

COVID-19 Pandemic - Were You Prepared With An Emergency Fund? How Will You Navigate the Months Ahead?

It is during times of crisis and panic that people finally realize the importance of an emergency fund. I know it's not sexy or cool to have a bunch of cash sitting around...especially when others say that that cash could be working for you. But I've met a lot of people over the years who live far too tightly month to month than I would have the stomach to do. And it's an unfortunate sad truth that even before COVID-19, most Americans were already only one paycheck away from a personal financial crisis. Now we find ourselves in the middle of a pandemic that is bringing the world economy to its knees as we try to protect the health of the world's population, which could test even the most prepared of us.

For some, it may be too late to finally get around to building up that emergency fund. But for others that are still collecting a paycheck, I encourage you - as I have encouraged those who work for me - to save as much as you can over the next few months. This means cutting out all nonessential spending. None of us know how long this will last or how long the paychecks will keep coming. We are only a few weeks into this and we have only seen the beginning of the hard decisions that so many companies are going to have to make. I can tell you from working in Finance for my entire career that companies are currently scenario-planning and coming up with expense cuts to be made. You need to know that they are reviewing their entire list of employees and ranking them from essential to nonessential. I don't write this to scare you but instead to inform you.

The government will step in to try and soften the blow but there is only so much it can do. No government measures can possibly save every single job. And government definitely cannot stave off all of the pain undoubtedly ahead as a result of these very challenging times we find ourselves in.

I wrote a post almost three years ago titled "[Can These Good Times Last Forever? What Happens If The Music Stops?](#)" and for the first time since the Great Financial

Crisis I think we can all agree that the music has in fact stopped. I knew then that at some point, some unknown event would come rock all of our worlds. I think everyone intuitively knew this. All you have to do is look back on history and see that it's never been sustained rainbows and butterflies. I have always believed that you can't have the sweet without the bitter. Just like you can't have life without death. It is the contrast inherent in this fact that makes life so precious.

Before we move on, I would like to share the opening of that post I linked above as a reminder of the choice we have in both times of euphoria and gloom.

Most people who know me well would likely describe me as a super optimist and that's the way I prefer to live life. The alternative is to be a Negative Nancy, draining the energy of self and everyone else around.

*I tend to believe that **OPTIMISM** actually **CREATES ENERGY, EXCITEMENT, and PASSION**. I would go as far as to say that optimism is the path to happiness and fulfillment in life.*

*On the flip-side of the coin, **PESSIMISM** is the **ULTIMATE DESTROYER** of all the good things in this life. Therefore, pessimism is the path to depression and disappointment.*

*What path would **YOU** rather be on? The key thing to realize is that the **CHOICE** is yours to make.*

If you choose the former ([to be an optimist like I do](#)) over the latter, it doesn't mean you won't have your pessimistic moments. We all need to be a little pessimistic at times. It's important to acknowledge from time to time, that the world is not all rainbows and butterflies.

There are bad things that happen in the world.

There is risk.

And no one is immune to inevitable bad luck.

*That said, as an optimist, this **pessimistic thinking should only consume 1% of your energy at most**. You should acknowledge the downside, prepare with a contingency plan, and then move back to building your wildest dreams.*

I don't know about you, but these were words I needed to re-read. I plan to refer back to this over the coming weeks and months as we work through these very challenging times. I have never been one to be a fear monger but I have always acknowledged and prepared as best I can for the eventual unknown risks that lie ahead. It took me years to finally put words to my approach but these days I refer to it as my "risk mitigation first" approach to personal finance.

Accessing Your Minimum Monthly Spend (MMS)

I was already stress-testing our own finances back three years ago when I wrote the post that the above excerpt was pulled from. Since then we have only taken additional steps to de-risk and build a solid financial foundation. And now that we find ourselves in the eye of the storm with tons of uncertainty I think it's a great time to revisit what our minimum monthly spend is today - three years later (I encourage you to do go through the same exercise). Unfortunately, I made the decision to stop tracking our spending starting in 2020, but that's okay because I still have all the details in our [Personal Capital](#) account. I also have our history from the previous five years of spending of which I think 2019 is most relevant.

We have purposely been setting up our financial life for ultimate optionality and flexibility. And therefore our fixed expenses are very minimal compared to most households. But before we dive into that analysis, I would like to share one additional excerpt from [that post I wrote three years ago](#):

*Frankly, the current euphoria in the market has me cautiously optimistic, as my gut tells me we are in for a potential **Frozen Twinkie** situation. You may be wondering what a Frozen Twinkie situation is, so let me explain.*

It's when someone hands you what appears to be a regular, chemically engineered, and delicious fake food known as a Twinkie. You bite into it with excitement and joy, only to find out that it was completely frozen in the middle, causing you to chip your tooth.

Because I get the feeling that the good times may have a speed bump in the near future, in addition to addressing everything above I also felt compelled to look at our spending from a minimum monthly perspective. I actually had this conversation with my wife and accidentally freaked her out a bit, but I explained to her that I wanted us to be prepared with a contingency plan to cut way back in the event of a major blow to our current standard of living.

Historical Expenses As a Starting Point

GYFG Historical Expenses	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Expenses					
<i>Childcare</i>	-	-	-	-	22,201
<i>Health Dental Vision</i>	10,827	11,565	10,690	10,954	16,534
<i>House Mortgage & HOA</i>	38,091	55,497	47,618	168,828	134,819
<i>Home Improvement</i>	17,888	10,944	14,845	6,761	35,097
<i>Condo-Mortgage & HOA</i>	15,899	16,343	12,978	-	-
<i>Food & Dining</i>	19,735	26,882	27,301	28,177	23,799
<i>Shopping & Other</i>	20,215	26,935	62,374	42,130	59,059
<i>Travel & Hotel</i>	5,907	4,195	10,046	12,668	17,947
<i>Auto & Transport</i>	8,533	7,918	8,662	9,457	13,159
<i>Bills & Utilities</i>	5,870	5,711	6,509	6,717	5,272
<i>Health & Fitness</i>	2,871	3,813	4,193	6,652	1,750
<i>Business Services</i>	1,929	1,684	1,512	11,869	7,369
<i>Time Share</i>	605	380	765	586	600
Expense Total	148,369	171,868	207,494	304,799	337,605
<i>Less Amortizations</i>	22,364	39,766	35,854	153,548	128,903
Adjusted Spending	126,005	132,102	171,640	151,251	208,702

Note: We no longer have a mortgage as we paid that off in May of 2019. I had always added back the amortizations since these were really just a balance sheet transfer. Going forward we no longer have any amortizations to add back. The adjusted spending is the real expense base I will be starting from.

As I look at the above, it is very obvious that lifestyle inflation has certainly crept in, and that was by design. The [law of 50/50](#) that has guided our financial lives since 2015 provided for a free pass to lifestyle inflation. That said, we've tried to be careful and not lock ourselves into an expensive lifestyle by committing to lots of fixed costs. Therefore we worked to make our spending as variable as we could. As you look at the above, you will notice in red font that I've added the previously excluded insurance premium costs for benefits like health, dental, and vision. This was intentional on my P&L in years past as I treated them like a tax, something you had to pay off the top, because now it's the law!

The cost of our premiums plus contributions to an HSA account to pay for our deductibles and out of pocket expenses had been pretty flat from 2015 through

2018. We then had our first child in late 2018, which caused a significant increase in these costs. And, now in 2020, I run my own business and pay 100% of those costs. The annual premiums to cover the GYFG household are \$13,316 and that is for a high deductible plan that has a max out of pocket for the family (if in-network) of an additional \$16,300 (it's double that if out of network). This is certainly an expense I want to make sure I pick up in my analysis in calculating our MMS.

Although I've only provided the high-level categories, I do have the detailed expenses that roll up into each major bucket in the above, which is much more helpful in conducting this sort of analysis. Since we are using 2019 as our base year, we are cutting from our most gluttonous spending year on record. My goal for this first pass was to accomplish two things:

- (1) Better understand where we are spending money.

- (2) Then identify enough "fat" to cut in order to get our annual spending below \$100,000 per year.

Yes, I did say "first pass," because if this thing goes on longer than a couple of months, we will go back to the chopping block and keep adjusting our lifestyle and expenses as needed. I witnessed far too many people during the last financial downturn not cut deep enough or fast enough, which led to compounding pain for them and their families.

After reviewing our expenses (and cutting many as I went through this review by canceling memberships and subscriptions) we landed at an MMS of \$8,068 or \$96,814 annually (see expenses listed below).

Minimum Monthly Spend		
Expenses	Monthly	Annual
Daycare	1,240	14,883
Health Dental Vision	1,110	13,316
Groceries Household	1,000	12,000
Car Payment	923	11,076
Property Taxes	625	7,500
Car Home Umbrella Insurance	366	4,390
Cleaning Service	320	3,840
Boat Slip	268	3,210
Cell Phone Plan	223	2,677
Fuel for Cars	200	2,400
Arise Africa	200	2,400
Whole Life Policy	146	1,750
Beachbody	124	1,489
Dog Food	120	1,440
Life Insurance	108	1,300
Wine Membership	100	1,200
Blog Editing	100	1,200
Hawx (Pest Control)	89	1,068
HOA	84	1,008
Trash Service	80	960
Water (Utility)	80	960
Vehicle Registrations	71	850
Massage Envy	70	840
Timeshare	69	832
Internet	69	828
Little Yoga Room	60	720
Gas (Utility)	35	420
Yard Man	35	420
Onstar	35	420
Kiwico, Inc	27	325
Electric (Utility)	50	600
Showtime	10	120
HBO	10	120
Hulu	10	120
GYFG Email	6	72
Costco	5	60
Total	8,068	96,814

This represents a cut of \$111,888 vs. our 2019 spending of \$208,702 (a 53.6% cut). In addition to that, we have also identified the additional expenses that we could/would cut if things get really bad in the next couple of months (or reduce like the insurances I highlighted).

If you add all of the expenses in red, they total \$38,191 annually. This would bring our MMS down to \$4,885.25 or \$58,623 annually. This would only happen if things get really bad, as in my wife and I both lose 100% of our income. This is a level of spending that we could sustain for years without any income and drawing from the liquid portion of our net worth (CASH).

This preparation may be overkill but it is going to help me sleep at night. I would rather be quick to act and have that action be unnecessary than to continue as if everything will go back to how it was as soon as these restrictions related to the COVID-19 pandemic are lifted. This is not me trying to scare you, it's me leading by example, and I hope you will undertake a similar exercise and put your own contingency plan in place.

I've now spent my 1% on pessimistic thinking. I'm prepared for whatever comes my way and will now return this channel to our regular programming as seen through my [optimistic lens](#). Although I can't predict how painfully or for how long our lives will be disrupted, but I can say with full confidence that we (the world) have decades of prosperity and happiness ahead of us. We will emerge from this more resilient than ever. This crisis will ultimately lead to more innovation and unintended insights that will propel us toward a brighter tomorrow.

Onward & Upward!

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)