

A quick look at....

HOW MUCH CASH?

Cash is trash!

Cash is king!

Your emotions pull you in wildly different directions when you try to figure how much cash you should have on hand. We are not talking about a checking account where your wages are deposited and bills paid. You should always have enough money to pay your bills. We are talking about how much more cash you need—just in case.

Just in case of what? Well, what if your car suddenly needs new tires or your furnace just gives up? Or worse, what if you lose your job and can't pay the mortgage? The one thing you can say with certainty is the unexpected will happen and if you are not prepared, it can topple your financial stability.

So, how much cash do you need to cover the unexpected? There are two categories of unexpected events that you must prepare for: ordinary emergencies and dire emergencies.

Ordinary Emergencies are not the end of the world but they are irritating. These common emergencies include being told your car's transmission needs a \$1,500 repair or your house needs a new roof—right now. Then there is the ever popular, "I forgot the car insurance is due this month!"

How much cash you need for ordinary emergencies depends on the stability of your income. If you have solid employment giving you a regular wage, then you need to set aside 10% of your annual income. If you make \$60,000 a year, you need \$6,000 tucked away in a savings account. This is not an investment; this is your emergency stash. If you need to dip into it, fine, that is why it is there. But you should replenish it as soon as possible.

If you have your own business or if your monthly income is variable (for example, commissions are a big part of your income), then you need to set aside 20% of your annual income. If you are a working couple where one is employed and the other is self-employed or retired, then you need 30% of your annual income resting safely in a savings account. These situations demand greater reserves because your monthly income is less reliable.

Some living situations demand a cash reserve based not on your income but on your expenses. If you are retired, you should have 30% of your annual living expenses parked in savings. If you are unemployed, you need 40% in cash to cover the expenses not being paid by a wage.



Dire Emergencies may not be the end of the world but you can see it from there. These are events we don't want to think about because they are seriously scary. This is losing your job and not knowing where to turn next. This is the conversation that begins with, "I'm afraid it is cancer." Dire emergencies bring normal life to a halt.

In the most important sense, a dire emergency is not about money. It is about supporting a loved one through a difficult illness. It is about having some stability as you search for a new job or train for a new career. The only financial certainty about a dire emergency is that you will have less income, often a lot less. How long this situation lasts depends on many factors, but your dire emergency fund should be enough to help you ride out the situation or adapt to a new normal.

Typically we recommend putting aside 20% of your mortgage balance or twice your regular emergency fund (whichever is larger). The concern is that as you deal with the important human aspect of dire emergencies you are not distracted by worries about losing your home. Setting aside this amount will typically cover your housing expenses for 2 to 2½ years.

Your Dire Emergency fund is apt to be a large number and often people cannot see themselves putting together that much cash. The good news is that you don't have to do it all at once. Also, you can use retirement accounts as a good place to keep this money. That way it is there when you need it and if you don't need it (hurray!), it is available for retirement.

The critical thing to remember about your Regular and Dire Emergency funds is that this money is not put aside for growth. This money is saved to smooth out the bumps we all encounter going through life.

Remember this is only an overview. If you have any questions, please contact us at **614-328-9319** or visit our web site **www.PartnershipFinancial.com**.

Partnership Financial LLC is registered with the state of Ohio. The material presented here is a general overview and believed reliable. However, its accuracy is not guaranteed and should not solely constitute the basis for personal financial decisions. The author specifically disclaims responsibility for any liability, loss, or risk (financial, personal, or otherwise).