

Volume 09, Issue 07: Conquering Our Finances Part III

Picking up from part II of this series, we said it's more efficient to manage the four main categories of our budget in four separate folders, that is, bank accounts or whatever kind of folders each of us prefers. It actually doesn't cost anything to have a bank account today if you maintain the stipulated balance. We figured out how to manage our savings in two separate bank accounts and now we want to figure out how to best manage our immediate spending and future spending. But before we get to that, let's talk a little more about emergency savings.

The reason we separate our investment savings from our emergency savings is because we don't want to risk investing our emergency reserves in a long term investment vehicle that we can't access in the immediate term should we need it. We want our money to work for us, and not be out of reach when an emergency strikes. We don't want to hustle around trying to borrow to finance emergencies when we have resources stashed away in investments. That wouldn't be smart. We want to be able to sort ourselves out when we need to and not be desperate and at the mercy of others when we have already done the hard work of saving.

Our emergency fund should sit in an account or investment vehicle that we can access without notice, or within a few hours. We just need to be disciplined enough to access it only for the emergencies we defined the fund to be for when we set it up. Consider putting it in an interest bearing savings account. Bank accounts don't generate much interest, but that's okay because growth is not the point of this fund. The purpose of an emergency fund is to finance unexpected but defined emergency expenses.

There are different emergencies that we could find ourselves in. They could range from having to settle a loved one's big medical bill in the absence of insurance, to abruptly losing a job or business in absence of alternative sources of income. Let's focus on the latter. The question that comes to mind next is, what is the minimum level of emergency reserve we should aim to maintain at any given point?

Since it's hard to tell how fast we can secure another job should we abruptly lose the only one we have, the ideal level to aim for while still at our current job is an amount significant enough to cover our basic living expenses for 6 to 12 months. This implies that if your basic living expenses for a month cost 4,000 units, you want to accumulate a minimum of 24,000 to 48,000

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units. This would afford you enough breathing space until you secure your next income generating activity. Sometimes people stay for several months or years before securing another job, so the more we can accumulate in this reserve, the better.

Enough with savings, now we can talk about spending our 6,000 units. Everyone spends money on certain things. The difference comes in whether or not we are keeping track of the things we spend money on, we are happy with how much we are spending on each of them, and we are aware of the impact they have on our current financial well being and future financial independence.

Just a few weeks ago I finally admitted to myself that it's time to replace my old car that has served me well for 10 years. It needs to go because it's getting to the point where if I keep it any longer it could turn into a money pit, take me over the budget I have set aside for vehicle maintenance. What is clear in my mind about the potential purchase is what the value of the car I pick would translate to in terms of insurance and maintenance costs. I am already used to a rather friendly old car's insurance and maintenance budget that I want to be sure to not digress very far from just for the sake of having new car.

Prior to making a new acquisition, it's not enough to consider just the initial cost. We must think of the recurrent costs the acquisition will require thereafter. Unless our income goes up, increase in spend means reduction in savings. For my car situation, I had to consider how much more I am willing to spend on insurance and maintenance so that I pick my next car wisely, fully aware of what I am getting myself into. I had to consider the amount of units I am willing to reduce my savings by in order to accommodate the amount I have to top up to maintain a new car. Even when our income increases, it's not smart to up our spend. An increase in earnings should be an opportunity to save, give and invest more.

We have touched on one of future spending items to have on our budget for our 6,000 units, that is vehicle insurance and maintenance. I have seen people squabble when their insurance falls due and wonder how come they didn't know the payment was coming up. That's because most people only budget for their immediate spending then have to hustle to pay for future spending tickets when they fall due. Let's discuss all matters future spending and immediate spending in part IV.

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For His Glory,

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