb. (Consider the 35-year-old heart surgeon or lawyer with a bright earning future but a mountain of student loan debt.)

The Federal Reserve's most recent Survey of Consumer Finances found that median net worth rose 1.5 percent to $93,100 from 2001 to 2004. To compare yourself to others in your income or age group, see this Federal Reserve Bulletin.

2. Order your credit report.

An estimated 80 percent of consumers have at least some negative information on their credit reports, and one in four reports contain errors significant enough to cause consumers to be denied credit, a loan, an apartment, a mortgage, or even a job, according to a study by the Massachusetts Public Interest Research Group.

Under the Fair and Accurate Credit Transactions Act passed by Congress in 2003, consumers can order their free credit report from all three major bureaus to check for mistakes. You can request the reports by visiting AnnualCreditReport.com

www.annualcreditreport.com; by calling (877) 322-8228 ; or by sending a written request to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Although you'll receive a free report, you still have to pay a fee to get your actual credit score. Be sure to obtain these reports directly from the bureaus; don't provide personal information to any third parties who offer to get free reports for you. (You need to give the bureau your name, address, date of birth, and Social Security number to retrieve the report.) Any inaccuracies should be disputed in writing with the credit bureau immediately.

3. Adjust your withholding.

The average refund among taxpayers who have already filed their 2006 tax return is $2,578, according to the Internal Revenue Service. Lots of people celebrate when their tax return yields a big check. But it should really be taken as a sign of poor planning: Instead of earning interest on that money during the year, you gave Uncle Sam an interest-free loan.

It may be time to adjust your withholding -- the amount of money taken out of your paycheck during the year. To change your withholding, ask your employer for a new W-4 form. The reason many people get large refunds is that they don't bother to fill out the complicated worksheet on page 2 of the W-4 form. This is where you can list your mortgage interest and real estate taxes, entitling you to more personal allowances.

Similarly, to avoid a big bill next April, ask that an additional amount be taken from your paycheck. Simply take the amount you paid the IRS and divide it by the number of pay periods in the rest of this year. (Another option is to reduce the number of personal allowances on your W-4.) For more help with your W-4, check out the IRS's withholding allowance calculator.

4. Review your tax return with your spouse.

Whether you, your spouse, or your accountant is the financial guru in your life, take the opportunity after you file your taxes to go through your return together. Make sure both of you understand all of the assets in your marriage.

Both partners should maintain a careful record of the names of financial institutions and account numbers in the event of an untimely death. This is also a great time to brainstorm and collaborate on a plan to build your net worth and move closer to your financial goals.

5. Beef up your insurance records.

As you do your spring cleaning, take along your video or digital camera and document each room for insurance purposes. Create a master list of what you own and store the tape or photos at work, at a relative's home, or in a safety deposit box. Check your homeowner's policy and make sure it covers "replacement value," not "actual value," of your home, so you have enough money to rebuild if the worst happens.

6. Start planning your summer vacation.

Employed adults in the U.S. receive 14 days of vacation on average -- but a full one-third of workers don't take all of their time, according to a 2006 survey by travel web site Expedia.com. Employees leave an average of four days on the table -- a collective sacrifice of 574 million vacation days and $75 billion in pay.

The most cited reason for not taking the time off? Having to schedule the vacation time in advance, the survey found.

Do your health, relationships, and productivity a favor and invest an hour this week planning a summer holiday -- the most popular season for travelers, according to the Travel Industry Association.

Open an online savings account to pay for the trip. According to the Bureau of Labor Statistics, families spend an average of about $2,850 on vacations. Online savings accounts, linked to your existing checking account, are an ideal way to set aside the funds so you don't put your August getaway on a credit card. If you open an online account this week with $100 and throw in an additional $50 a week until August 1, you'll have saved about $1,000 toward the trip.

Credit – Laura Rowley