



Liz Pulliam Weston

The Basics

## Polish up your financial plans

Spring-cleaning your insurance policies and your retirement and estate plans can get your house in order, put your mind at ease and maybe even save you money.

By [Liz Pulliam Weston](#)

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In the [first part](#) of this series, we concentrated on decluttering and reorganizing three areas of your financial life: bills, credit and rewards programs. Now let's tackle some even trickier (and potentially more expensive) categories of personal finance: insurance, retirement and estate planning.

The three areas have a lot in common: They're not a lot of fun, they cost a lot of money and the benefit may be way down the road, if you get a benefit at all. (You don't really want your life insurance policy to pay off now, do you?) But having these areas of your life organized and up-to-date can have a big psychic reward. Trust me, you'll sleep better at night knowing you've taken care of all this.

### Inspect your insurance coverage

The average annual outlay for auto insurance is \$821, according to the Insurance Information Institute, while homeowners coverage costs an average \$668. Those are a big chunk of most budgets, and you want to make sure your money is well spent. Here are some things to consider:

**Raise your deductibles.** One of the better ways to save money on insurance is by raising your deductibles. Insurance is best used for catastrophic expenses you couldn't easily handle yourself; if you're using it as a maintenance fund or to fix every little ding in your car, you'll wind up with higher premiums and perhaps have trouble in the future finding coverage. So boost your deductibles to \$250, \$500, \$1,000 or more and keep an equivalent amount of cash handy in a savings account.

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**Check your limits.** With all insurance, there's a sweet spot: You don't want too little, but you don't want to pay for too much.

- **Homeowners.** Most homeowners, unfortunately, don't carry enough coverage, as I wrote in "[Why 2 out of 3 homes are underinsured](#)." Your policy might not reflect rising construction costs, improvements you've done or valuable recent purchases. Make sure you have enough coverage to rebuild your home if it

burns down. If you're not sure, call your insurer and ask for a reassessment, or talk to a local contactor about average square-foot rebuilding costs in your neighborhood. Also check your contents coverage, since many items of value -- jewelry, guns, furs, collections and business equipment among them -- get only limited protection. You may need to buy extra coverage. Once that's done, walk around your house with a camcorder to document all your stuff, and stick the disk or tape somewhere safe: with an out-of-state relative or in a safe deposit box.

- **Renters.** Some insurance is better than none, of course -- and "none" is what more than half of renters have. That's dumb. Your landlord's policy doesn't cover the cost of your possessions, so if your apartment burns down, you'd be out of luck without your own policy. So if you don't have one, get one; if you have a policy, make sure you still have enough coverage to replace your stuff.
- **Auto.** Here's where you may need to trim coverage, rather than adding it. Are you paying for medical coverage when you already have health insurance through work? Should you pay for miscellaneous coverage, like towing or rental-car reimbursement, if that's an expense you can easily handle out of pocket? Does it still make sense to carry collision and comprehensive coverage on your beater? (A rule of thumb: If your total premium exceeds 10% of the car's value, consider dropping comprehensive and collision coverage.) Also, are you getting all the discounts to which you're entitled? If you're driving less than you used to, for example, you may be able to win a significant break on your premiums.
- **Liability.** Liability coverage is what kicks in if you get sued or hurt someone else, and it's a part of homeowners, renters and auto policies. Unless you're flat broke, you probably want to buy more than the minimum coverage offered. A good rule of thumb is to buy liability coverage that's one to two times your net worth. If your current policies don't offer enough, consider adding an "umbrella" or "personal liability" policy to extend your coverage.
- **Life.** Two decisions are key: Do you need life insurance, and, if so, do you have enough? If you have people who depend on you financially, the answer to the first question is yes; if you don't, it's probably no. The "enough" question is one you'll have to research; [MSN's Decision Center on life insurance](#) can help you assess your needs.

**Shop around.** Yes, it's a pain. But you could save hundreds of dollars, in which case the hour or so you spend chasing quotes will feel like time well invested. Since insurers constantly tweak their premiums and policies, this is an exercise you should do at least once a year.

You may be able to winnow the candidates if your state insurance department offers a premium survey. These surveys can help you identify which insurers might offer good

deals for your area.

In addition, you can take one or more of the following approaches:

- **Online.** You can visit insurers' individual Web sites to request quotes or use Web brokers that cull quotes from participating insurers. One place to start: MSN's [Auto Insurance](#), [Homeowners Insurance](#) and [Life Insurance](#) centers, which include links to sponsoring insurers. [Insweb.com](#), [IntelliQuote](#) and [Insure.com](#) are other sites that can help you track down quotes.
- **By fax.** Find an independent agent who represents several insurers and fax her your current policies. You should get a number of quotes in return.
- **By phone.** Ask for quotes by calling two or three of the big companies and a couple of the insurers who advertise in your area that they'll "save you money" on insurance. (These advertisers are trying to build their business in your area and may indeed offer decent breaks.)

Before you buy, though, check out the insurers. Your state insurance department's Web site probably will show you whether an insurer is allowed to operate in your state, and you'll also want to check the company's financial strength with at least one of the rating agencies like Standard & Poor's, Fitch Ratings or Weiss Ratings.

### Refresh your retirement planning

You should check your retirement plan at least annually to make sure you're on track. [MSN's retirement calculator](#) is one tool that can help. Then:

**Consolidate.** The fewer accounts you have to keep track of, the better. Got an old 401(k) account from a former job? See if your current employer will allow you to transfer the money to your new plan; if not, consider rolling the cash into an IRA. (One caveat: if you wind up in bankruptcy, workplace retirement plans like 401(k)s are protected from creditors, but IRAs are protected only to a total of \$1 million. So if you've already got a small fortune saved and you're at risk of bankruptcy or of being sued, you might want to leave your 401(k) accounts alone rather than roll them over to an IRA.)

Speaking of IRAs: Those can often be consolidated too, as long as they're the same type of account. Traditional IRAs can be combined with other traditional IRAs, for example, and Roth accounts with other Roths. (You can convert a traditional IRA to a Roth, but you have to have adjusted gross income under \$100,000 and enough cash to pay the taxes the conversion will trigger.)

**Rebalance.** Eight in 10 workers don't bother to regularly rebalance their retirement accounts, according to the Profit Sharing/401k Council of America. That's a mistake.

If you want the best returns without excessive risk, you need to not only figure out

the right asset allocation -- how much to put in large-company stocks, small-company stocks, international stocks, bonds and cash -- but then regularly rebalance your account so it doesn't stray too far from your target mix.

Otherwise, your retirement plan can drift right into the rocks. An asset set that does really well, say large-company growth stocks, could grow to dominate your portfolio. When the investing cycle turns against that type of stock -- as investing cycles always do, at least for awhile -- you could suffer outsize losses.

Confused about what to do? It can help to get some guidance. Your 401(k) plan administrator or employer may have information, tools, recommended portfolios or even personalized, one-on-one advice. Or you can check out an online option like [FinancialEngines.com](http://FinancialEngines.com), a service that for \$39.95 a quarter can recommend specific mutual funds for your 401(k), IRA and other retirement plans, plus give you an action plan for rebalancing.

A few 401(k) plans now offer automatic rebalancing, and a recent survey by Hewitt Associates say one in five employers plans to add this feature in the coming year. If you'd like this kind of cruise control, let your company know.

**Simplify.** Another option: let professionals do the work. Many retirement plans and mutual-fund companies now offer "target maturity" or "lifestyle" funds that do the asset allocation and rebalancing for you. If you're new to investing or simply tired of messing with your accounts, this could be a solution. Just pick the fund, dump in your money and let the fund company take it from there. (You can read "[One fund retirement: Buy and forget](#)" for more details.)

### Tidy up your estate plans

Dealing with your mortality is grim. Leaving behind a financial mess for your family is worse. So get to it.

**Review your beneficiaries.** Check your 401(k), your IRAs, your brokerage and bank accounts and your life insurance policies to see who's scheduled to get the money after you die. If you haven't done this in a while, you may find some surprises: the ex-spouse who's still listed as the beneficiary to your retirement plan, or a friend with whom you're no longer friendly named to receive your life insurance proceeds.

**Get your docs in order.** You need a will, of course, but you need three other documents as well: a durable power of attorney for health care, a durable power of attorney for finances and a living will. (You can read more about these in "[3 legal papers you shouldn't live without](#)." ) If you have these but haven't reviewed them, do

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so now to make sure you're still comfortable with the people you chose to make decisions for you, and the decisions you want made if you're incapacitated and can't make them for yourself. If you don't have any of these documents, spend a couple hundred bucks to get a lawyer to draw them up or use [Quicken WillMaker](#) software.

**Get help.** If you have substantial assets or a special situation, like a handicapped child who may need lifetime help, then get an experienced attorney's help in preparing your estate plan. If you have a plan but it hasn't been updated in a few years, or if you've experienced major life changes -- birth, death, divorce, marriage, remarriage, a move to a new state, etc. -- you also may need a professional review.

**Ease the transition.** In many families, one person handles most of the financial matters. What happens if that person should suddenly die? Perhaps it's time to create a roadmap so those left behind know where the life insurance policies are kept and when the auto insurance comes due. You can create your own list or use resources like Marty Kurtiz's "[The Beneficiary Book](#)" or "[If Something Happens to Me](#)," a workbook by Joseph R. Hearn and Niel D. Nielsen.

That's a lot to tackle -- but don't you feel better now? Go ahead, rest on your laurels ... at least until next spring.

*Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the [Your Money message board](#).*

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