Life’s Financial Emergencies: What You Can Do to Prepare

Many people plan for anticipated expenses, like paying for college and saving for retirement. Yet, when unexpected financial emergencies occur, individuals often find themselves unprepared. The fact is a job loss, serious illness, divorce or natural disaster can happen to anyone. Fortunately, there are steps you can take to prepare for a financial crisis. According to the Georgia Society of CPAs, having an emergency fund and adequate insurance top the list in times of urgency.

BUILD AN EMERGENCY FUND

CPAs generally recommend that you set aside money each month to build up a cash reserve equal to three to nine months of living expenses. To some extent, the size of your emergency fund depends on your financial circumstances. If you are married and both you and your spouse work, you may be able to get by with the lesser amount. Having adequate insurance and substantial investments may also lessen the need for a large emergency fund. Regardless of size, the funds should be easy to access. A money market or savings account are good choices.

Develop an emergency budget that shows the expenses you could cut and the minimum amount of income you would need to get by in a financial emergency. Also, think about ways you can increase income. For example taking a second job, renting out a room in your home or turning a hobby into a business are alternatives.

BUY ADEQUATE INSURNCE

Insurance is one of the best ways to protect you and your family. Many people have life, medical and homeowner’s insurance, but disability insurance and personal liability insurance are also important. Disability insurance replaces a portion of your income if you can’t work because of a disabling injury or illness. Personal liability insurance increases your protection beyond the basic levels provided under your homeowners and auto insurance policies. This is important in today’s litigious society, where multi-million dollar lawsuits are becoming more prevalent. Personal liability insurance also covers some losses not typically covered by standard policies, such as libel and slander.

ARRANGE FOR A POTENTIAL LOAN SOURCE

If you’re a homeowner, you should consider establishing a line of credit as a possible source of funds. It’s best to do this now as a precautionary measure. If you wait until you face a crisis, it may be difficult to qualify, particularly if you have lost your job.

With a home equity line of credit, you can tap into your home’s equity to meet emergency financial needs. You borrow as much or as little as you need, up to your pre-determined limit. Home equity lines of credit have a number of advantages over other borrowing options. First, they tend to carry lower interest rates, and you pay interest only on the amount you use. In most cases, the interest you pay on up to $100,000 of home equity debt is tax-deductible. However, be aware of the potential consequences. Should you default on payments, you run the risk of losing your home.

KEEP ACCURATE FINANCIAL RECORDS

Take the time now to collect and organize important personal information that you may need in the event of death, fire, theft or other emergency. Be sure that other family members know where to find bank account and PIN numbers, safe deposit box keys, insurance policies and contact information for your attorney, CPA and other professional advisors.

MEET WITH YOUR CPA

Everyone’s financial circumstances are different. A CPA can help you prepare a financial plan and identify steps that can protect your finances in an emergency.