THE A to Z FINANCIAL OVERHAUL

Getting your finances in order is simply a matter of working systematically through the alphabet, says ***Susanna Stuart***

It's usually near the kitchen table: a big pile of receipts, bills and bank statements – and all of them from organisations that promise to make our lives less complicated. Somewhere between the invention of online banking and the arrival of the kids, our financial affairs have become very complex. Now is a great time to tidy things up, and it's as simple as ABC.

Automatic payments. These are vital. They help you set and forget regular payments. If you bank online, arrange these over the net so you save fees. One tip: set up a Christmas account and feed this with a regular amount each month – the sum you've accumulated by December feels like a great bonus!

Balance the books. Get a sheet of paper and down one side list and add your income for the year, then on the other side list and add up all your expenses. Many New Zealanders spend more than they earn, and this is a source of stress and grief. Get things back in balance. If you can't reduce your spending, consider ways of lifting your income.

Credit cards. Pay these off on time, before you incur any of those high interest rates. Use store cards judiciously. Perhaps they enable you to buy that dining suite at a one-off low price – fair enough. But don't let them become an easy road to temptation. If you can't pay your card off in time, that's your warning bell.

Debt is a dirty word if you can't service it. The more debt we have, the more we are exposed to calamity if anything goes wrong – loss of job or sudden sickness, for example. If you are asset rich, you are less exposed. Those who are already exposed to high debt levels are painted into an extremely serious corner if they can't service the debt because their income drops or if interest rates rise.

Emergency funds. Unexpected events happen all the time. A car breakdown. A whopping dental bill. An electrical fire in your home. Be prepared with an emergency fund equivalent to two months' income. Build up the fund in a savings account and drip-feed a monthly amount into it ▶

using automatic payments. Don't touch this money unless you have a bona fide emergency on your hands.

Financial plan. A good one acts as a road map outlining your really important goals, explaining how to reach these and the best way to use your income and resources. It makes life simpler.

Goal setting. Without goals you risk frittering away your hard-won income without any sense of purpose. Goals help us plan and make choices between the things that are merely nice to have versus those that are truly important to us. Goals can be broken down into short term and longer term aims. Set each goal a dollar target and deadline.

Home. After ourselves and our health, our home is our biggest asset. Protect it with the right insurance. One big lesson from the Christchurch quakes was how many of us have less cover than we think. It's a good reminder to review what you are – or are not – covered for.

Investments. Review these to make sure they fit in with your needs and stage of life. Shares and property are appropriate when you're younger as they provide capital growth, but as you approach retirement it may be more prudent to have more invested in income-producing investments. Either way, you need to spread your risk by diversifying with a range of assets. Avoid any investment that promises amazing returns – Ponzi scheme alert! If you're in any doubt, get independent professional advice.

Joint tenancy. Most homes are jointly owned so that a spouse will automatically inherit their partner's share in the event of death. If you don't want that to happen, then the ownership should be as "tenants-in-common", where you can leave your share to someone else. This is pertinent to those with children from previous relationships, where there is an unequal ownership or between two unrelated parties (for example two friends).

KiwiSaver. A government kickstart of $1000 is just the beginning. A top-up from your employer and a tax credit makes it even more attractive. So for most employees KiwiSaver forms a basic platform for your retirement saving. But it is not enough by itself – you need to save more.

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Life insurance. This is necessary if you have dependents. Term life insurance provides the most cost-effective cover. You should put in minimum cover that is equivalent to your mortgage and other debts. To add in the amount needed to replace your income, use the calculator on the Sorted website (see S for Sorted).

Mortgage. While interest rates are low, a floating rate mortgage is generally the cheapest option. But if you need certainty, it may be worth paying a little extra each month to lock in the current rate. Fortnightly repayments (the equivalent of 13 monthly payments in a year) will reduce your mortgage more quickly. If you've prepared your budget and you have surplus income, increase your mortgage repayment amount.

Net worth. Your net worth is the total value of all your assets, minus the sum of all your liabilities. The aim, of course, is to make sure your assets comfortably outweigh your debts. This is what helps you sleep at night. Other than the lifestyle assets, what assets you have should be hard-working: either earning income or attracting potential capital gain.

Online banking. Internet banking puts you in the driver's seat because you can manage your money better – setting up automatic payments, keeping abreast of your bank balance, and avoiding surprises.

Power of attorney. Along with wills, few people like to consider the need for a power of attorney. It reminds us that things can go wrong in our lives – such as a debilitating accident, or the onset of dementia. But if bad things do happen, you can make these events just a little easier for loved ones by appointing an enduring power of attorney. That is, a person whom you trust to make decisions and sign financial documents on your behalf. You can also appoint an attorney to make decisions on your behalf regarding your personal care or hospitalisation. See your solicitor.

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Quality advice. After the finance company debacle in which so many New Zealanders were caught out by bad investment advice, the new Financial Advisers Act sets out a Code of Standards designed to protect you. Underpinning this act is a simple principle: that advisers must act in the client's best interests. Even so, if you are looking for an adviser, first get recommendations from other trusted professionals. Your accountant or solicitor may be able to recommend an adviser they regard highly.

Retirement planning. A generation ago, people expected to live into their 70s – just 10 or 15 years past retirement age. Now, if we retire at age 65 we can expect to live another 20+ years, and that has serious implications because some of those years are likely to require some kind of healthcare. The first step is to work out a realistic budget for when you retire. Do you intend to travel? Pursue an interest? Will your house require repairs and maintenance? Most New Zealanders don't actually know how much they are likely to spend when they retire. Begin by visualising life after 65 even if you might choose to work beyond that age... after all, you might be forced to retire through illness. There's a great calculator (see S for Sorted) which provides a start, and this will help you work out what you have to achieve between now and retirement day. Don't forget to protect yourself against risks in the meantime with health cover.

Sorted. The Retirement Commission website, www.sorted.org.nz, offers a range of calculators and other tools to help us to plan our finances. The Commission decided a few years ago – in response to the poor Kiwi track record with retirement savings – to widen its scope and help general financial literacy. Good move. The site enables you to set up your own space and think about your goals, your financial personality and your assets. It is the go-to website for the financially savvy.

Trusts. Family trusts are legal entities established in order to ensure beneficiaries are catered for. You might establish a trust as a way of protecting your assets for the benefit of your children, so they're not exposed to the risks of your business. Even though gift duty has been eliminated, trusts still require proper documentation and administration. Think carefully before you establish a family trust. The tax advantages are not always clear-cut, and unless there is a need to protect assets and family members, then the paperwork may not be worth it.

Under-insuring. Since the economy turned sour in 2008, many of us live closer to the knife edge than we used to. How would your household manage if you lost your job? Would you bounce back financially if you were laid low with a serious illness that required expensive medical care? When times get tight, many people decide to cut back by cancelling their insurances. Think carefully before you do this. For main income earners, income replacement insurance is a must – it protects you if you lose your income stream due to, say, illness. It is the only tax-deductible insurance cost for the self-employed and for employees.

Volatility. I'm afraid it's here to stay. Jumpy global share markets, spiking currency rates, the ups and downs of interest rates: we are all in for a continued bumpy ride. Some good advice: calculate how these factors will affect you and make your financial situation more robust. For example, the less debt you have, the more you are cushioned against the worst shocks.

Will. Few things cause so much uncertainty and family discord as the lack of a will. If you don't prepare a clear will, then various intestacy rules apply and these may result in the people you intend to benefit (your partner, your children) losing out to others on your side of the family. It helps everyone to make your intentions clear. The best way to avoid bad blood is to have an up-to-date will.

X-factor. The star ingredient in your financial plan is you. Your commitment and your willpower make all the difference.

Yield. This is the return from your investments, and is an important measure of comparison. Just be sure you're comparing apples with apples. Some investment channels quote yields before tax, and others after tax.

Zero risk. There is no such thing. Life is full of twists and turns, and financial markets all have their ups and downs. The key to your financial wellbeing is to reduce your exposure to risks. It is better to reduce debt than it is to buy new stuff. It is better to plan than to muddle your way forward. And don't forget that you are the one who makes the biggest difference to your own financial future. Don't be a victim. Take some control.