Your Financial Checkup?

The Motley Fool
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A lot of limbs and organs must be maintained in order to lead a healthy, robust financial life: saving and spending, debt, insurance, investments, taxes, and — the topic nearest and dearest to my heart — retirement.

You need a good financial plan to get everything in shape. Once you've developed and implemented the plan, most of the hard work is over. But you still have to put some energy into maintenance.

Life has a way of outdating even the best financial plan. A series of accidents can deplete an emergency fund or increase credit card balances. A birth in the family can render a life insurance policy and a diaper budget insufficient. Consecutive sales at **Target** (NYSE: TGT), **The Gap** (NYSE: GPS), **Best Buy** (NYSE: BBY), and Trampoline World can turn a spending plan into a faded memory.

So, every once in a while, you have to get your fsinances back in shape by performing a financial checkup. You know, take the pulse of your spending; check the weight of your retirement accounts; bend over and try to touch your taxes. While it can be time-consuming, a financial checkup is not difficult. Here's what to do.

Step 1: Inject cheer into your checkup.
We know that poring over bank statements is as invigorating as a walk in an industrial park, so you must add something else to the process: a reward. (Nothing extravagant, of course — it won't do you any good to spend an evening getting your finances in order only to break the bank purchasing a pat on the back.)

Also, come up with ways to bring some levity to the task, and maybe — just maybe — make it enjoyable. Bring all your papers to your favorite coffee shop or restaurant. Accompany the checkup with your favorite dessert. Do it in a bathtub or on the beach. Or just get it over with, and reward yourself with a movie. Whatever you do, find a way to add some pleasure to the process.

Step 2: Monitor cash flow and record assets and liabilities.
Though software programs such as **Intuit's** (Nasdaq: INTU) Quicken and **Microsoft's** (Nasdaq: MSFT) Money can make tracking your spending and net worth easy (complete with spiffy reports), you don't need anything fancy. A simple notebook or spreadsheet will do. Gather up all your major account statements and record how much you own, how much you owe, and where your money goes.

Step 3: Begin the poking and prodding.
Now that you've recorded (or updated) the values of all your accounts, check these specific things:

Make sure your overall debt load is decreasing. In particular, if the balances on credit or charge cards are increasing, make eliminating that high-interest debt a priority.

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Determine whether your investment strategy is working. If you haven't outperformed a relevant index after expenses over a period of at least three years, then you might be better off with an index fund. It's the old "if you can't beat 'em, join 'em" theory of investing, and it'll put you ahead of most investors.

Run the numbers on your plan. Use our online calculators to see where your savings strategy will lead. (If you find that you're behind in your retirement savings, take a 30-day free trial of our *Rule Your Retirement* newsletter service, and get the "8 Ways to Supercharge Your Retirement" special report.)

Make sure you still have three to six months of living expenses in your emergency fund.

Take a look at your insurance. Can you get a better deal elsewhere? Is your homeowner's insurance still enough to compensate for the increased value of your house or the stuff inside it? Do you have enough life insurance?

Schedule time to perform maintenance on your biggest assets: your house and cars.

If you have a flexible spending account, make sure you spend the money and get reimbursed.

Once a year, check your credit report.

Ask whether your money is going toward the things that are most important to you. Are you spending more on entertainment than retirement, even if you consider retirement a higher priority? (If entertainment is more important to you, then congratulations — your spending is in line with your goals.)

Step 4: The prognosis
Now that you've reviewed your financial health, do you need to take action? Conclude your checkup by writing down and resolving to perform the tasks that should be done by the next checkup. These actions should be:

Realistic: Don't come up with a list of chores you'll never accomplish. Choose the few that are most important and will make the biggest financial impact.

Optimistic: We know "To Do" lists are never fun, but do your best to look at your resolutions not as burdens but as steps to getting you closer to early retirement, your vacation home, your new car, or whatever goals you have.

Hedonistic: Not really, but we needed another word that ended in "ic" — and it sounds more fun than the previous three.

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How often do you need a checkup?

At least once a year, you should subject your finances to a thorough examination. Performing a quick checkup every quarter (i.e., every three months) would also prove fruitful. And any major life event — e.g., job change, marriage, birth, death — should prompt a review.