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# Assume Crash Position

## Preparing for financial hardship

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### ONE QUESTION SURVEY

If you lost your job, how long could your household get by without taking drastic measures (e.g., selling the house)? (Choose one)

- A week
- Six weeks
- Three months
- Six months
- A year

### REACT TO THIS STORY

Agree? Disagree? Stop sounding off to your computer screen! Instead, share your point of view on this subject with our readers.



### JUGGLE THIS

"Between 600,000 and 700,000 associates walk out the door at Wal-Mart each year. At \$2,379 per hire, that's \$1.4 billion each year that Wal-Mart spends on replacing employees."  
--Workforce Magazine, February 2004

### TELL A FRIEND

You've been asking for an easy way to share these articles with friends since Day One. To which we reply, "Uncle!"

"Oh, this is not good. Not good at all," said the structural engineer, crouching in our attic. Later, in our basement, he said something about our house being built in a "rather unorthodox" manner. By this time I had a sense of impending doom. His Einstein hair and German accent didn't help any.

Our house was collapsing, and it appeared likely that at some point our cast iron tub would crash through the dining room ceiling. The most I could hope for was that it wouldn't be during dinner.

What my wife and I assumed might be a \$3,000 home cosmetic repair had suddenly morphed into a \$30,000 structural makeover. This was our first home--owned for a year--and we were not mentally prepared for a project of this magnitude. The bigger issue, however, was whether or not we were financially prepared.

More than half of Americans have no plan in place to deal

with a household financial emergency, according to a 2000 survey by Yankelovich Partners. My wife and I were among them. We needed a plan to deal with this and the other horrible and costly crises that might come barreling towards us.

No one is immune to misfortune. "Disaster--a lost job, a premature birth, a divorce--is the defining theme of the financial lives of millions of families," write authors Elizabeth Warren and Amelia Warren-Tyagi. In their bestselling book, *The Two-Income Trap*, they encourage everyone to do a financial fire drill, reasoning "the time to prepare for an emergency is before the house catches on fire."

It's normal to fear improbable demise, such as the one-in-350 million chance that you'll be killed by a shark. Doesn't it make sense to devote the same level of concern to preparing for something more likely, such as needing to replace your car's engine or the one-in-33 chance you'll lose your job?

### **Stop, drop, and payroll**

"You need to make a plan and to consider what could be done now to make that plan feasible," write Warren and Warren-Tyagi. Making a plan includes talking to family. And if you think it's difficult to talk to your children about the birds and the bees, wait until you try to have the discussion about money and death with your partner and parents. It's human nature to believe that bad things can't happen to us, and (the thinking goes) if they can't happen to us then there's no need to discuss them.

What if my wife or I lost our job and we lost health insurance? What if one of our children became disabled? What if my father suddenly needed full-time nursing care? Or what if our house started to cave in? Oh wait--that already happened.

Running the drills means thinking about the unthinkable and asking some tough questions. Here are a few good first steps.

- If you're living on two incomes, pretend you have only one. Look at your monthly expenses. Could you cover them on that one income? What if the other wage-earner in your household lost his/her job? Don't forget to include benefits in your calculations.

- Prioritize your expenses. Make a list, in order, of things you'd toss to save money. Cable TV? That second car? A child's piano lessons?
- Ask your parents, however old, what financial plans they've made for property, healthcare, and death.

### **Expecting the unexpected**

My mother once confessed to me that she has no idea where my father keeps financial documents and records. Like in many families, one partner has taken on the role of home clerk, while the other person is kept (often voluntarily) in the dark.

Telling your family where those precious documents like wills and mortgage statements are is one thing you can do now to make it easier to weather financial disaster. Other ways are equally easy.

- Bring order to your filing cabinets. Everything has its place, and you should be able to locate last month's bank statement in 60 seconds.
- Get the basics, such as health insurance, homeowner's or renter's insurance (we are strangely not covered for the repairs to prevent our home from collapsing, but we are covered if the house actually collapses), and perhaps small business insurance.
- Discuss additional insurance needs--life insurance, disability insurance, and long term care insurance--with a financial advisor. Most will say, "buy them."

### **Money in the mattress**

Of all the variables in life, job loss may be one of the most disconcerting because the bills just keep coming. In this case, being prepared means having money you can access immediately--and lots of it. Financial experts say you should carry three to six months (more, if you're self-employed) worth of bare bones living expense money in some liquid form, like in a savings or money market account. (We carry an ultra-cautious ten-month supply of cash in the bank, though I never imagined that I'd use the entire thing for major home repairs.) The three-to-six month rule of thumb assumes it'll take about that long to find a new job. But really, who knows? It could take a week or six years.

Some layoffs come with a severance package, but it's best to assume you'll get nothing. Taking steps now will give you peace of mind--and some financial wiggle room in the event of job loss.

- Open a savings or money market account and start dumping money in it. Shove a major chunk in now if you can.
- Budget something for your emergency fund. Even a small amount per month adds up quickly.
- Make a list of people you can call upon for money in time of dire need. It might hurt your pride, but it won't hurt much else.

### **The safety net**

Hoping for the best but planning for the worst is neither optimistic nor pessimistic. It's just realistic. You never know how circumstances will rock your world.

When my wife and I purchased our home, the mortgage broker suggested we take out a home equity line of credit, which is a loan against the bit of our house we, not the bank, own. "People use home equity loans to buy everything from groceries to jet skis," he told us. "But that's crazy. You should have one in case your roof falls in."

I'm glad we took his advice, partly because our roof was indeed about to fall in, but mostly because it saved us when the structural engineer shrugged his shoulders and our contractor said, "Hmmm, it might run anywhere between \$15,000 and \$50,000. Depends what we find when we rip open the walls."

We've since paid back the loan, and now have a good chunk of cash socked away for the next unexpected disaster. Though it might seem like I lay awake each night, anxious about the sky falling, I actually sleep quite well. That's because I know if the sky were to come crashing towards earth, I not only have a plan for taking care of the cost, but I also have a new ceiling sturdy enough to keep it from harming us.

David Whitemyer has written for Fidelity Investments and the *Boston Globe*. In his spare time he enjoys studying cracks in the ceiling and worrying about things that will probably never happen.

REACT TO THIS STORY