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Setting Up Your Financial Life

There's a problem with managing your finances the old-fashioned way—it just doesn't work. By the time you get a statement telling you your bank balance, you're already overdrawn by three checks. By the time you get your credit card statement, the thief who has taken over your account has wreaked havoc. Your quarterly 401(k) statements might tell you how some of your investments are doing, but how does that account tie in with your spouse's workplace retirement plan and your IRAs?

And then there are all the fees. Late fees. Over-limit fees. Failure-to-keep-minimum-balance fees. One slip in your money management can cost you plenty.

Monitoring your finances in today's complex world needs to be more real-time. You need to be able to anticipate problems, spot fraud, and move money quickly from place to place as needed.

Fortunately, if you've got a computer and access to the Internet, you've got the tools to simplify, streamline, and safeguard your finances. Do it right, and you'll have a bulletproof system that ensures every base is covered and that significantly reduces your money stress.

Here's what you need to do to get started.

Your Financial Toolkit

The following are essential components for streamlining and simplifying your financial life.

Sign Up for Online Access

Internet access is essential to smart, timely money management. You need to be able to see, 24/7, your balances and recent transactions in your bank, brokerage, credit card, and investment accounts.

Phone access to your accounts is better than nothing, but it's a poor substitute. You'll have to write down balances and transactions rather than being able to see them in front of you. You may also be more limited in how far you can look back; calling up historical information will certainly take more time than if you were using Web access.

Link Your Accounts

Think about how you could get money from one account to another in a hurry. With online access at your bank, for example, you can typically transfer money from savings to checking and back with a few mouse clicks. But what if you need to get cash into the IRA at your brokerage account, and the April 15 deadline is a day away? Your brokerage may offer a service that links electronically to your checking account, making such transfers easy.

Many people link their credit cards to their checking accounts for quick, convenient payments, although the need to do that is lessened if you use online bill paying, as I recommend later.

Allow Your Paycheck to Be Deposited Automatically

Your time is too precious to waste it standing in line at an ATM or teller's window. Besides, it isn't safe to run around with checks or excessive amounts of cash in your wallet. Sign up for direct deposit and have your paycheck safely and automatically plopped into your checking account.

In fact, almost any amount of money you receive regularly is a candidate for direct deposit. You just need the payer to cooperate, and many will, since processing electronic payments is typically a lot cheaper for them than generating and mailing checks.

Set Up Overdraft Protection

Protect yourself from bouncing checks by asking your bank or credit union to set up overdraft protection for your account. With true overdraft protection, money is automatically drawn from a line of credit, credit card, or savings account if you write a check and there's not enough cash in your checking account to cover it. You typically pay an annual fee of $20 to $50 for the service, plus interest on any amounts borrowed. Usually, the total cost is less than one or two bounced checks.

By the way, overdraft protection is different from "bounce protection," which is a different and much inferior service that's offered automatically by many credit unions and banks. With bounce protection, you're allowed to overdraw your account, but the money doesn't come out of your savings or a line of credit. In essence, the bank is lending you the cash but charging you rather hefty fees for the privilege. I've heard from people who have racked up literally thousands of dollars in bounce protection fees in a single year.

Also some financial institutions play dirty by automatically adding the amount of your bounce protection to the balance you see when you check your account at an ATM. The result is that you appear to have hundreds of dollars more in your account than you actually do. This just increases the chances you'll overdraw the account and owe the bank fees.

If your bank is pushing bounce protection, try to opt out in favor of real overdraft protection. If you can't, start looking for another bank.

AN OLD-SCHOOL SOLUTION: PAD YOUR CHECKING ACCOUNT

There's at least one old-fashioned money management tool that still works really well, and that's keeping a pad of cash in your checking account. A *pad* is a sum of money that you leave in your account but don't spend.

Start with $100 and try to build from there. This cushion will help you avoid, or at least reduce, all kinds of bank fees, including minimum account fees and bounced check charges.

Did you know that many banks increase the chances you'll bounce checks by processing the biggest checks first? They say they're doing this to help customers ensure that their most important bills, like rent or a car payment, get paid, but the net result is that you could wind up bouncing more smaller checks and racking up a lot more fees. Let your irritation over this practice motivate you to stymie the banks by keeping a nice pad in your account.

The pad can also bring you some peace of mind. Knowing you always have a few bucks is a lot better than seeing that checking account register empty. This pad will be in addition to the savings you'll do for emergencies and for irregular expenses, which we'll cover in the next chapter.

How do you save to build your pad? Any of the usual budget-shaping strategies will work, such as these:

- Packing your own lunches and snacks
- Making meals rather than eating out
- Eliminating premium TV channels or canceling cable altogether
- Selling stuff in a yard sale or on eBay
- Gathering up your change

How do you keep your pad? Mostly by pretending it's not there. If you use a checkbook or personal finance software to balance your account, you can write a check to yourself in the amount of the pad and never cash it. If it's hidden from you, you're less likely to spend it.

If the only way you track your account is online (or by checking at the ATM), you'll have to mentally erase the amount of your pad from your balance when deciding how much money you can spend.

Open at Least One High-Yield Savings Account That's Electronically Linked to Your Checking Account

You'll want to keep your money working hard for you, and that means getting a higher rate than you'll find at the typical brick-and-mortar bank. You don't have to switch banks, though—just look for an online bank that allows transfers to and from your current checking account.

Three good places to check are ING Direct (http://home.ingdirect.com), HSBC Direct (http://www.hsbcdirect.com) and EmigrantDirect.com. At this writing, all three offer high-rate, FDIC-insured savings accounts with no account minimums and no monthly fees. ING and HSBC also offer free checking accounts that pay a decent interest rate and offer free bill pay; see their Web sites for details.

You may decide to have more than one high-rate savings account to keep track of your money. As you'll read in the next chapter, many people find it convenient to have one account for emergency savings, another for irregular bills, and a third for "fun money." As long as you don't have to mess with account minimums or fees, you can set up as many of these accounts as you like.

Consolidate Your Accounts

Generally, the fewer accounts you have to keep track of, the better.

If you've got 401(k) or other retirement accounts scattered among your last few employers, for example, see if you can roll all the balances into your current plan. If your employer won't allow that, or you don't like the investment choices in your plan, you can roll the balances into a regular individual retirement account (IRA).

If you've got a wallet full of credit cards, single out one or two for everyday use. You needn't close the others—in fact, you probably shouldn't if you're trying to improve your credit scores or if you're in the market for a major loan. But reducing the number of cards you use regularly means you'll have fewer due dates, interest rates, and terms to keep track of. (See Chapter 3, "Get the Most Out of Your Credit Cards," for how to select the best card or cards for your spending patterns.)

Bank and brokerage accounts also tend to proliferate. Ideally, you'd have only one checking account to monitor, but that's not always possible. For some couples, both partners have a separate checking account as well as a joint one. If you run a business, you'll need separate accounts for that. And, as noted earlier, some people really like to open individual accounts when they're saving for specific purposes, such as having one savings account for an emergency fund and another that's dedicated to a future home purchase.

You might be tempted to consolidate all your financial accounts, or at least as many as possible, at one bank or brokerage. Your financial institution would certainly like that; many are trying to capture as much of their customers' money as possible. Banks have brokerage arms, brokerages offer home loans, and everybody's hawking credit cards.

The problem I've always had with the one-stop-shopping approach is that no single financial institution does everything well. Your bank may offer free checking, a nice online bill pay system, and a great ATM network (like ours does), but it may have lousy rates on savings and mediocre rewards programs for its credit cards (like ours does). Your brokerage may offer low-cost access to great mutual funds but too few ATMs and high rates on loans.

Instead of having clear advantages, this kind of consolidation involves compromises, which means there's a cost to you. You might decide to go ahead anyway but remember to review your situation at least annually to see if redeploying some of your accounts elsewhere makes sense.

Consider Two Checking Accounts

I've just said you should consolidate counts wherever possible. Why would you want to turn around and add another checking account?

Several of my readers have told me they struck on this solution after having trouble figuring out how much money in their accounts was available for spending and how much had to be set aside for bills.

The mechanics of the dual checking account system are pretty straightforward. You total up your bills for an entire year, then divide that sum by the number of paychecks you expect to receive (12 if you're paid monthly, 26 if you're paid every other week, 24 if you're paid twice a month and 52 if you're paid weekly). That amount is transferred from your primary checking account to your "bill paying" checking account after every paycheck. (You can do the transfer manually, but I strongly recommend making this automatic.) You then set up your bills to be paid (again, preferably automatically) from this second account.

The money that's left over in your primary account is available to spend on all your variable purchases, such as groceries, gas, clothing, and entertainment.

You should make sure you're getting both checking accounts for free; otherwise, monthly service fees can add up quickly. Your bank may be willing to give you one account for free in exchange for using direct deposit, but may charge you for the second account. If that's the case, you may want to check out the free accounts offered by the online banks mentioned earlier.

The Right Ways to Pay Your Bills

The wrong way to pay bills is willy-nilly, using old-style paper checks and worrying about late fees. The right way includes the steps outlined in the following heads.

Know What You Owe

Take a few minutes to set down, in writing, every bill and obligation you have. Include crucial information like the name of the biller, your account number, the customer service phone number, the payment method you use (such as check, automatic debit, charge to your credit card, online bill pay, etc.), and the bill's due date.

The template on page 8 can get you started. I've left room so that you can add other bills not listed here.

Having all this information in one place can help you in more than one way. It will serve as a checklist as you work through the rest of this chapter, reminding you of what accounts you have and when your bills are due.

But it can also provide crucial information to anyone who may need to take over the finances if you're sick, disabled, or otherwise out of the picture.

In many households, one person does most of the bill paying, and the other family members have no idea what's due when or even which institution to pay. You could avoid a lot of confusion by updating this list occasionally and keeping it in a safe place that's accessible to your spouse, partner, or other trusted person. Just make sure this person knows where to find it.

If you pay your bills online, as I recommend, you'll also want to make a list of all the relevant passwords and keep it in the same safe, accessible place. If someone needs to take over bill paying for you, he or she will need this information to access your accounts.

Set Up a Bill Calendar

You can use a physical, on-the-wall type calendar to write down *all* the due dates for *all* your bills. Or you can use personal finance software like Microsoft Money or Intuit's Quicken; a personal digital assistant (PDA); a smart phone with a calendar feature; or a calendar in your computer. What matters is that you use something you'll actually *see* at least once a week if not more often.

If you take my advice, you'll be using a variety of other methods to make sure all your bills are getting paid on time. Paying bills on time is essential, since one late payment can devastate your credit scores.

Even with those other methods, your calendar is essential. It's your safety net to ensure that none of your bills slips through the cracks. Whatever method you choose, it should be something you consult often and you should include *every* bill, including those that are due annually, twice a year, once a quarter, and every other month.

Bill	**Institution**	**Account Number**	**Toll-free number**	**How Paid**	**Due date?**
Mortgage/Rent					
Home equity loan					
Property tax					
Water					
Electric					
Garbage					
Heat					
Other					
TV					
Phone 1					
Phone 2					
Phone 3					
Phone 4					
Internet					
Homeowners Ins.					
Umbrella Ins.					
Auto Ins.					
Health Ins.					
Life Ins. 1					
Life Ins. 2					
Life Ins. 3					
Disability					
Other					
Union dues					
Tuition 1					
Tuition 2					
Student Loan 1					
Student Loan 2					
Student Loan 3					
Credit Card 1					
Credit Card 2					
Credit Card 3					
Auto Reg. 1					
Auto Reg. 2					
Gardener					
Housekeeper					
Babysitter					

CUSTOMIZING DUE DATES

Did you know that if you ask to change your bills' due dates, many companies will comply?

Credit card issuers, phone carriers, utilities, and others are often willing to adjust your due dates if you ask. This can really help you manage your cash flow, particularly if you can spread your biggest bills throughout the month.

Marcia used to struggle because her two biggest expenses—her rent and her credit card bill—came due each month within days of each other. Since she gets paid twice a month, on the 1st and on the 15th, she asked her credit card company to switch her due date to the 20th. Although she still has to keep track of her balances to make sure her other bills get paid, she no longer worries about money being so tight at the start of every month.

Set Up Alerts

I'm a big fan of automatic bill payments, as you'll see later. But there are always some bills that require my attention. To make sure I don't miss one, I've set up alerts on my personal finance software that let me know when various due dates are approaching. You also can set up alerts on your PDA or smart phone, or use an email reminder service (there are a bunch of them on the Web, or check with your Internet service provider) to let you know when bills are due.

Some alert systems go even further. My Discover card lets me know my monthly balance and due date via email; then it sends another email if a payment still hasn't arrived within five days of the due date. Emails also alert me when payments are posted and when my balances reach certain levels. Similar services are available with my American Express card; in addition, the company emails me when "irregular or suspicious" charges show up on my account.

The way you remind yourself isn't as important as making sure you actually do.

Consider Switching to E-Bills and E-Statements

If you really want to cut down on the paperwork cluttering your life, think about switching from paper to electronic bills and statements. You can have them sent to an email account you consult often, so you won't miss anything.

You really don't need the paper as long as you remember to download the statements or bills and back them up occasionally (and backing up your records is something you should be doing anyway). The IRS accepts electronic records, and financial institutions keep your statements on hand for at least six years anyway. (After that point, your chances of being audited are almost nil.)

Many people aren't quite ready to go paperless, though, so I won't insist. Just keep it in mind as an option.

Pay Your Bills Electronically

The check-in-the-mail route is too slow and too unsafe. Your payment is at the mercy of the U.S. Postal Service and the competence of the processor at the other end. If you tell the credit card company you mailed the payment in plenty of time, but the processor insists it didn't arrive by 1 p.m. on the due date (remember, many credit cards have due *times* now as well as due *dates*), who do you think is going to win that argument?

Not to mention how vulnerable check payments are to any thief who's figured out how to raid the mail in transit or at its destination.

And, make no mistake, a paper check is a thief's best friend. Everything he needs to know to invade your account is printed right on the front: your name, address and account number, plus the bank's routing number. A thief might treat the check chemically to alter the Pay To and Amount lines, or he might simply use the check as a template to create bogus ones and write himself a payday.

Contrast that with the typical electronic transaction. The money is transferred out of your account and into someone else's, leaving a clear electronic trail behind. The transactions are encrypted, making them virtually impossible to intercept. And there's usually no question about when a payment was received.

If the recipient is one of the dwindling few that doesn't accept electronic payments, you're still usually better off using an online bill payment system than writing the check yourself.

Here's just one example. Back at the dawn of time, when I was still using lots of paper checks, I wrote and mailed one to a vendor that never made it to its destination. The response from my bank was a metaphoric shrug. The phone rep offered to put a stop on the check for $10 but warned me I'd have to remember to renew it in six months.

Fast forward. I use the same bank's online bill payment system to pay a vendor who doesn't accept electronic transfers, so the bank itself generates and mails the check. Said check never arrives. This time, the bank couldn't have been more helpful. For one, it emailed to notify me that the check hadn't been cashed in a reasonable amount of time. It automatically stopped the check, permanently, for free, and it cheerfully reissued a new one at my command.

I can't guarantee that your bank will be as helpful. But most banks are eager to herd people into electronic payments because electronic transactions are generally cheaper to process than paper ones. That means most banks have a stake in making sure their customers' experiences are good ones.

STAYING SAFE

Some people are reluctant to use online financial services because they fear it makes them more vulnerable to cybercriminals. In fact, the opposite appears to be true.

People who monitor their accounts online tend to catch fraud and other problems much quicker, according to Javelin Strategy and Research. That helps to stem the damage to an average of $551 per incident, compared to $4,543 per incident for those who waited for statements to come in the mail.

Still, there's no question that establishing online account access gives bad guys a potential route into your finances. But you can do a lot to bar the door. A few basic practices—which you should be doing anyway if you use the Internet at all—will help you keep your finances safer.

Among them:

- **Install a firewall along with antivirus and antispyware programs**—Keep these programs updated and run them frequently.
- **Don't check your balances or otherwise conduct financial transactions on public computers or wireless hotspots**—The free wireless Internet access at your local coffee spot may be a great perk, but it's not secure enough to use for financial transactions. Conduct your financial life on your home computer or at least behind a sturdy firewall.

- **Upgrade to the latest version of your browser**—Some evildoers exploit weaknesses in browsers to do things like divert unwary Internet users to phony bank or credit card sites. Staying up-to-date can help keep you from being a victim.
- **Look for the lock**—Secure financial sites typically start with "https" instead of "http," with the added "s" standing for "secure." They also typically show a little yellow padlock in the lower-right corner of your browser window.
- **Never click on a link in an email or open an attachment you weren't expecting**—The bad guys have gotten awfully good at disguising their emails.

Beware, especially, of *phishing* emails. These purport to come from your bank, brokerage, online auction site, or payment system and warn you of "problems" in your account. You're advised to click on a link in the email, which takes you to a look-alike site whose only purpose is to trick you out of your online ID, password, and other sensitive details. In many cases, these emails are quite authentic looking; the only tip-off you may have that they're not real is that you aren't addressed by name. Even if you're convinced that the email's real, don't respond to it. Instead, call the institution or open a new browser window and type in the address yourself to check your account for messages or problems.

Your goal should be to minimize your use of paper checks, substitute electronic payments, and make your whole system as automatic as possible. You have several options, including these.

- **Online bill pay**—Most banks have online bill payment systems, and they're typically free (or free if you maintain a certain balance). You'll usually find a link to your bank's bill pay system on its home page. Once you sign up, you'll be guided through the easy process of adding companies and individuals to the system so that you can pay them electronically. You can set up recurring payments so your regular expenses that are the same amount, such as your car payment, get sent every month without further action on your part. You also can pay bills manually, which means you specify the amount to be paid each time. Your online bill payment system will tell you how far in advance you need to initiate payments to ensure they reach the biller on time. Pay attention to those dates and consider adding a day or two to ensure every payment gets to its destination on time.

- **Automatic debits**—Most lenders, utilities, and other regular billers offer the option of taking your payment automatically from your checking account every month. You still get the bill or statement in advance, but no further action is required on your part once you've signed up. Some billers, especially mortgage and student loan lenders, even give you a break on your interest rate for using direct debit. I also like automatic debits for credit cards; with it, you can ensure that the minimum payment, *at least*, always gets made on time, and then use your online bill pay system to pay off the rest of the bill. Finally, automatic payments can be a good solution when the amount of the bill varies month to month. If your natural gas bill varies from $15 a month to over $200, as ours does, automatic debit makes sure the bill gets covered no matter the amount it happens to be that month.
- **Automatic charges to your credit card**—This is a good option *only* if you pay your credit card balances in full every month and if you make sure you don't max out your card, or even come close. If you try it, though, you'll probably love the convenience (and potential rewards) of charging bills to your credit cards. Instead of a dozen or more separate bills to pay, they all come on one statement; if your card offers frequent flyer miles, cash back, or other rewards, you can literally make money by paying your bills. Automatic charges can be another good way to pay a bill when the amount varies month to month.

You may wind up using a variety of these methods. You may decide, for example, to put your mortgage and student loans on auto debit to get an interest rate break. You can set your credit cards up for auto debit as well: You'll have the choice among having just the minimum taken automatically, the full amount, or a dollar amount you specify. You might even mix it up: choosing full payment for the cards you use infrequently, which tend to have smaller balances, and just the minimum on a credit card where you still carry a balance. Recurring and manual payments using your online bill payment system can cover the rest.

Bill	Best Payment Method
Mortgage	Recurring bill payment (BP) or auto debit
Utilities	Auto debit or credit card
Phone	Auto debit or credit card
Internet	Recurring BP, auto debit, or credit card
Cable/satellite	Auto debit or credit card
Tuition	Recurring BP, auto debit, or credit card
Student loans	Recurring BP or auto debit
Credit cards	Pay minimum with auto debit; pay balance with online BP
Car loan	Recurring BP or auto debit

Build Your Control Panel

Once you've got your financial tools in place, you need to build a control panel so that you can see what's going on with your money *right now*.

I'm a huge fan of personal finance software like Microsoft Money or Intuit's Quicken. I've used financial software for more than a decade, and I believe it's the best way to stay in charge of our money.

At a glance, I can see

- What the balances are in all our accounts as well as what bills are due and how much we'll have left after they're paid
- What we're spending and how each expense category—from auto insurance to vacations—compares to what we spent in a previous period: last month, last year, five years ago
- How well our investments are doing and whether it's time to rebalance our portfolios
- Our progress toward our financial goals and how our net worth has increased over time

Built-in planners help me map out strategies for saving, investing, and paying off debt. Alerts tell me when due dates are approaching or account balances are dipping perilously low (or, in the case of credit cards, when they're getting too high).

The software also keeps track of transactions that affect our taxes. I can easily print reports to take to our accountant or transfer the information to tax preparation software if I wanted to do our taxes myself (which I most emphatically do not).

I can pay bills, move money among accounts, and use our past spending as a template to set up new budgets as needed.

The price for all these benefits? Typically, less than $50 for the software and some time spent setting up your financial accounts so the software can access them. *After that, it takes less than five minutes a few times a week to stay on top of our money.*

With a couple of mouse clicks, I can tell the software to update our balances and record all the transactions that have occurred in our accounts recently. Most of the time, the software can assign categories to those transactions automatically; it knows to put the Exxon Mobile charge into the "Auto:Fuel" category and categorize the Gap purchase as "Clothing."

For all these advantages, though, I realize personal finance software isn't for everyone. The next sections spell out some alternatives.

Account Aggregation 1.0

Some banks, credit unions, and brokerages allow you to view all or most of your accounts on their Web sites—even if the accounts are at other financial institutions.

However, there are drawbacks to these services. You may not be able to add all your accounts. In addition, it can be difficult to project very far ahead to see how your balances might be affected by upcoming bills. Aggregation sites also typically don't have the robust retirement, college savings, and debt payoff planners included in personal finance software. But they're definitely a step up from having to sign on to 3 or 5 or 10 different Web sites to get a complete view of your financial situation.

Account Aggregation 2.0

If you like the idea of account aggregation but your financial institutions don't offer it, or you don't like their set-ups, you have other options. Here are three to check out.

- **Yodlee** provides account aggregation and bill payment services for many big financial companies, but you can also sign up as an individual; it's free.

- **Mvelopes.com** is an electronic version of the old "money envelope" system, where you divide your cash into envelopes for different purposes (groceries, entertainment, gas, etc.). You know at any given moment how much you've spent and how much you have left in each "envelope." The cost is about $8 a month.

- **Wesabe** is a free, community-based Web site where you can not only view all your accounts and track your spending but also tap into the collective wisdom of other users. The "tags" or descriptions you assign to your transactions evoke tips, recommendations, and goals submitted by other people. There are also forums where you can ask for help, share tips, and learn about great deals.

Account Consolidation

Another solution: move all or most of your accounts to a single bank or brokerage. Then your checking, savings, investment, and credit cards will all show up on one Web site.

As I mentioned earlier, you'll probably pay for this convenience. Your bank's investment account fees might be higher than what you'd pay at a discount broker, and its credit cards may not offer the rich reward programs (or low rates) you could find at other issuers. Still, the ability to see your most significant accounts at a glance might be worth the trade-offs.

Excel Spreadsheets

If you're spreadsheet savvy, you can set up Excel to help you track your transactions and account balances. You just have to do a lot of data entry that isn't necessary with Quicken or Money. If you're not a real numbers person, it's easy to fall behind and then feel daunted by the workload needed to catch up. But if you're diligent, you can set up a system that helps you monitor spending, project your cash flow, and track your net worth. You might find Peter G. Aitken's book, *Manage Your Money and Investments with Microsoft Excel*, helpful in getting started.

SHOULD YOU BANK BY CELL?

Many banks now offer the option of using your cell phone to view your balance, transfer money between accounts, or pay bills. You typically use your phone's Web browser, if it has one, or its text messaging system.

Banking by cell is certainly convenient. But is it safe?

The short answer: probably, as long as you take certain precautions.

Most banks don't allow you to do much, yet, with your phone. So, even if a bad guy did steal your phone, or hack into your cell's connection to your bank, the most he'd likely see is your bank balance. His ability to drain your account or even move money around would be pretty limited.

That's not to say there aren't risks. The vast majority of viruses and *malware*—software designed to do bad stuff—targets personal computers rather than phones. But it's not inconceivable that an attack could be directed toward a phone enabled for banking.

So, like most other technological conveniences, there's a risk/reward tradeoff. You can minimize the risks in the following ways:

- Don't download ring tones, photos, video clips, or anything else into your phone from an unknown site. Malware or software viruses could be tagging along.
- If your phone is Bluetooth-enabled, set it to the "non-discoverable" mode. Bluetooth is the short-range network that allows you to use wireless headsets and other devices; you don't want a hacker using it as a route into your phone.
- If you have a smartphone, download and run antivirus software.
- If your phone is lost or stolen, immediately contact your carrier (to shut off service) and your bank (to shut off cell access to your account). Don't store your online ID and passwords on your phone.

Set Up Your Command Center

If you have online access and a laptop, you can theoretically manage your financial life wherever you want. That's especially true if you've ditched paper bills and statements in favor of their emailed counterparts.

Most people, though, are going to want a designated space in their house to process bills, file paperwork, and run their economic ship. The obvious place to create your command center is next to the computer you use to pay bills. If your computer isn't in a good spot, with Internet access and a printer, move it to a place that can accommodate that and the other stuff you're going to need, such as these things.

- **Office supplies**—These include a stapler, paper clips, folders, paper (for writing complaint letters—sometimes you need an actual paper trail), envelopes, pens, stamps, Post-Its, and your checkbook. (We hope you'll soon become like some of my MSN readers, who haven't written a check in years, but until you're entirely comfortable with electronic payments, you may want to keep the paper checks handy.)

- **Tickle file**—Your bill calendar and alerts should prevent a bill from falling through the cracks. But if you're new to electronic payments, or you're still in the habit of being "triggered" to pay bills by the sight of such a bill, you may want to use a tickle file as a back-up reminder. (A tickle file "tickles" your memory about stuff you need to do.) You can use a folder or an accordion file; just make sure you use it *only* for bills, that it's kept separate from other paperwork you need to process, and that you consult it frequently (more about that later).

- **Storage**—Although some people work happily out of a banker's box (those cardboard storage boxes you get at office supply stores), I find it a lot more convenient to have a two-drawer filing cabinet nearby. You may need less space—just a single drawer—if your finances are very simple, if you don't own a business, or if you're in the habit of scanning most of your paperwork and destroying or archiving the originals.

- **A shredder**—As long as you've got paperwork with private personal information—Social Security numbers, account numbers, and so on—you'll need some way to dispose of it safely. Although you can get a basic shredder for as little as $20, you should invest in a more robust crosscut version that shreds more thoroughly and that can dispose of CDs.

- **A filing system**—Although some people are comfortable using a chronological system—filing everything by month, and trusting their memories to recall when something was filed so they can retrieve it—most people will find that an alphabetical system is more intuitive.

  You can divide it any way you like, but some common divisions might include

  - Autos
  - Bank accounts
  - Credit cards
  - Employment
  - Insurance
  - Investments
  - Residence
  - Retirement accounts
  - School
  - Wills and estate plans

You can divide the major headings from there. You'll probably want, for example, separate folders for different kinds of insurance: auto, disability, health, home, life, and personal liability (also known as umbrella coverage).

If you want a terrific ready-made system, let me put in a pitch here for HomeFile, a terrific organizing system created by two financial planners. Not only does it help you make sense of your paperwork, but it also tells you when to discard or archive what. You can find it at the Container Store or at www.homefile.net.

You'll also need some sort of system for handling receipts. Although your transactions will be increasingly handled electronically, you'll still need to track some dead-tree product now and then—for rebates, returns, business expense reimbursements, and the like.

Here's how I do it, using suggestions from Debbie Stanley's excellent book, *Organize Your Personal Finances in No Time*.

Every receipt I get goes into one of three pockets in my wallet, depending on its type:

- **Long-term**—Receipts I need to hold onto for tax purposes or to document big purchases
- **Action**—Receipts I need to submit for business expense reimbursements or rebate offers
- **Short-term**—Receipts I probably will never need again but that I want to keep handy for a few months just in case

Most of my receipts are of the short-term variety, and trying to sort and track them individually is too much of a pain. So I took three folders and labeled them "This Month," "Last Month," and "Two Months Ago." Every few days, I dump a wad of short-term receipts from my wallet to the "This Month" file. At the end of the month, I transfer those receipts to the "Last Month" file. Next month, I'll transfer this batch of receipts to the "Two Months Ago" file. At the end of the third month, I dump the contents of the "Two Months Ago" file in the trash.

I deal with the other receipts in my wallet every week or so—taking action on those that require it and filing the ones I need long term.

This system has served me well. I no longer have to face a mound of unsorted paperwork or a wallet that won't close because it's so jammed with paper. The only things I have to remember are making sure I put every receipt into my wallet (instead of letting the salesperson slip them into the bag, or stuffing them in a pocket) and emptying my wallet into the proper folders every few days.

Staying Up-to-Date

Once you've got your financial toolkit assembled, your bill payment systems locked in, your control panel in place, and your command center set up, you'll probably feel more in charge of your money than ever before.

Let's make sure that feeling lasts. For this system to work, you have to do ongoing maintenance. On a regular basis—at least weekly at first—you'll need to

- Check your bank balances and transactions
- Check your credit card balances and transactions
- Pay any bills that need to go out in the next week (if they're not being paid automatically)
- Update your cash-flow projection (which basically means deducting upcoming bills from your checking account total so you see what you have left to spend)
- Transfer money (if necessary) among your accounts

If your cash flow projection shows that your checking account will be getting a bit low by the end of the week, for instance, you may want to move some money from your savings account. Or if your property tax bill is coming up and you've been saving for it in another account, you'll want to shift that money into checking before sending out the payment.

If you use Quicken or Money, you can probably do all of this in 15 minutes or less. If you have to sign into a bunch of different Web sites and do your projections with a spreadsheet or by hand, you may need 30 minutes or longer at first.

Just make sure to do this update weekly. Set up regular appointments with yourself on your bill calendar, PDA, or other organizing system and make sure not to put it off more than a day or two. Once you're comfortable with the system, you may be able to cut back to every other week or so.

Or you may go exactly the opposite direction. I know some Quicken and Money junkies who update their software daily or even more often. It's actually fun for them to see exactly where they stand. Wesabe tends to have the same effect on folks: many who were clueless about their finances find themselves checking in with their accounts, and their new online money buddies, throughout the day.

You probably have better things to do with your time, but you may understand their enthusiasm when you feel that heady rush of being in control of your money, instead of your money pushing you around, for the first time.

WHEN YOU'RE TRAVELING

Using technology and online tools to manage your money is not just safer, more convenient, and more efficient. It's also a huge relief when you're traveling.

Automatic bill payments ensure that you won't come home to late fees, angry billers, and a dark house because your utilities were cut off. Online bill payment systems allow you to make sure all your other bills are paid while you're on the road. Online account access helps you monitor your bank account and credit card balances. (Just do it safely—don't use public computers or wireless hotspots or type in your account IDs and passwords where anyone else can see them.)

Whether you're traveling on business or for pleasure, you can relax knowing that you haven't forgotten a bill that will make your homecoming miserable.

Your Checklist

Here's your list of things to do from this chapter.

Set up your toolkit.

- ☑ Get online access to your accounts.
- ☑ Link your accounts electronically.
- ☑ Arrange for direct deposit of your paycheck.
- ☑ Set up overdraft protection on your checking account.
- ☑ Open a high-yield savings account.
- ☑ Consolidate redundant accounts.

Set up your bill-paying system.

- ☑ List your bills and due dates.
- ☑ Enter due dates on your bill calendar.
- ☑ Set up due date alerts.
- ☑ Consider using e-bills and e-statements.
- ☑ Choose the electronic payment method for each bill.

Build your control panel.

- ☑ Evaluate your options: personal finance software, account aggregation, account consolidation, Excel spreadsheets.
- ☑ Set up your command center with supplies, a shredder, and a filing system.
- ☑ Schedule weekly financial reviews.