

Can your financial safety net weather a crisis?

Have you ever evaluated how long you could go without receiving a paycheck and still cover your financial obligations? Many Americans are wrestling with that question now. My advice, it is better to evaluate your situation sooner than later with brutal honesty. There may be things you can do before you are faced with a financial crisis and have to put your plan into action.

Metlife released a study called the American Dream 2009¹ that showed half of Americans claim they could not go a month without a job before failing to fully meet their obligations. 25% of said it they would be in trouble just after 2 weeks. 51% feared they would have to file bankruptcy if they had a job loss. As a result many are changing their priorities as a reaction to our current economic times.

Stress Test Your Financials

One way to figure out where you stand is to simulate a job loss before it happens. How? Live on your disposable income for two weeks, a month and see just how long you can go without spending your regular paycheck. Bank your paycheck and the longer you can manage without touching it, the better off your financial situation is.

You might spend less, avoiding impulse or unnecessary expenditures to make the experiment work and by so doing get a true sense of what are truly committed expenses versus discretionary. You might also take a more serious look at where your money is going. Spending habits can be just that, a habit that is based on nothing other than routine. As your resources dwindle you may evaluate perceived “must haves” are really “want to haves”.

Stash Your Cash!

Everyone has heard they should have at least 6 months of cash in an emergency fund for situations that many are experiencing with job loss now. How many people are truly prepared for such an emergency? Are you?

Getting back to our Stress Test, as you find your reserve cash dwindling or you can't even go a couple of days without spending your paycheck, it may be time to face the realization that perhaps those expensive cell phone features, morning lattes, eating out, expenses are not as necessary as you thought.

Making changes now could allow you to save the difference in an emergency fund. Even if it is a little, it could make a big difference faced with a job loss.

If you still have equity in your house, it makes sense to investigate a mortgage refinance to potentially reduce your mortgage payment. It may also be wise to establish a line of credit in the event you lose your job. It will be too late to do that if you find yourself unemployed. Reduce unnecessary expenses, live beneath your means, save at least 10% of your income, and plan for the unexpected. Consider this, rename your emergency fund as your financial insurance bill and pay your premium monthly to your savings account.

Take your Stress Test now. Being in control of your financial life can be very liberating and potentially reduce financial stress in the future.

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¹ http://www.metlife.com/assets/cao/gbms/studies/09010229_09AmDreamStudy_Web.pdf