

7 Family Finance Tips To Consider For The New Year



Mark Avallone, CONTRIBUTOR

I help people on their path to Financial Freedom. [FULL BIO](#) ▾

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With the New Year fast approaching, many of us are thinking of goals and priorities for the coming year. Personal and family finances should be high on the list of important areas to consider. Spending just a few minutes on some key areas of your financial life can help you start 2017 on the right financial note.

Here are a 7 important items to consider:

1. Make a family budget so you understand your discretionary income. Doing a budget may not sound like fun, but it is important in helping you understand your monthly cash flow and discretionary income: the amount of money you earn after taxes, the amount you spend on essential living costs, and any “leftover” amount, which is your “discretionary income.” How much of your discretionary income you spend and how much you save may be one of the most important decisions you make in your financial life. Well-known web sites like [BudgetTracker.com](#) or [mint.com](#) make it easy to get started. As an added bonus, in doing your budget, you may identify areas where you can save and thus increase your discretionary income.

2. Review your cost of debt and keep more of your own money. If possible, find ways to reduce the cost of your debt. Consumer



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debt can be costly, and it isn't tax deductible. On the other hand, home-equity lines of credit are tax deductible and may be a lower-cost source of cash than credit card debt or auto loans. If you embark on this strategy, be sure to be very disciplined and not to use your home equity line like a piggy bank.

3. Automatically increase your 401(k) or other retirement plan contributions. Raising the percentage of your income that you defer into your qualified retirement plan can be very easy. Simply call your human resources office or go to your 401(k) plan

provider website and increase the contribution amount into your 401(k) or other retirement plan. A small and relatively painless annual increase, perhaps when you get a raise, can mean a big difference later in life. Also, check if your employer offers a way to automatically increase to your salary deferral percentage each year.

4. Consolidate retirement accounts. Americans are changing jobs more often than they have in the past, and this can result in multiple accounts and overlapping investments. It is not uncommon for someone to have several 401(k) plan accounts at former employers. Consolidating them takes time, and people often consider it a hassle or are simply confused by the process. Calling your 401(k) plan provider can help you start the process. You can consider adding these assets to your current employer's 401(k) plan or setting up a rollover IRA. Once the number of your accounts is reduced, it may be easier to make changes, coordinate your overall asset allocation, and track performance.

5. Analyze your risk tolerance and asset allocation. A new year is a good time to evaluate your portfolio to be sure it still reflects your current thinking on the markets and that it is structured in line with your goals and objectives. Be aware of potential "style drift" (a shift away from your intended asset allocation, usually as a result of market movements) and if there are areas to your portfolio that can potentially be improved upon. You may be able to complete this yourself or with the help of some online software. If not, look for a qualified financial advisor who may be able to offer his or her assessment.

6. Conduct a beneficiary review on your retirement plans, annuities, and insurance policies. The beneficiaries named in these accounts take precedent over any legal document you create. Therefore, you need to review each of these.

I recently worked on settling an estate for a client. Even though I knew this person for almost 20 years, I didn't know about an old life insurance policy. Evidently, neither did anyone else. My client's ex-wife, whom he had divorced more than 20 years earlier, was still the beneficiary on this sizable policy that paid her several hundred thousand dollars. Despite their acrimonious divorce, and even though there was no intention of enriching the ex-wife, she nevertheless received the generous insurance checks within weeks of my client's death. Worse yet, those funds increased his taxable estate, so this policy actually cost his children and other beneficiaries some money in taxes. This is a dramatic example, but it's a good reminder to verify that your beneficiaries are current and your legal documents reflect your wishes.

7. Review the adequacy of your insurance, especially if you have children. While it's great—and more fun—to be concerned about buying the latest American Girl doll or Star Wars Lego's kit, don't forget to consider buying life insurance to protect your children's future. The good news is that term life insurance can be relatively inexpensive. Remember, for two-earner families, you may want to insure both parents' incomes, as the surviving parent may want or need to spend more time with the children and work less. Insurance companies will typically offer up to 10 to 12 times annual income in coverage.

Making sure these areas of your financial plan are in proper order can help you start off the New Year feeling confident and empowered to reach your goals. If you and your family are resolving to improve your financial fitness, these 7 tips can be a great way to start.

Contributor's Bio

Mark Avallone is the author of *Countdown To Financial Freedom*, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the *Wall Street Journal* as well as in *Forbes* where he is a regular contributor. He has appeared on *CNBC* and has been a repeat guest on the *Fox Business Network*. His insights have also appeared in *USA Today*, *U.S. News & World Report*, *The Washington Post*, and other leading publications.

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