

FINANCIAL PLANNING BUILDING BLOCKS

Most people count on traveling through life without hitting any major bumps in the road. People tend to make plans based on current income providing sufficient funds to achieve their goals. What happens, though, when you do hit a bump in the road? What happens to your lifestyle when something causes your stream of income to decrease or dry-up completely? Insurance can help in some situations, but most people also need to have an emergency fund so they will not have to borrow money or liquidate investments at a potentially inopportune time.

A good rule of thumb is to have the equivalent of about three months of fixed and variable expenses in liquid accounts for emergencies. Assuming adequate disability income insurance is in place, the emergency fund should help keep the budget going until insurance payments start. In times of financial stress, knowing you have three months of expenses covered, can give a great amount of mental comfort.

Which investment vehicles are appropriate for an emergency fund? Essentially, cash or cash equivalents should be used. Checking accounts, savings accounts, and money market accounts are all potentially good options. Certificates of deposit that mature in the near term (within 90 days) may also be used. The idea is to use only those investment vehicles which can be converted to cash quickly and without penalty.

Do you have adequate emergency funds? Why not take some time to add up your fixed and variable expenses. Multiply that amount by a number from three to six. That amount is what most people should have in safe, liquid investments earmarked as an emergency fund.

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