Kitchen-Table Money Talk

Foiling Murphy's Law

By Gene Meyer

“Anything that *can* go wrong *will* go wrong” is an axiom that U.S. Air Force engineers, including one Capt. Edward A. Murphy Jr., coined in 1949 doing crash-test research in the California desert.

Much of the research is forgotten, but Murphy’s Law lives on. We try to take care of our retirement savings and personal finances, but some days, as the saying teaches, anything that can go wrong…

“There are so many variables involved—your finances, your health—that it’s really hard to come up with any plan for dealing with financial emergencies that fits everyone,” said David Wilson, a senior policy advocate and former Kansas AARP president in Overland Park.

Prevention is the surest way to avert financial emergencies in retirement or any other time, most advisers say. Even a cursory Google search produces list upon list of advice about how to build emergency funds, stay healthy, keep up your medical and long-term care coverage, and err on the side of caution when you project the returns your investments will earn.

Create a realistic budget, stick to it, resist impulse buying, avoid high-cost and high-risk investments, and shun any debt that a less financially disciplined loved one might obligate you to pay. Those are pieces of wisdom from the authorities at Nolo.com, an online legal affairs education website based in California.

Wilson favors an old-school approach to financial emergency planning.

“I’d say watch your debt, try to have enough cash to pay at least six months of living expenses, and know what your insurance covers,” he said.

That won’t protect you from every situation in an anything-can-go-wrong world, though. Some of the toughest problems to plan for may be major ones that fall short of a full calamity. Your car breaks down, the furnace or air conditioner shoots craps, or something else blows a $1,000 or $2,000 hole in your fixed-income budget.

“Those are situations everybody has to deal with,” said Ken Eaton, chairman of the Financial Planning Association of Kansas City, a professional organization of financial planners. “They become emergencies if you don’t think of them before they happen. If you do think of them, they don’t become emergencies; you just escrow a few extra dollars and make your cash reserve that much larger.”

But stuff happens. And you may need another one or two thousand you hadn’t planned on. You may have more resources than you imagine: cash on hand, savings, maybe some insurance money, or family members who are able to help. You also may be able to raise cash by cutting costs. Some expenses, such as dining out and entertainment, can be slashed completely; others, such as lights and other utilities, can be reduced by cutting back.

Borrowing judiciously may be a choice, Eaton said. “Judiciously,” in this instance, means as little as necessary to resolve the problem, and only if you know precisely where you will get the money to pay it back. In some circumstances—if your mortgage and other debt are low or nonexistent and you are comfortable with the idea—even home equity lines of credit might be worth exploring, he said.

Rates are competitive with other lenders and you get a tax break on that interest. Borrowing at recent 3.5 percent or 4 percent rates also would be more attractive than liquidating part of a longer-range investment growing, say, three percentage points faster, Eaton said. But borrow sparingly.

“We might consider this for a $2,000 debt, but not a $20,000 one,” he said. “Our biggest concern is the same as it would be for using credit cards. We need to manage the debt, not make down payments on larger debt.”

And again, anything that can go wrong will go wrong.

“You don’t want to borrow that $2,000, then have something else happen that will put another $2,000 on top of that!” Eaton said.

Gene Meyer is a Fairway resident and former staff reporter at *The Wall Street Journal* and *The Kansas City Star* who reports and writes about financial topics.