STUFF HAPPENS

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CAN EMPLOYERS AND EMPLOYEES PARTNER TO HELP DEAL WITH THE FINANCIAL EMERGENCIES WE FACE?

“People keep telling me that I need to keep 3 to 6 months of expenses in a liquid savings account? That’s over $10,000.

But wait a minute, why would I need $10,000 in emergency expenses when my husband and I have steady jobs? Besides, I don’t see how we can spare anything from the $3,500 we take home. It would be easier just to put any unexpected expenses on a credit card, and pay it off over time.”

My cousin said this to me at a family gathering recently. And she’s not alone in her thinking. Most people don’t have the 3 to 6-month emergency cash reserve recommended by financial advisors. Why? Because they’re convinced either that they won’t ever really need it, or that they can easily rely on credit cards to get them through tough times.

Let’s see what Murphy’s law can do to put this in perspective:

Health Insurance Deductibles: Many of us have what they call high-deductible health care plans. That often means the deductibles are $2,500 to $5,000, or more. So if my daughter needs an emergency appendectomy, my high deductible will be reached. That means $4,000 comes out of my pocket.

Car Insurance Deductibles: I have 2 cars and 3 drivers and my auto policy has a $500 deductible. It's not hard to do $500 of damage to a car, so add in $500 for a cracked windshield that happened when the truck in front of me kicked up a rock as we were driving to the doctor's office.

Homeowners Insurance Deductibles: My California homeowner's policy has a $500 deductible for all claims. My car was broken into last year and we lost a laptop. That claim cost me $500.

So if Murphy's Law pays a visit and leaves you with an emergency appendectomy, a broken windshield and a smash-and-grab, out-of-pocket costs will be $5,000. This doesn't include any of the other expenses that may occur.

Now let's look at what happens if we put that on a credit card.

At 21% interest, the card will require payments of $326 a month for 18 months to pay off the $5,000 balance. That $326 is nearly 10% of my cousin's $3,500 monthly income. This means she would have to find $326 that her family is spending now and cut it out of their monthly budget. She will also pay $872 in interest.

Where else can you come up with this kind of cash quickly? Maybe your boss can give you a cash advance. Or you can borrow from a friend or family member. Not many of us can or want to put ourselves in that kind of awkward situation.

Wait a minute, what about the “financial wellness” programs you’ve been hearing about at work? How does any of that help you in a financial pickle like this?

One new benefit being offered by a few employers is a zero-interest loan.

Sound a little too good to be true? That’s because it’s actually only “zero-interest” to the employee – the employer who offers this perk picks up the tab on the interest. The borrower (employee) is only responsible for paying back the principal. And rather than lending the company’s money, the employer partners with a 3rd party lender who makes the loan. The employer pays the lender the interest, on the employee’s behalf. (Someone apparently figured out how to unhook the interest caboose from the principal train.)

Let’s say I need a $5,000 loan. That’s the amount I would receive after being approved, and that is also the amount I would repay, not a penny more. My company would, separately, make a payment, usually a few hundred dollars, to cover the interest and fees with a one-time, lump sum payment to the lender. It’s paid upfront on the day the loan is made.

After that, my company is out of the picture. The loan is between me and the lender. If I make the monthly payments on time, as I would have done with the credit card, I pay no interest whatsoever. From the first moment I get the loan, it's a private transaction just between me and the lender. My company has no involvement or information about my loan once they make that upfront payment.

Now THAT's a perk worth a lot of gratitude and loyalty – and likely to generate a lot of goodwill for any company offering it to its employees. It's a solution that is clearly a win-win for all sides – in companies, non-profits, or indeed any organization that employs people who might someday face an unplanned visit from the Murphy's Law enforcement unit.

One appendectomy, one car accident and a lost laptop – it's a situation that for many of us could be just one banana peel away. The lesson for all of us? To pray for health, good luck, and the good fortune to work for a boss who is open to adopting the kind of financial wellness benefits we can actually use – especially when stuff happens and life doesn't go according to plan.

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