

HOW TO BRACE FOR UNCERTAIN TIMES

By: Sarah Hughes, Senior Vice President, Private Client Advisor

During these challenging economic times, people are certainly spending more time at home—carving out work spaces rather than commuting to offices, preparing and eating meals in rather than dining out at restaurants, and creating new sources of indoor and outdoor entertainment rather than taking family vacations.

Most people would agree that the uncertainty surrounding their careers and current lifestyle choices is still a cause of daily concern and the primary reason for cutbacks on their personal spending. But if there's a silver lining to be found in these unprecedented times, it's that many Americans are saving money in record amounts for the unknowns that may lie ahead.

THE PERKS OF A 'FORCED SAVINGS' SITUATION

Perhaps you find yourself thrust into a “forced savings” situation too—one where you have more disposable income because there's less to spend money on right now. Or perhaps you're being conservative with your spending because of the unknown. Either way, sidelining your excess cash isn't necessarily a bad thing.

However, cash that isn't working for you could be working against you when you consider the effects of inflation. It helps to have a cash strategy to get you through the good times and the bad—but unfortunately there's no “one size fits all.” Having a cash flow plan in place helps define your goals, manage your cash, and protect your finances. Hopefully, the following tips can serve as a guide.

FUND AN EMERGENCY ACCOUNT

The first step in creating (or updating) a cash flow plan is to review your monthly budget—then stick to it. Many individuals at all income levels are maneuvering job uncertainty right now. The income, bonus, and raise you plan on today could be downsized or eliminated with little or no notice. A budget that tracks annual spending helps you separate essential expenses from discretionary ones. Should you find yourself with less disposable income at some point, you can more easily see the discretionary areas where you can cut back if needed.

Next, make sure you have an emergency savings account built up to cover job loss, an emergency, or shortfall in expected income. “It's important to set aside three to six months in cash for a salaried worker and six to twelve months or more for a self-employed worker or business owner,” recommends Koji Watanabe, Vice President and Senior Financial Planner at Commerce Trust Company. Do not combine these emergency funds with existing checking, savings, certificates of deposit (CDs), and money market assets.

AMERICANS ARE CURBING THEIR SPENDING AND STOCKPILING CASH

According to the U.S. Bureau of Economic Analysis, the personal savings rate hit a historic 33% in April. This rate—how much people save as a percentage of their disposable income—is by far the highest since the department started tracking in the 1960s. April's mark is up from 12.7% in March. The increase in savings came as spending declined by a record 13.6% for the month.¹

Deposit enough cash in the emergency account to cover your day-to-day expenses such as food, clothing, medical, and transportation. Put in adequate funds to cover regular monthly payments such as your mortgage and utilities. Also, you might want to have ample cash in the account to cover deductibles for insurance—car, health, and homeowners—should you need to file a claim. The amount of cash in the emergency account should be tailored to your needs—and your family’s—based on your lifestyle.

KEEP YOUR OVERALL WEALTH STRATEGY INTACT

Investors should consider keeping their emergency fund cash separate from the cash kept in their portfolio to take advantage of new investment opportunities without having to sell existing investments and potentially create a taxable event.²

For example, this might be a good opportunity to use extra funds to replace 401(k) contributions that may have been reduced or cut by your employer because of the economic downturn. With the extra cash on hand, you could increase or maximize your contributions to your IRAs and other retirement and investment accounts.

ESTABLISH A LINE OF CREDIT

Rather than using funds in your savings account for a large purchase, you may want to establish a line of credit instead. It’s one way to access cash and continue to enjoy low interest rates when you want or need to buy a big-ticket item. Borrowing against the equity in your home or non-retirement investments can provide for short-term cash needs if you choose to put your extra cash to work in other ways.

PAY OFF DEBT OR INVEST

Paying off debt vs. investing extra cash is a personal choice based on your unique situation. If you’re debt averse, it may give you peace of mind to reduce debt even when your finances could benefit more from investing the cash. However, if you can earn more by investing the money than you would pay in interest on the debt, it’s better to invest. Likewise, if the interest on your debt is more than you would earn through investing, you should consider paying off the debt.

FINANCE OR PAY CASH

Houzz, an online home remodeling platform, reported a 58% annual increase in project leads for home professionals in June 2020.³ You may want to consider a remodeling or home improvement project that will add equity to your house in the long term and provide enjoyment for your family now.

If so, consider this: The old adage that “cash is king” may not hold true in a low interest rate environment. If you’re able to invest your cash and earn 8% while borrowing for a home loan at a lower percentage rate, it’s more advantageous to borrow for the purchase and invest the cash, earning a higher interest rate. Even a small difference between borrowing rates and interest on earnings can benefit your portfolio.

KEEP AN EYE ON YOUR CAREER OPTIONS

As we mentioned earlier, many people are navigating difficult, challenging employment issues these days. If your employer is scaling back with pay and benefits, it might be a sign that job loss is not far behind. Keep an open mind, a positive attitude, and consider looking for other career opportunities while you still have a job.

NEXT STEPS

These considerations are just a few of the many ways to maximize and manage your excess cash within a cash flow plan. Contact Commerce Trust Company today. Together we can explore a variety of options for cash management solutions and help you make educated decisions based on your goals and unique financial situation.

¹ Maggie Fitzgerald, "U.S. savings rate hits record 33% as coronavirus causes Americans to stockpile cash, curb spending," <https://www.cnbc.com/2020/05/29/us-savings-rate-hits-record-33percent-as-coronavirus-causes-americans-to-stockpile-cash-curb-spending.html>

² Consult your tax advisor

³ Diana Olick, "Pandemic home remodeling is booming: Here's what your neighbors are doing," <https://www.cnbc.com/2020/08/07/pandemic-home-remodeling-is-booming-what-your-neighbors-are-doing.html>

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Sarah is a private client advisor and team leader for Commerce Trust Company. She serves as a senior consultant and relationship manager providing clients with personalized objective advice and oversight across all of our services, including trust administration, financial advisory services, private banking, and investment management. Sarah facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience. She has knowledge encompassing revocable trusts, irrevocable trusts, IRAs, conservatorships, estates, and special needs trusts. Additionally, she reviews sophisticated estate plans, legal questions, sensitive family situations, and complex property transfers as well as coordinates the services provided by our investment management, real estate, family business, private banking, and tax preparation teams. Prior to joining Commerce Trust, Sarah worked for seven years in trust administration for The Northern Trust Company in Chicago. She also practiced estate planning as an associate attorney with Thomas M. Schroeder & Associates. Sarah is a past member of Notre Dame de Sion High School Alumni Associate Board, a current member of the Kansas City Rose Society Board and founder of their young professionals board. She also volunteers at the Humane Society of Greater Kansas City.



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