3 financial planning actions you should be focused on right now — instead of the stock market

By Nick Strain for MarketWatch

GETTY IMAGES

Overwhelmed by that flood of information about the stock market, economy and COVID-19 coming at you on a daily basis? While it's easy to get wrapped up in the headlines, it's important to take a breath and ask yourself what actions should you be taking to help your financial situation.

There are three simple actions that everyone can and should practice while staying at home that include reviewing varying components of your financial life so you can create priorities and take action. Paying attention to critical areas of spending should enable you to feel more in control and empowered, and the knowledge you gain will help you make better financial decisions in the future.

1. Review your spending

There's no better time to start to review your spending, especially if the current economic upheaval has financially impacted you. Reviewing spending can be overwhelming if you have multiple bank accounts and credit cards. It can also be potentially intimidating if you're not sure how much you're

spending monthly. Luckily, some apps can help you track spending and consolidate your accounts. NerdWallet is a good source for this.
The first rule of starting this process is: Don't try to change your spending habits overnight. Your main goal is to start tracking it monthly to see where your money is going. Keep the pressure off! You'll already be more aware of when and how you are spending money, so you'll likely start to make smarter and less impulsive purchases.

Give yourself two to three months of tracking. Then, start to create goals around how much you would like to spend on average for certain categories. You can set these categories up every month, such as eating out, shopping, amazon, grocery store, or any of your favorite activities. Give yourself some time to develop goals for vacations, concerts, and other fun activities; these decisions should ultimately help you to answer the question: "Am I saving enough money to retire and meet other financial goals?"

2. Review your savings rate

The bottom line from most financial planning experts: You need to save 15%-20% of your gross income each year into retirement accounts to fund your retirement. This 15%-20% of income does include any employer match that you receive. There are exceptions to this rule of thumb depending on many factors, including — your job; when you started to save; how you are compensated; if you will receive a pension; if you own a small high-growth business that you plan to sell as your retirement funding.

Fuel for Investing Smarter

For most working Americans, saving 15 to 20% of their income is a good basic rule to follow. Fidelity recently created a framework called the 50/15/5 spending rule that can be helpful. This framework suggests that:

• You don't spend more than 50% of income on essential expenses

• You save 15% of your income for retirement

• You save 5% of your take-home pay in short-term savings for unplanned expenses

Automation is key

The key to achieving these goals and to help make your financial future and retirement successful is to not only determine the amounts you'll set aside, but also automate the transfer of the money to fund them.

What are your goals — saving for a home, saving for college for kids, saving for the annual vacation, retirement? The key to making these goals a reality is to have designated funds automatically transferred on a monthly or quarterly basis to a separate account. A 401(k) or retirement plan is the easiest example. You select how much you want to contribute as a percentage of your income into your 401(k) plan, and money is taken from your paycheck, transferred into the plan, and invested. This process continues to happen for many years, allowing your investment funds to use compounding to your advantage and grow until retirement — and you probably won't even miss the money you haven't seen.

Most critically, you should make sure you're receiving your full company match. If you're a highly compensated employee and you max out your 401(k) halfway through the year, there's a chance you're not receiving the full company match if they match per pay period. In this case, you'll need to recalculate your contribution percentage to average your 401(k) contributions throughout the entire year to receive the full match. This could amount to thousands of dollars you might be leaving on the table.

This process can also be applied if you don't have a company retirement plan to take advantage of. You can set up an automatic transfer to an IRA or to an after-tax brokerage account such as an individual or joint account monthly. These contributions can be invested automatically.

A good practice is to review your last year's savings and your current year's projected savings. This will help you determine whether you're meeting the 15% to 20% threshold — and if you can or should make changes. In addition, you should use a retirement calculator annually to project your financial situation into the future. Both of these practices are great disciplines to keep you on track with your retirement goals. Retirement calculators are helpful — here is NerdWallet's.

3. Review your home, auto, and personal umbrella insurance

When was the last time you looked at your insurance summaries and policies? Or spoke with your agent? A periodic review of your home, auto, and umbrella insurance is essential to ensuring you maintain the right coverages. You may even be able to save money in the process.

Saving money

Many Americans are not driving as much during the pandemic and accident rates are down. As a result, many auto insurers are offering rebates to their customers. You might also be able to save money by shopping your insurance coverage to other providers and/or consolidating your coverages with one company. Shopping your coverage to a few different insurance companies and an insurance broker is a smart move: Insurance companies change their rates frequently — and other insurance companies might be willing to give discounts for your business.

Having the right coverage

You will also likely glean some helpful information during the process, as each insurance agent provides recommendations on the appropriate home coverages and deductibles. There are varying levels and lots of bells and whistles to coverages these days.

Home coverage — It's important to update your home replacement cost every few years. Costs go up due to inflation and building code changes; these increase the potential costs of rebuilding your home. You should also review your deductible. If it's below $1,000, increase it to above that amount. (It typically doesn't make sense to have a low deductible on your home: Insurance companies often increase insurance premiums after claims are filed, so you wouldn't want to make a claim below $1,000 anyway!) You'll save money with a higher deductible.

Auto insurance — The components that are the most underused in auto insurance are:

1. Not carrying the maximum coverage of injury liability and property damage limits

2. Not carrying the maximum coverage on uninsured or underinsured coverages (this protects you if the other party responsible for the accident does not have adequate insurance to cover damages in the event of an accident)

3. Having deductibles that are too low. Similar to deductibles with home insurance, it often doesn't make sense to have a deductible of, say, $500, because auto insurers, like home insurers, will increase your insurance premiums when you file a claim. Again, you'll save money if you have higher deductibles.

Personal umbrella insurance — This is often an under-utilized insurance coverage that provides protection above and beyond the coverages on your home and auto policies. The personal umbrella policy provides protection of your financial assets. A little-known fact is that in most states, home equity is not protected when you are sued for damages or injuries. As well, financial assets outside of retirement plans are not protected. The two standard scenarios that you should think about are:

1. You or your teenage kids are responsible for a car accident that causes significant property damage and/or injuries to other parties. These other parties could sue you for damages, personal injuries, and loss of income depending on the severity of any injuries.

The first line of defense under this scenario is your underlying auto insurance policy; the second line of defense is having a robust personal umbrella insurance policy. This should provide coverage that at least equals your financial assets. A family with teenagers or adult children who are living at home and driving your cars should have slightly more coverage to protect themselves in this worst-case scenario event.

2. A second, less likely, scenario would occur if an injury occurs at your home, whether with friends or family or other individuals. Umbrella insurance would also provide protection for your assets in these cases.

Knowledge of where your finances stand is the first critical step toward being financially prepared

One thing we keep hearing regarding the COVID-19 pandemic is why weren't we better prepared for it? The same reasoning can be applied to our financial lives. This is a great time to revisit and review fundamental aspects of your finances like saving, spending, and insurance. In doing so, you'll gain the reassurance of knowing where you stand, at least with respect to your own finances. Then, by all means, take action to be better prepared for your future.

Nick Strain is senior wealth advisor at Halbert Hargrove.