MONEY MANAGEMENT

GIVE YOURSELF A FINANCIAL FITNESS CHECKUP

Are you financially prepared to deal with a sudden drop in income or an unanticipated large expense? Do you have adequate homeowners insurance? Are you overpaying your taxes? If you are unsure of the answers to these questions, the Nevada Society of CPAs recommends that you give yourself a financial fitness checkup. Here's what you need to look at:

SAVINGS STRATEGY - No matter how large or small your income, it's vital to get into the savings habit. How much you save depends on your own circumstances, including your age, income, current expenses, and goals. CPAs recommend that the average person save 7 percent of their pre-tax income when starting to save at age 25; 10 percent at age 35; 18 percent at age 45; and 35 percent if saving begins at age 55.

If you're not saving regularly — or lack the discipline to do so — consider joining an employer-sponsored savings program in which the company directly deposits a portion of your paycheck into a savings account or another savings vehicle.

INVESTMENT VEHICLES — If all of your savings are sitting in your neighborhood bank, it's time to make some withdrawals. Diversify your investments among those that offer long-term growth and security, such as stocks and bonds, and short-term savings vehicles, such as Certificates of Deposit and money market funds.

EMERGENCY FUND — To be prepared for a possible emergency, keep at least three months of household expenses in liquid accounts — those that enable you to easily withdraw cash without risk of losing the principal. However, if you live in a one-income household with children or if you are older, it's best to set aside enough cash to cover six to 12 months of living expenses.

TOTAL DEBT — Generally, your monthly installment credit payments should not exceed 20 percent of your monthly take-home pay. This includes automobile loans, credit card debt, installment loans, personal loans, and students loans. It does not, however, include first mortgages. If your debt is near or over 20 percent, curb your spending and pay off your credit balances. One alternative may be to consolidate your debt by taking out a home-equity loan. In many cases, you'll pay a lower interest rate and can deduct interest you pay on the loan.

CREDIT CARDS — One way to control your debt is to control or eliminate your use of credit cards. While credit cards make it easy to purchase items, they are among the most expensive ways to borrow money. Keep in mind one or two credit cards and limit your use of them. Make sure that your card has a low interest rate, no annual fee, and offers a grace period before interest charges are assessed.

HOMEOWNER'S INSURANCE — Although a home is typically an individual's largest asset, many of us don't protect that asset by making sure our homeowner's policy is up to date. If your home has recently been renovated or your property's value has increased, it is especially important to check your coverage. It's best to ensure that you have coverage for 100 percent o the replacement cost of your home. If you have less coverage, you'll have to pick up some of the cost of any damage done to your home and possessions.

DISABILITY INSURANCE — Disability insurance provides you with income in the event you cannot work. The amount of coverage you need should be based on the number of dependents you have and whether you are the sole income earner in your household. For most middle-income earners, 60 to 70 percent of current salary is an appropriate level of disability coverage.

WITHHOLDING AND ESTIMATED TAXES — Make sure you are having an appropriate amount of taxes withheld from your paycheck. If you consistently receive a big refund when you file your returns, you're overpaying Uncle Sam and should alter your withholding. CPAs point out that in most instances you must pay at least 90 percent of your tax liability in quarterly installments or risk incurring a penalty.

Finally, CPAs recommend that as part of your financial checkup, you give yourself a tax checkup. You still have time to implement strategies that can help you take advantage of tax deductions and minimize your 1994 tax liability.

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liquid investment that requires a low minimum deposit. Such funds usually offer the added benefit of check writing.

Not a money market account. Don't confuse money market accounts, which are offered by many banks. Unlike money market accounts, money market funds are not federally insured. Shareholders can choose funds that invest in government-backed securities, but it is the securities — not the funds — that are government backed.

When you invest in a money market fund, you buy shares of that fund's portfolio. The yield you receive is derived from the income generated by the fund's securities minus the fund's management expenses. Although money market funds invest in interest-bearing securities, they are mutual funds; therefore, the income you receive is classified as dividends. You should also keep in mind that your money market fund's yield will fluctuate with changes in short-term interest rates.

Money market funds are a convenient way for investors to put their cash to work. They offer a high degree of safety, easy access to your money and the freedom to move from one fund family to another. A professional investment broker can supply you with the information you need to find out if money market funds make sense for you.

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