



In this five-part series, [Merrill Edge](#) answers your pressing questions about financial planning. Read on for Part 1.

- **Unexpected, costly events can happen at any moment, making it difficult for even the “best” planners to adapt to. What can I do to better prepare financially for any unplanned expenses?**

If you have not yet established a financial safety net, or emergency fund, to give yourself a “soft landing” in the event of an unplanned expense, you may not be financially prepared, which could lead to unwanted debt. In fact, according to our recent [Merrill Edge Report](#), most Americans don’t feel prepared for life’s “what-if” scenarios, as the majority are not very confident they could achieve their financial goals if they were to get a divorce (71 percent), have children (64 percent) or outlive their significant other (48 percent).

To help you get started in creating your “safety net,” be realistic. Ideally, your emergency fund should be able to cover at least six months of living expenses, but you shouldn’t expect yourself to save every penny you’ll need all at once. Start out small and look for easy to identify areas in your spending where you can cut back. Instead of spending this money, you can consider adding it to your emergency fund to create your financial cushion. You should also think about how much you can spare from each paycheck and use automatic deposit or transfers to add to that cushion.

If you keep the emergency savings account separate from everyday banking accounts, you might be less tempted to spend what you saved. But, no matter where you stash your extra cash, it is important that those funds are accessible and safe, for instance in a savings account.

- **I have a 401K at work, does that count as a “financial cushion?”**

If faced with an unexpected financial hardship, using the savings from your employer's retirement plan (such as a 401(k)) or your IRA should be your last possible option. Before you consider this as an option, you may want to meet with a financial professional who can help you determine the best strategy for you in any given situation. He or she can also help you pursue your other long and short-term financial goals despite an unplanned financial emergency. If faced with that option, be sure to know what rules apply to your account. Depending on the plan, you may be allowed to borrow the money, but be aware of some of the possible issues, including:

- A possible taxation on withdrawal, if the funds are not used as a loan for repayment.
- Required automatic deduction from your paycheck for the repaying the loan will cause a decrease in take-home pay.
- The potential need to repay the loan in full if you leave your job.
- If you don't repay the loan as agreed when you take out the funds, it becomes taxable income. There is also the potential for an additional early withdrawal tax if you're younger than age 59½, and no exception applies.
- There are no options for a loan with an IRA. The details for a temporary withdrawal, called an “indirect rollover” are best discussed with your plan manager or tax advisor.

- **What should I know about debt, especially from credit cards?**

Think of everything as a give and take in finances. If you are saving on one hand but carrying debt with a high interest rate on the other, it could counteract growth your savings generate—especially when interest rates on deposits are low and credit card interest is high.

Paying extra for items through interest is a drain on your ability to save, pay down debt and invest. The first place to start is paying off the credit cards that carry the highest interest rates. Next, as you pay down your debt and feel some breathing room, take those funds that were being spent on interest to set up an automatic savings plan. Regular deposits placed into a designated savings or retirement account, even small amounts, can add up to substantial savings.

Corine Hatén is a licensed Merrill Edge Financial Solutions Advisor. Licensed in eight states, Corine has been assisting customers save and invest for what matters most in their lives for 17 years. She can be reached at 602.867.6758 and is located at 13008 N. Tatum Blvd in Phoenix.