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FINANCIAL

At Haussmann Financial, we have received many calls recently from clients regarding preparation for an unexpected loss of income. We have put together some strategies to explore. Ideally a client will be debt-free, perhaps have a low interest rate mortgage or have a car loan but be free of higher interest rate credit card debt and have 3 to 6 months' worth of expenses sitting in savings in the bank. That's the ideal scenario, reality is that only a small minority of folks still working live in this ideal scenario. Most are trying to reduce debt, build savings while they prepare for other future events like retirement, college or weddings for children or caring for their own parents. What can you do when the unexpected happens? Where do you turn next?

Let's look at some of the options that may be available.

1. **Savings Account**: The option of using savings is the ideal option as there's no cost associated with spending money that you saved up.
2. **Home Equity Line of Credit or a Personal Line of Credit from your local credit union or bank:** Use of a home equity line of credit or a personal line of credit usually will provide a lower yielding or lower cost borrowing than credit card debt.
3. **Borrow the money needed from a friend or family**: Borrowing from a friend or family is always a nice option, but it's not always available.
4. **Borrow from your retirement savings plan (401k):** If you are currently employed and active in your retirement savings, a loan can be available, but your plan may have certain limitations. A benefit of borrowing from your retirement savings plan is that instead of paying some other financial institution the interest, you're paying yourself the interest and there are no early withdrawal penalties. There may be a few fees to set up these loans.
5. **Withdrawing money from a retirement savings plan (401k):** If you withdraw from your retirement savings plan you are looking at paying income tax and possibly paying penalties if you are not of full retirement age.
6. **Diversify your Income Streams**: In today's uncertain economy, relying solely on one source of income can be risky. Consider diversifying your income streams by exploring opportunities such as freelance work, part-time jobs, or passive income investments. Having multiple sources of income provides a buffer against job loss and enhances your overall financial stability.
7. **Credit Cards**: Using credit cards is one of the higher cost options but it's a viable option IF money borrowed or money put onto a credit card is going to be paid off within a few months.
8. **Review and Adjust Regularly**: Financial situations can change over time, so it's crucial to review your budget and savings plan regularly. Stay proactive by regularly reassessing your budget, savings goals, and emergency fund adequacy to ensure you're on track to meet your financial objectives.

So, the short answer is going to be unique to everyone based on their financial situation and the options they have available. Reviewing your options and discussing the pros and cons with an advisor is highly recommended. If you feel you might benefit from a consultation, please contact me at Haussmann Financial and I'll be happy to review your situation.

Best regards,
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