

Time for a Mid-Year Financial Checkup

Most people don't think of reviewing their finances mid year. If you are like most, you reviewed your goals and strategies in January and don't want to think about it until next year. But you might consider doing a midyear mini-review just to make certain you're still on track and to tweak a few things. Here are some places to start.

- **Taxes - Did you either receive a sizable refund or owed a chunk of money in April?**

If either one happened, now's a good time to correct that for 2005 by projecting your taxes for the year and changing how much you are having withheld from your paycheck or you're paying in estimated taxes.

A large refund suggests you're overpaying taxes during the year. That's money you could have invested or saved. To reduce the size of the refund, increase the number of allowances you claim on your W-4 form at work (or pay a little less when estimated payments are due this June, September, and January). Do the reverse if you owed money.

- **Budget - Review your household budget or spending plan.** Are you on track? Do you have a good handle now on where you are spending your money? Do some categories need adjustment? Are you saving 10 to 15 percent from each paycheck?

- **Fringe benefits - Many companies hold open enrollment in the fall for fringe benefits, so this summer is a good time to start thinking about them, especially health care.** Your employer may have changed health care plans, for example, or the existing plans may have new wrinkles, prompting you to switch plans. Perhaps your family circumstances have changed, such as the addition of a child, so a new plan is preferable.

- **Retirement accounts - Have you received a raise this year that might allow you to put more into your retirement plan at work?** For example, you can put in up to \$14,000 this year in a 401(k) or 403(b) plan, and another \$4,000 if you're age 50 or older. If a plan's not available at work, you can contribute to your individual retirement account. The IRA limit is \$4000, \$4500 if you're age 50 or older.

- **Flexible spending accounts for health care - These employer-sponsored accounts allow you to divert wages into an FSA account tax free and take money out of them tax free to pay for qualified out-of-pocket medical expenses.** They can be a very good deal for employees. The catch is that you forfeit any balance not spent by the end of the year—a deadline the U.S. Treasury has now extended from December 31 to the following March 15th.

So now's a good time to see what's left in the account to be sure you use it up by the deadline and to help you estimate how much to have withheld for next year. Remember that you can use FSA money for such things as eyeglasses and many over-the-counter drugs.

- **Investments – You may want to review your portfolio and make some tweaks to your investments.** Assuming that your portfolio had the right mix of assets at the start of the year, you may not need to make adjustments until next year. But if a portion of your portfolio has done extremely well or extremely poorly, you may want to rebalance the portfolio to bring the proper mix back in line.

Another tweak to consider is taxes. The decision to buy or sell an investment should generally be based on your needs and the economics of the investments themselves, not taxes. But say you've sold off some winners this year. Consider offsetting some of those taxable gains by selling off some losers. Or if you've sold off some losers, consider selling winners, which would offset their gains by establishing a new investment basis.

- **Charitable donations - You can wait to the end of the year to make planned donations.** I recommend collecting the requests and reviewing all of them in the fall. Perhaps appreciated securities will make the perfect donation. Charities do not pay tax so your donation will be worth more.

June 2005— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Patricia A. Konetzny, CFP® EA, a local member of the FPA. Patricia is a Certified Financial Planner® and Enrolled Agent and has been quoted for articles in the *Wall Street Journal*, *Wall Street Journal Online*, *Kiplinger's Personal Finance*, *Fidelity Investment's Stages* magazine and *E-News*, and *Investment Advisor* magazine. Most recently she was a source for the April 2005 *Parents* magazine article, "Can You Afford to Quit Work?" **If you are interested in scheduling a mid-year Financial Tune Up, please visit my website at www.practicalplanner.com. I can be reached at 978-461-4932 or pat@practicalplanner.com.**