

Your house might burn to the ground tomorrow. It makes the stomach churn just thinking about it. It's unlikely, but you're prepared. There are batteries in the smoke detector and a fire extinguisher in the kitchen. You've got home insurance, and the kids know how to "get low and go."

Doesn't it make sense to devote the same level of preparedness toward the more likely event of a personal financial emergency? You could lose your job, or have to leave work to care for an aging parent.

A sudden disability in the family could run up medical bills.

Bad things happen. Better to be prepared. Hoping for the best but planning

for the worst is neither optimism nor pessimism. It's responsible realism. It's mental security.

"Disaster — a lost job, a premature birth, a divorce — is the defining theme of the financial lives of millions of families," writes Elizabeth Warren and Amelia Warren Tyagi in *The Two-Income Trap: Why Middle-Class Mothers & Fathers Are Going Broke*. Their book has popularized the term "financial fire drill," meaning a mental run-through of financial what-ifs and the response that follows. Ask the questions, Can I survive if I lose my job?

EXPECTING

In the event of a financial emergency, here's how to keep your long-term plans afloat.

By David Whitemyer

THE UNEXPECTED

What will I do if Mom needs 24/7 care? And then run the numbers. The goal is to make sure that your money and your mind are set up so that you are prepared if the unexpected arises.



CLEANING HOUSE

But first, you've got to make sure that everything is in order. This means not only organizing current financial records, but also making sure that your most important paperwork, like wills and emergency contacts, are up-to-date. Review these records annually.

Once your information is tidy and placed where it can be easily located during a crisis, take that stack of paper and photocopy it. Leave a set off-site, away from your home — at a relative's house or in a safe deposit box, for example.

And, of course, there's no financial product so essential to tragedy as insurance. Regina Galvin Ballinger, a certified financial planner, advocates looking into disability, life, and long-term care insurance to make sure you have sufficient coverage. It's immobilizing life events that can really shift your savings into reverse gear.



STAYING AFLOAT

Financial experts typically recommend that people keep three to six months' worth of living expenses in an account that is liquid and readily available, such as in a savings account or money market mutual fund. Some even advocate keeping a year's worth on hand during uncertain economic times.

Having a reserve is one thing. Knowing how to use it is another. Don't touch it unless you absolutely must. And steer clear of dipping into your investment funds. You'll weather the storm, so don't sacrifice your retirement.

It's not just the big stuff like death and unemployment that might bite your wallet. Your furnace might break, or you'll need to buy five cross-country tickets to attend Aunt Mildred's funeral.

Theresa Brown, a Boston-area designer, takes her reserve budgeting one step further. In addition to having six months' salary tucked away, "I also assume that once every three months I'll have an arbitrary \$800 expense, like a car repair or travel to a family event," she says. Brown puts that money on top of her reserves for the minor what-ifs.



BEYOND THE BIRDS AND THE BEES

If you thought talking to kids about sex might be difficult, try having a conversation with your parents about death and money. It's a taboo topic among relatives, but implementing any disaster plan is going to be easier if everyone knows what everyone else expects.

As well as being clever with her savings, Brown is also no stranger to sensitive family talks. Her father-in-law has Parkinson's disease, which has become increasingly debilitating the past few years. They've discussed savings, medical insurance, and retirement homes. "We've even worked out a plan if my husband and I have to move in with his parents," she says.

"Meeting the cost of nursing-home care is an enormous concern for all families," warns Stephen Pollan, author of *The Die Broke Complete Book of Money*. "In some areas of the country, annual care runs as high as \$96,000."

Though it won't make money appear from thin air, a living will can make deci-

sion making less stressful for a family. Where a typical will is helpful in death, a living will determines expectations and decision makers in case of incapacity and an inability to communicate.



DUCK AND COVER

Finally, after getting adequate insurance, storing reasonable monetary reserves, and chatting with the family, it's time to put your plan together. Run your drill, do the math. Months' worth of liquid assets is essential, but exactly how will you spend it if the pink slip comes? Prioritize your fixed expenses, such as car payments and the cable bill, so you'll know where to begin cutting when things get tight.

Ballinger points out that "the time investigating these notions and getting comfortable with the options ahead of time will make their implementation either a done deal or make for swift implementation when needed."

There is a misperception that people who think about disaster scenarios and plan for them are anxious and worried. In fact, the opposite is true. When disaster does strike, it is those same people who tend not to worry at all because they have a pre-conceived process in place for dealing with the situation.

You have a one in 11.2 million chance of being killed in an earthquake. Yet, there are hundreds of thousands of people driving around with earthquake kits in the trunks of their cars, ready for the "Big One."

Go make a plan with your money as if there's a financial "Big One" heading down the fault line of your life. You never know when it'll come. And when it does, you can sleep well, knowing you're prepared.

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