Are You Prepared For the Unexpected?

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Besides 'death' and 'taxes', the other certainty in life is that life is full of unexpected events. So why aren't we more prepared for financial stresses when they occur?

With the odds of an unexpected event such as a job loss, a medical emergency, a debilitating accident, or a death in the family fairly high when you consider them all together, many Canadian families are just one paycheque away from financial disaster. When these risks are considered as a whole, the question is not IF a financial shock will occur, but when.

The issue really comes down to individual responsibility and common sense foresight. Financial stresses always arrive when they are least expected so individuals need to take steps to guard against the long-term financial consequences of unexpected events. Here are five essential steps everyone needs to take to prepare for the unexpected:

Establish an Emergency Fund

Everyone should have enough money set aside in a short term savings account to cover three to six months' worth of living expenses. And, no, a credit card is not an emergency fund. In fact, one of the primary causes of bankruptcy is the use of credit cards to fund emergency medical expenses or to pay living expenses in periods of unemployment. It may take a few years to accumulate it, but it should take priority over other savings goals.

Budgeting and discipline are the keys to sticking with a savings plan.

Insure your Life

If you have someone who is dependent upon you for their financial security, you need to adopt the mantra, If I have ability, then I have responsibility? Acquiring appropriate life insurance to protect your family from huge financial burdens when you are gone is far easier than most people realize.

Insure your Health

If you don't have employer provided extended medical insurance, you need to purchase your own. If you think you're young and invincible, recognize you're not, and then acquire proper coverage for major medical expenses like dental and prescription medicine. You can also contribute to a tax deductible Health Saving Account to help pay your deductible. If you shop around, you can find medical insurance companies that even provide coverage for people with pre-existing conditions.

Insure your Biggest Risk

Before you turn 65 you have a one in five chance of suffering a long term disability that will prevent you from working for more than 90 days. If your employer doesn't offer long term disability, then you should look into some individual coverage. Not everyone can qualify for it, so if you do, then you should acquire it.

Insure Your Assets

If you own it, and it is costly to replace, you should insure it: Everything, from your home, your car, to all of the possessions inside both. If you rent, you can still insure your possessions. If you own a home, then insure for full replacement value indexed for inflation. If your car is under four years old, make sure you have collision coverage, even if you have to select a high deductible.

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