Financial Security in Uncertain Economic Times

What is financial security? Is it a realistic goal in current economic conditions? During past several years of economic turmoil, many of us have learned the hard way that we are not as financially secure or stable as we would like to be. We have learned that what we thought was a good plan to secure our financial future did not really work for us. While financial security may mean different things to different people, there are some common threads that likely apply to most of us. Expert financial planners commonly recommend having enough liquid assets to weather an extended financial storm. Another common recommendation is to be adequately insured against natural catastrophe or serious illness and disability. A third critical component for financial security is to have more cash flowing-in than flowing-out. Finally, the lower your debt the more likely you are to reach financial security.

The headache of economic uncertainty may make you think that financial security is out of reach right now. But, there is no better time for you to increase your efforts to plan for your financial future. You likely have already made some sacrifices, some of which may already be ingrained in your consciousness. To help you refine your plans, there are many resources available to you. Advice on reaching financial security can be found at Kiplinger’s “Eight Keys to Financial Security” or CBS Money Watch’s “Financial Security: 6 Steps for Protecting Your Money” or CNN Money’s “The 7 new rules of financial security”. Most major financial services and banking institutions, as well as state CPA societies, and the American Institute of CPAs, among others, have materials available to help you plan your finances.

While there is always some variation in the advice given, there is more commonality than difference. Some common threads of advice include:

- Prepare a spending and savings plan
- Build an emergency fund
- Protect your assets with adequate insurance
- Pay down your debt
- Invest in your future

In order to prepare a realistic budget - one that you can adhere to - you must know your fixed expenditures (e.g., mortgage, rent, insurance, and taxes) and your variable expenditures (e.g., food, utilities, recreation, and entertainment). In order to prepare an accurate budget, you need to track your expenditures for several months. Once you have done tracking, you will have a better chance of realistically separating necessary expenditures from impulse and frivolous expenditures. If you are like most people, you will probably find that this exercise of
tracking your spending will make you more thoughtful about what you are buying. So, even before you have refined your budget, you will find that you are starting to spend less and save more.

What are you going to do with that increased savings? There are so many options. You can build or rebuild, as the case may be, an emergency fund, you can make sure you have adequate insurance coverage, you can pay down your debt, and/or you can invest in your future (i.e., retirement savings).

To build an emergency fund, most advisors recommend saving enough to pay your non-discretionary expenditures (e.g., rent or mortgage payment, food, utilities) for at least six months. To ensure that you put money aside each month for this emergency fund, you should make this payment first. Then you should forget that the cash is sitting in your savings. Otherwise, you may be tempted to use this cash for discretionary expenditures.

Your insurance coverage should include life, disability, long-term care, health, and home. You may also want to add a personal liability rider to your homeowner’s policy. To determine the adequacy of your life insurance policy, you can use an online calculator. Be aware of changes in your health insurance due to recently enacted health-care legislation. Depending on your location, you may want to add flood and/or earthquake insurance to your homeowner’s policy.

Borrowing should be reserved for big-ticket items such as a house, education, or possibly a car. If you cannot pay the balance at the end of the month, do not use your credit card to purchase it. If you are carrying a balance on your credit card, you should try to pay it down as quickly as possible. Those items you purchased because they were such a bargain are not a bargain when you add the credit card interest.

It is never too early to start saving for retirement. This will take some effort on your part to make investments that will help you meet your goals. The extended bear market we have faced recently makes us realize the value of diversification and balancing your portfolio. Investing in your future requires some reflection on your part regarding your risk tolerance. It also requires time to research the various options for your investments.

Are there too many things to do? Where do you start? How do you prioritize? Whatever you do, be sure to do something. Now is not the time to be paralyzed into inaction. Take the steps you can take now to make progress toward financial security. Financial security may not be as elusive as you think.