

Life events

Impacts on liquidity and cash flow

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Reviewing and managing cash flow is critical in helping you achieve your financial planning goals and objectives. By working with your Ameriprise financial advisor, you can better understand how major life events could impact your current cash flow, which could ultimately impact your long-term goals and the lifestyle you want tomorrow. You should consider your ability to access cash for emergencies and ensure you have a plan in place for cash reserves.

Next steps

- > Talk to your financial advisor about your ability to access cash for emergencies
- > Understand the potential impacts of major life events on cash flow and liquidity
- > Consider opening a Home Equity Line of Credit as a second tier cash reserve

Location of wealth

The location of your wealth and your ability to access it for emergency needs is an important factor to discuss with your financial advisor. According to the Federal Reserve, 28% of America's wealth is found in the house and over 65% of Americans have more wealth inside their primary residence than all other qualified and non-qualified investments combined.¹

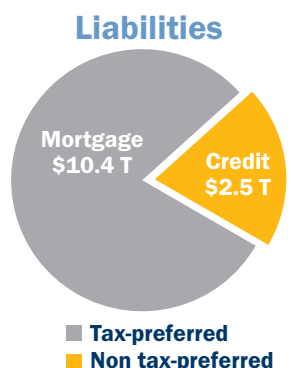
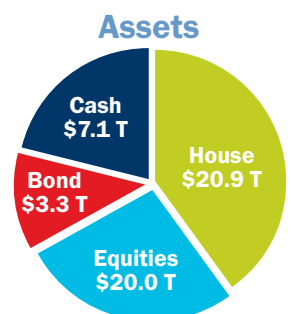
In addition, many of these investments may not be considered liquid and could involve penalties and tax consequences in order to access funds. An alternative solution to liquidating investments could be borrowing the needed money, using credit cards or unsecured loans, for example, which are non tax-preferred or leveraging the wealth in your house, which is tax-preferred.

Accessing wealth

Accessing wealth from a primary residence can be done in one of two ways: selling the residence (a two- to six-month process), or borrowing from the residence (a one- to three-month process). The borrowing, while faster than selling, typically requires that the borrower qualify to access their wealth. However, not only can major life events impact current cash flow, they can subsequently affect the ability to borrow should you need access to house-related wealth.

¹ Federal Reserve Survey of Consumer Finance — Z1 Report, Q1, 2008

Location of America's wealth



Impacts of major life events on liquidity and cash flow

The “Social Readjustment Rating Scale”² is a tool that asks individuals to rate the impact of 43 life events that they experienced in the prior year based on the difficulty of returning to their normal lifestyle. While most of us have cash reserves for short-term emergency needs, a major life event might create the need to leverage the wealth in the house.

Consider the top 10 traumatic life events outlined below. Determine whether the event would increase or decrease cash flow, as well as if it would increase or decrease the ability to borrow wealth from the house by simply clicking once in the empty box to the right of the blue or red arrows below.

Rank	Life event	Traumatic impact	Cash flow impact		Borrowing impact	
1.	Death of spouse	100	▲ []	▼ []	▲ []	▼ []
2.	Divorce	73	▲ []	▼ []	▲ []	▼ []
3.	Marital separation	65	▲ []	▼ []	▲ []	▼ []
4.	Death of a child	53	▲ []	▼ []	▲ []	▼ []
5.	Disability	50	▲ []	▼ []	▲ []	▼ []
6.	Marriage	50	▲ []	▼ []	▲ []	▼ []
7.	Job loss	47	▲ []	▼ []	▲ []	▼ []
8.	Remarriage	45	▲ []	▼ []	▲ []	▼ []
9.	Pregnancy	40	▲ []	▼ []	▲ []	▼ []
10.	Birth	39	▲ []	▼ []	▲ []	▼ []

There are many external factors that could limit or eliminate the liquidity of wealth in the home. Lending criteria such as career stability, credit scores, and income are just a few examples. A change of career could lock-up house wealth for two years. A change in credit score could lock-up wealth in the house until it has improved. A lawsuit (including divorce) could lock-up wealth in house until it has been settled. The same might be true of identify theft.

This exercise is helpful to go through with your financial advisor. Discuss under which circumstances you would feel more confident having the wealth inside the house and under which circumstances you would prefer having your wealth outside the house. Together, you can best determine your ability to access cash for emergencies, make decisions about the location of your wealth and ensure you have a plan in place that works for your unique situation.

² *Journal of Psychosomatic Research*, Thomas Holmes and Richard Rahe, 2002



Financial Planning > Retirement > Investments > Insurance > Banking

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