WELLS FARGO

Special Report

Are You Prepared for a Financial Emergency?

Key takeaways

- *Life brings expected and unexpected events—an important part of every wealth plan is identifying where to access cash when you need it.*
- *More than just tracking your income and spending, cash flow (liquidity) management is about planning for unexpected cash needs. Without proper planning for an emergency, you might have to round up all your available cash or liquidate a long-term investment.*

What this may mean for you

- *There are steps you can take as part of a cash flow management plan to help protect your loved ones and keep a natural disaster from becoming a financial catastrophe.*

Mother Nature certainly has grabbed her fair share of headlines the past few years. From blazing wildfires in California to devastating floods in the Midwest, from massive hurricanes along the coasts to sweeping tornadoes across the Plains—millions have been affected by the recent natural disasters in the U.S.

Less headline-worthy are the financial repercussions following natural disasters and the cash difficulties tens of thousands of families are dealing with as a result. These catastrophes are unavoidable—and often there's little time to prepare before disaster strikes homes, families, and communities.

With this in mind, ask yourself this question: "What's the biggest threat to my financial stability?" Job loss likely comes to mind, perhaps followed by a serious illness or a natural disaster. But, lack of cash flow management should make the list too—and it's an ongoing challenge rather than an isolated event.

Consider cash flow management as a tool, not a goal

More than just tracking your income and spending, cash flow (liquidity) management is about planning for unexpected cash needs. Without proper planning for an emergency, you might have to round up all your available cash or liquidate a long-term investment. But liquidating could disrupt your investment plan. For example, retirement account assets may be subject to tax penalties for taking non-qualified distributions prior to retirement. You might do better keeping those assets invested to generate a long-term return—and keeping your overall wealth strategy intact.

It's important to keep in mind cash management planning should complement your investment planning. Not only does cash flow management allow you the flexibility to access money in the event of an emergency, it's a defensive tool to ensure your investment plan is well positioned and not disrupted.

Three steps for a cash flow management plan

Here are three steps you can take as part of a cash flow management plan to help protect your loved ones and keep a natural disaster from becoming a financial catastrophe.

1. **Set up an emergency account.** In addition to accounts where you currently keep cash assets (including checking, savings, certificates of deposit (CDs), money markets, or other cash alternatives), fund an emergency account as part of your cash flow strategy to help protect all your assets. Set aside enough to cover three to six months of expenses (the right amount for you will depend on your risk tolerance). Keep several hundred dollars in cash on hand in case your area loses power and ATMs are out of commission.
2. **Review your short-term and longer-term payment needs.** Understanding when you will need to draw on your money is key to an effective cash flow plan. Establish a strategy to cover your day-to-day expenses for funds you will need to access immediately, such as for food, clothing, medical, and transportation expenses. Your cash for short-term expenses should be very accessible, perhaps in a checking or savings.

   For longer-term expenses that reoccur on a regular basis, such as property taxes, you can afford to tie up your money for short periods of time in, for example, a CD. These types of investments offer a slightly higher return and you can manage the payout schedule to around the same time you will need the money. There are other more sophisticated solutions available where appropriate to help you meet your cash flow needs, and we suggest you discuss these with your relationship manager.
3. **Borrow against your non-retirement investments to cover a temporary need, then pay the funds back with an appropriate source when the timing is right.** Borrowing against your investments can offer a potential solution to short-term cash needs if your emergency fund doesn't stretch to meet all your expenses. This strategy prevents disruption to your long-term investment plan and can help keep you on track to meet your investment goals. This option should only be considered if you have a funded, taxable brokerage account to allow for flexibility.

Taxable accounts can be used as collateral for a Securities-Based Loan (SBL), which can provide interest rates that are much lower than other borrowing options (such as credit cards), higher credit limits, no mandatory minimum payments each month, and no credit check in some instances. It is possible to borrow from some types of retirement accounts, but this is not an option we would recommend due to potential tax penalties.

Planning for the unexpected

For a comprehensive review of your financial portfolio and to discuss how a cash flow management plan can become part of your overall wealth strategy, talk with your Wells Fargo Private Bank relationship manager.

Disclosures

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