

ERBFINANCIAL

TAXES • PLANNING • INVESTMENTS

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Spring Cleaning Your Way to Better Finances

Spring is a good time to clean out the cobwebs, and not just in your home or apartment. Your personal finances can benefit from a good spring cleaning, too. Here are some questions to ask yourself regarding your budget, debt, and taxes.

Is there room in my budget to save more?

A budget is the centerpiece of any good personal financial plan. After tallying your monthly income and expenses, you hopefully have money left over to save. But... is there room to save even more? Review your budget again with a fine-tooth comb to see if you might be able to save an additional \$25, \$50, \$100, or \$200 per month. Small amounts can add up over time. If you participate in a workplace retirement plan, you might not even notice your slightly smaller paycheck after you increase your contribution amount.

If your expenses are running neck and neck with your income, try to cut back on discretionary spending. If that's not enough, look for ways to lower your fixed costs or explore ways to increase your current income. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your savings progress.



When it comes to your personal finances, reducing debt should always be a priority.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Do I have a strategy to reduce debt?

When it comes to your personal finances, reducing debt should always be a priority. Whether you have debt from student loans, credit cards, auto loans, or a mortgage, have a plan to pay down your debt as quickly as possible. Here are some tips.

- **Credit cards.** Keep track of your credit card balances and be aware of interest rates and hidden fees; manage your payments so you avoid late fees; pay off high-interest debt first; and avoid charging more than you can pay off at the end of each billing cycle.
- **Student loans.** Are you a candidate for income-based repayment? You can learn more at the [Federal Student Aid website](#).
- **Additional payments.** Making additional loan payments above and beyond your regular loan payments (or the minimum payment due on credit cards) can reduce the length of your loan and the total interest paid. Online calculators can help you see the impact of making additional payments. For example, if you're halfway through a 30-year, \$250,000 mortgage with a fixed 4.5% interest rate, an additional principal payment of \$150 a month can shave two years off your mortgage. An extra \$250 a month can shave off three years!
- **Refinancing.** If you currently have consumer loans, such as a mortgage or auto loan, take a look at your interest rate. If you're paying a higher-than-average interest rate, you may want to consider refinancing. Refinancing to a lower interest rate can result in lower monthly payments and potentially less interest paid over the loan's term. Keep in mind that refinancing often involves its own costs (e.g., points and closing costs for mortgage loans), and you should factor these into your calculation of how much refinancing might save you.
- **Loan consolidation.** Loan consolidation involves combining individual loans into one larger loan, allowing you to make only one monthly payment instead of many. Consolidating your loans has several advantages, including saving you time on bill paying and record keeping and making it easier for you to visualize paying down your debt. In addition, you may be able to get a lower interest rate.
- **Paying down debt vs. investing.** To decide whether it's smarter to pay down debt or invest, compare the anticipated rate of return on your investment with the interest rate you pay on your debt. If you would earn less on your investment than you would pay in interest on your debt, then using your extra cash to pay off debt may be the smarter choice. For example, let's say you have \$2,000 in an account that earns 1% per year. Meanwhile, you have a credit card balance of \$2,000 that incurs annual interest at a rate of 17%. Over the course of a year, your savings account earns \$20 interest while your credit card costs you \$340 in interest. So paying off your credit card debt first may be the better choice.

Do my taxes need some fine-tuning?

Spring also means the end of the tax filing season. You might ask yourself the following questions:

- Am I getting a large tax refund or will I owe taxes? In either case, you may want to adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.
- What else can I learn from my tax return? Now is also a good time to assess tax planning opportunities for the coming year, when you still have many months left to implement any strategy. You can use last year's tax return as a reference point, then make any anticipated adjustments to your income and deductions for the coming year.

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