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financial monitor

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in this issue:

Making Your Finances "Picture Perfect"

While most people find the notion of creating a budget about as appealing as yard work, like mowing the lawn and weeding the garden, most would agree that the work is well worth the effort once they've achieved picture-perfect surroundings.

Two financial "snapshots" you can take at any time to help view your financial landscape are a **balance sheet** (or **net worth statement**) and a **cash flow statement**. Along with demonstrating where you are today, these tools can also help provide a foundation for important financial comparisons in the future. Although there are software programs available to help with budgeting, it can be easy and helpful to create your own worksheets on paper.

Assessing Your Net Worth

To create a balance sheet, simply draw a line down the center of a blank piece of paper. Label one column "Assets" and the other column "Liabilities." Assets are everything you own, and liabilities are everything you owe.

You can add structure by grouping your assets into three categories: 1) cash or cash equivalents—checking and savings accounts, money market funds, and certificates of deposit (CDs); 2) investments—stocks, bonds, mutual fund accounts, and retirement accounts; and 3) personal property—your house, home furnishings, autos, boats, and other personal items.

Liabilities can be labeled as follows: 1) short-term—auto loans, most personal loans, and credit card debt; or 2) long-term—home mortgages, some home equity loans, and some educational loans.

Enter all of the relevant numbers and add up the two columns. We'll examine the outcome later.

How Fluid Is Your Cash Flow?

Next, create a cash flow statement. Draw a line down the center of a blank sheet of paper, and label one column "Cash Inflow" and the other

continued on page two

Guardianship: A Quick Look at the Issues

Selecting a guardian for your children is an extremely personal and important decision. While you certainly want to choose a trustworthy individual, you also need to choose someone who understands the serious commitment involved in guardianship.

A Look at the Issues

If the potential guardian does not have children, suddenly having children may require a significant change in lifestyle. On the other hand, those who already have children will need to integrate your children into their family. Regardless of the guardian, it is difficult to know how well children will adjust to their new family. Suppose the guardian is a friend rather than a relative. Will your family members make the situation difficult by second-guessing the decisions of the guardian?

Assuming guardianship of someone else's children is also a major financial responsibility. Too often, the respective parties avoid addressing some important financial issues, such as the following:

- Will the guardian be willing and able to assume full financial responsibility for raising your children? Will the guardian require financial provisions to be made in your will? For instance, will you designate the guardian as the beneficiary of your **life insurance policies** should both you and your spouse die?
- Is there sufficient life insurance to help pay for the cost of raising your children, including higher education expenses?
- If assets are to be placed in **trust** for the benefit of your children, how will the trust be administered? Will the guardian have a role in controlling the trust assets?

Finalizing a Commitment

Even if you have chosen a guardian, your decision is not binding until a court formally appoints the guardian. Generally, a court will not force unwilling people to serve as guardians—even if they have previously agreed and were named as guardians in the deceased parents' will.

When selecting a guardian, be sure to discuss these important issues. Everyone will be well-served by an open and honest airing of expectations. You will gain peace of mind from knowing a caring individual will raise your children in a loving, supportive environment. The guardian will better understand the financial responsibility he or she is being asked to assume. And, most importantly, your children will be cared for by a prepared and willing guardian.

making your finances "picture perfect"

continued from page one

"Cash Outflow." On the inflow side of the ledger, list monthly or yearly income from all sources, such as wages, self-employment, rental properties, and investment income (interest and dividends).

On the outflow side, list all monthly or yearly expenditures, separating fixed expenses (mortgage payments, other periodic loan payments, and insurance premiums) and variable or discretionary expenses (utilities, food, clothing, entertainment, vacations, hobbies, and personal care). You may choose to put taxes (Federal, state, FICA) in a separate category. Again, fill in the relevant numbers and total the columns.

The Results

If your balance sheet shows your assets exceeding your liabilities, you have a positive **net worth**, especially if your cash flow statement shows more inflow than outflow. This picture shows that you are solvent and spending within your means. The degree of your financial health depends on the amount of your surplus.

Your financial picture may look somewhat different if your balance sheet shows your liabilities exceeding your assets and/or your cash flow statement shows more outflow than inflow. This indicates that you are spending beyond your means. It may be time to assess areas in which you can decrease your liabilities.

Each year, strive to increase your net worth and keep your expenditures under control. If your financial picture is a little out of focus, taking action now to sharpen the view may help you create a more promising snapshot in the future.

Broaden Your Family's Life Insurance Protection

In today's fast-paced world, many families find themselves caught up in a whirlwind of activity, juggling work, family obligations, and recreational pursuits. With so much going on, it's easy to take the basics for granted—the home you live in, the food on your table, the clothes in your closet, and the vacations with family and friends.

However, life does not always turn out as planned. The untimely death of a spouse could dramatically alter this picture, both now and in the future. For many families, two incomes are necessary to maintain their desired standard of living. Even if only one spouse brings in cash income, the non-earning spouse may provide critical "non-cash" services, such as the many tasks involved in maintaining a home. If your family's income suddenly stopped or was reduced, the impact on your lifestyle could be significant.

Having **life insurance** coverage on your spouse can play a valuable role in helping to protect your lifestyle. The proper coverage can help replace your spouse's income or provide supplemental funds so your home can be maintained and continue to function as normally as possible. If both you and your spouse work, consider the value of your spouse's lost income. Or, if your spouse is a non-cash earner, think about how much it would cost to fulfill all the tasks he or she performs at no charge.

Be Prepared. . .

The unexpected death of your spouse could easily unravel the lifestyle you shared together. Funds that may have been set aside for a child's wedding—or your retirement—may need to be reallocated to cover basic expenses. However, such situations may be addressed ahead of time with the appropriate insurance coverage.

While it may be human nature to take things for granted, life can sometimes take an unexpected turn. Life insurance coverage on your spouse can help provide peace of mind knowing that you would be better equipped to maintain your lifestyle in the event of your spouse's death. ■

Get a Head Start on Holiday Preparations

Each year, the advertisements seem to start earlier than the last: The holiday season is right around the corner! How can you avoid the pressure to overspend, while retaining the pleasure of gift-giving with family and friends?

The answer lies in planning ahead. Start by making a list of those for whom you want to buy gifts. Include at least one gift idea for each person and a general idea of where to find the gift. Try to avoid making decisions while you're in the store—impulse purchases often cost more than you planned to spend.

Next, set an overall limit on the number and cost of gifts. Finally, estimate the cost of your proposed purchases and make adjustments until your total expenditures fit your holiday budget.

Shopping Strategies

Prevent overextending yourself with the following tips:

1. Shop early in the season, especially at off-peak hours and during sales. This prevents last-minute panic purchases made in crowded stores.

2. Layaway plans offered by many stores may provide some interest-free "credit" for holiday purchases.

3. Payment by cash or check can help you shop within your means and prevent credit card surprises.

4. A name exchange or grab bag among friends and family members—with an agreement on dollar limits—eliminates the pressure of buying too many gifts.

5. Pooling funds with friends and family members to buy something special for one person can turn an expensive idea into an affordable gift.

6. Discount stores can be a paradise for "stocking stuffers."

7. Keep an envelope or folder for receipts and sales slips of all purchases and their recipients. This can expedite any necessary returns after the holidays.

8. Be creative in making gifts and cards. Personal, hand-made gifts are often more special than the store-bought variety.

Be organized this year before the holidays arrive. You can discover the satisfaction of getting the most value for your dollar, leaving you free to enjoy a stress-free holiday season. ■

Going Further on Each Tank of Gas

With an unpredictable economy and concerns about global warming, conserving gas has become a priority. While trading in your car or truck for a fuel-efficient compact or hybrid may not be an immediate option, there are strategies that can help you minimize gas consumption while continuing to drive your current vehicle.

A number of factors can affect fuel economy, including driver behavior, driving conditions, vehicle maintenance, fuel characteristics, and weather. While some of these are out of your control, the following steps may help you get more miles to the gallon:

Monitor tire pressure. Underinflated tires create rolling resistance and lower fuel efficiency. By keeping tires inflated at the recommended pressure, you can improve your gas mileage. Proper inflation also lessens wear on tires and reduces the risk of accidents due to tire failures or blowouts.

Get regular tune-ups. Because malfunctions cause the engine to work harder, cars that aren't regularly maintained tend to burn more gas. Problems such as clogged air and fuel filters, faulty oxygen sensors, or worn and dirty spark plugs can lead to a dramatic drop in fuel efficiency. Getting a tune-up at intervals recommended by the manufacturer can save on gas and protect the engine from damage.

Monitor brakes and wheel alignment. Improper wheel alignment and the drag of poorly adjusted brakes can lower gas mileage. A simple inspection can reveal whether an adjustment or realignment is needed.

Park in the shade. Because gas evaporates in the heat, parking your car out of the sun can conserve fuel.

Avoid idling for more than a minute. Turn off your car if you plan to stop for more than a minute, as idling for longer periods uses more fuel than turning off and restarting the engine. Avoid warming up your car, as it is unnecessary with today's engines.

Eliminate excess weight. Take the junk out of your trunk. It's easy to store extra items in the car, but excess weight has a negative effect on fuel efficiency.

Slow down. In most cars, fuel efficiency falls sharply when driven at speeds above 60 mph. Be sure to observe the posted speed limit and drive safely.

Curb aggressive driving. Acceleration, rather than sustained cruising, accounts for the greater amount of fuel burned in city driving. Accelerating smoothly from a standstill consumes much less gas than a sudden start. Use of cruise control on the highway can also improve mileage.

Find ways to drive less. To avoid long waits in traffic, telecommute for at least part of the week or schedule your commute for off-peak hours, if possible. Look for opportunities to carpool with neighbors and co-workers, or check out ride-share programs in your community. Take advantage of public transit, if it is available in your area. Avoid making frequent trips to the mall by shopping online, or try walking or cycling to nearby destinations.

Combine trips. Making several trips from a cold start generally uses more gas than making a longer trip during which the engine remains warm. By planning your route in advance and finding ways to combine errands, you may also be able to reduce the amount of time you spend driving.

Monitor your gas consumption. Track your car's gas mileage by maintaining a log of the odometer reading and the number of gallons pumped each time you fill up. Besides alerting you to possible engine trouble when mileage changes drastically, a fuel economy log can help make you more aware of your gas consumption.

With proper vehicle maintenance and good driving habits, you can get better fuel economy and spend less at the pump. For more tips and further information, visit the website of the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy at www.fueleconomy.gov.