LADIES' Home Journal

6 Smart Money Moves for Right Now

Just because the economy is picking up steam doesn't necessarily mean your family is out of the woods. But manage your finances right and you'll come out ahead.
By Carol Mithers

The worst of the bad times may be behind us: The economy is growing again, the stock market has rallied, even home sales are picking up. But the great recession is by no means a distant memory, and many of us still worry about both holding on to or finding a job and our overall financial security. In times like these, keeping an eye on your money and managing it well are more important than ever. You'll ride out periods of economic uncertainty in much better shape if you take the time to seriously examine your financial situation and have a plan of action in case the worst -- like a job loss -- catches you by surprise.

Start by opening and reading all those account statements. Then take a look at your pay stubs and calculate your family's living expenses. Separate "musts" like food, rent, and utilities from "wants," which are just about everything else. Now, with a clear picture of your family's finances in mind, take these critical steps.

1. Build a Bigger Emergency Fund

The traditional rule of thumb for emergency accounts is to have enough set aside to cover your family's "need" expenses for at least three months. Today, though, when unemployment can drag on, the more savings you can put away, the better. If you don't have anything at all set aside and your job is at risk, forget about paying down debt right now, says Francine Duke, a certified financial planner in Vernon Hills, Illinois. "Start saving before you do anything else."

Put emergency funds where they are safe but accessible, such as in a savings or in a money market account. The Internet makes it easy to find the best deals, but keep checking even after you've made your deposit, since interest rates can go up or down without notice. Also look into online banks, since their interest rates tend to be higher.

2. Don't Stop Funding Your Retirement

"All you'll have beyond Social Security is what you've saved," says Mary Lacey Gibson, a financial planner in San Juan Bautista, California. Saving for retirement is critical even in tough times. After all, there are many options for funding a child's college education, but no such thing as retirement scholarships or loans. If your employer matches part or all of your 401(k) contribution, you need to take advantage of it -- now. Hesitant to save for retirement because you worry about a possible cash crunch beyond what your emergency savings can cover? Paul Dolce, a Columbus, Ohio, certified financial planner, offers a compromise: "Contribute to a Roth IRA rather than a 401(k). What you put in won't be tax-deductible, but you can withdraw contributions in an emergency."

3. Ditch Expensive Debt

Running a credit-card balance can be a huge money drain -- especially considering today's skyrocketing interest rates. Without touching your emergency fund, pay off as much of your credit-card debt as you can, as quickly as you can, starting with the card that carries the highest interest rate. "You'd be surprised at how many people keep non-emergency cash in a checking account that earns less than 1 percent interest yet owe thousands on credit cards charging 18 percent," says Jeffrey J. Zures, an accountant and financial planner in McLean, Virginia. "If they used that money to pay off their debt, it would be like earning an 18 percent rate of return."

4. Find Creative Ways to Trim

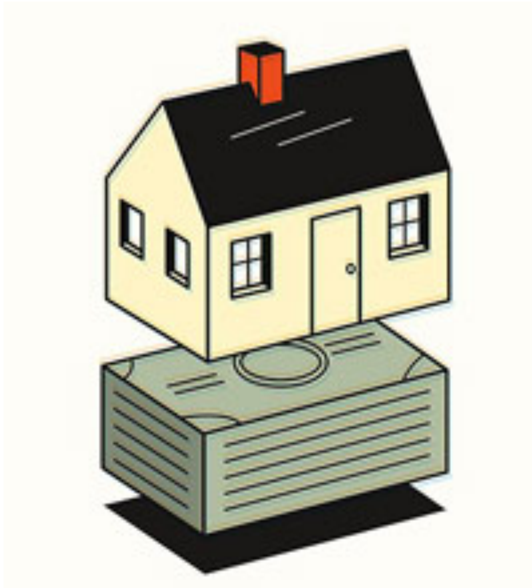

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Chart how much you've been spending on nonessential expenses -- restaurants, movies, and gifts, for example -- then compare the cost of paying for a cable movie channel, say, to joining a DVD rental service or just buying on demand. It may be far cheaper to buy only what you really need. Also, look at last year's tax return. "If you got a big refund, then you're having too much deducted," says Dolce. "It's nice to get money back after you've filed, but you're better off getting it in your paycheck." To adjust how much tax gets withheld, increase the withholding allowance (by changing the number of dependents) that you claim on your W-4. Another way to save? Raise the deductibles on your car, homeowner's, even healthcare insurance. "Since savings vary depending on the situation and policy, talk to your broker," says Gibson. And reconsider your life insurance. Too many people take out an expensive "permanent life" policy that remains in effect until they die. Term life, which lasts for a fixed period, is far more affordable.

5. Consider Refinancing Your Mortgage

It's not easy to refinance right now. But even if you can -- because you have great credit and home equity -- proceed with caution: Refinancing fees can negate the benefits of a lower monthly payment for quite a while. That means if you're likely to be moving soon this may not be the time to refinance, especially if your payments are affordable, says Gibson. On the other hand, if you're planning to stay put long enough for your monthly savings to add up to more than the cost of refinancing, you can probably reduce the rate you pay by a percentage point or more. "Refinancing to a low fixed rate is even more important if your current loan is adjustable or has a balloon payment in the future," says Gibson. Shop around and ask your bank if it offers a refinancing program with reduced fees.

If you do decide to refinance, resist the urge to roll credit-card debt into the new loan, says Debbie Frazier, a financial planner in Chapel Hill, North Carolina. "You'll be turning short- into long-term debt and will eventually pay more on it."

6. Be Smart About Credit

The fact that it's hard to borrow money means it's more important than ever to be considered creditworthy. It's much easier to get approved for a loan if you have a high credit score. It also helps you negotiate lower interest rates on a mortgage or credit cards. You're judged on the information on your credit report (maintained by three agencies: Equifax, Experian, and Trans-Union) and on your FICO score, which can range from a poor 300 to a stellar 850. To find out where you stand, get a copy of your report via annualcreditreport.com. (Don't confuse this free service with those that require a contract or monthly fee.) You can obtain your FICO score for $16 via myfico.com.

Be sure to protect your credit rating, too. Contact the three agencies if you find any errors in the report. Pay bills on time. Don't max out your cards but don't just close accounts, either, since your FICO score is partly based on how long you've had credit and, even more important, the ratio of credit available to what you're actually using. At the same time, though, you can also be penalized for having credit cards you don't use.

Solution? Use cards occasionally for small purchases, then pay off the balance. If having too many cards available means too much temptation, consider closing an account, but not if you are planning to refinance, buy or rent a home, or make another large purchase within the next three years.

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