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## Seven Steps to a Sound Financial Future

Today, many people find themselves bombarded by a constant stream of financial news from television, radio, and the Internet. Yet, does all this “information age” data really help you manage your finances any better than in the past? The truth often is that the “old-fashioned” practices, such as periodic financial reviews, lead to greater success in the long run. Why not spend a few hours reviewing your finances? The changes you make today could result in increased savings. These are some important items to cover:

**1.) Analyze your cash flow.** When your income is greater than your expenses, the excess is called a **positive cash flow**. When your expenses exceed your income, the shortfall is termed a **negative cash flow**. A positive cash flow means that you may have funds you can set aside as savings. A negative cash flow can indicate that it may be a good idea to reorganize your budget to minimize any unnecessary expenses.

**2.) Develop a plan for special goals.** For every financial and retirement goal you establish, identify a projected cost, a time horizon (how long it will take to reach the goal), and a funding method (either through savings, liquidating assets, or taking a loan). Consider your goals in terms of a “hierarchy of importance.” The bottom—or “foundation” tier—should include emergency funds to cover at least three months’ worth of living expenses. The middle tier should include such essentials as your children’s education. On the top tier, place the “nice to haves,” such as a new car, home renovation, or vacation.

**3.) Boost your retirement savings.** Pensions and Social Security may not provide sufficient income to maintain your existing lifestyle when you retire. Thus, it is essential to identify your retirement needs and plan a *disciplined* savings program for the future. Maximize your contributions to retirement accounts and, if possible, make “catch-up” contributions.

In accordance with the **Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)**, taxpayers who are 50 years old, or older, are allowed to make additional contributions to their retirement plans. In 2006, **traditional Individual Retirement Account (IRA)** and eligible **Roth IRA** holders can save an extra \$1000 a year for 2006, bringing the contribution limit for those 50 years and older to \$5,000. Those with eligible **401(k), 403(b), or 457 plans** can save an additional \$5,000 in 2006, bringing the total contribution for older individuals to \$20,000 per year.

**4.) Minimize income taxes.** Why give Uncle Sam any more of your money than is necessary? It is in your interest to take advantage of all income tax deductions to which you are entitled. Consider exploring any possible ways of reducing your income taxes. For instance, under appropriate circumstances, losses or expenses from prior years may be carried over to the next tax year. A qualified tax professional can help you implement a tax strategy that meets your needs.

**5.) Beat inflation.** Your income and retirement savings must keep pace with inflation in order to maintain your buying power. This means that if the inflation rate is currently 3%, you need to achieve at least a 3% annual increase in income just to break even. If your long-term savings plan fails to keep pace with inflation, you may be unable to maintain your current standard of living.

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**6.) Manage unexpected risks.** As you undoubtedly know, life can sometimes throw you a “curve ball.” Without warning, a disability or untimely death can cause financial hardship for your family. Adequate **insurance** is an important foundation for your financial plan—it offers the protection you need to help cover potential risks and liabilities.

**7.) Consult your financial professional.** In today’s complex financial world, everyone needs help in making informed decisions. Planning can help ensure that your financial affairs are consistent with your current needs and long-term goals.

A financial review can help bring focus to your overall financial picture. In the future, you will have the opportunity to alter your plans due to changing goals and circumstances. By faithfully tracking your progress with periodic reviews, you will be in a better position to build financial security and realize the retirement of your dreams.

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