Holistic Personal Finance

How to pay for the life you want

Alexandria Blaelock

This book is available in:

- ebook (US$6.75) ISBN: 978-0-9944415-4-6
- paperback (US$19.95) ISBN: 978-0-9944415-5-3
- hardback (US$29.95) ISBN: 978-0-9944415-6-0

This sample is from the print version.

It is currently available for sale from Amazon, Barnes & Noble, iBooks, Kobo, via Smashwords, and from all good bookstores.

If you would like exclusive access to research interestingness that doesn't get to the blog, as well as glimpses into my library routines, and gossip about my writing life. You can get *Letters from my Library* here:

Contents

Introduction

IN FINANCE, YOU ARE USUALLY offered either/or options. You either seek to gather massive amounts of money (to the exclusion of all else), or you don't (and are crazy). Which is fair enough, since finance is all about the money.

But money is just bits of paper, plastic or moulded metal. Its value comes from the time you spend in places you don't want to be, doing things you don't want to do, that you swap for the things you need like food and shelter. And the things you want, like chocolate or the latest iPhone. Money is just the medium of labour exchange.

Once, the only labour you could sell was your brawn; your physical ability to lift and carry heavy objects, but in modern times it's more likely that you'll sell your brain power. The business of selling your brain is time consuming and leaves you buying someone else's brawn for the tasks you no longer have the time to do yourself.

Wealth is more than money. It's an abundance of something (e.g., a wealth of experience). In fact, in the Middle Ages, wealth meant happiness (from the root word weal, meaning well-being).

These days, you are more likely to feel the lack of time or health (physical or mental) than money. So, when it comes to a long, full, and happy life, you need to manage the other aspects of wealth as well, not just the money.

The relationship between time, money, and health can be demonstrated in a triangle (see Figure 1: Labour Exchange). At almost any point in your life, your ability to get stuff done is limited by the time, money, or state of health available to you.

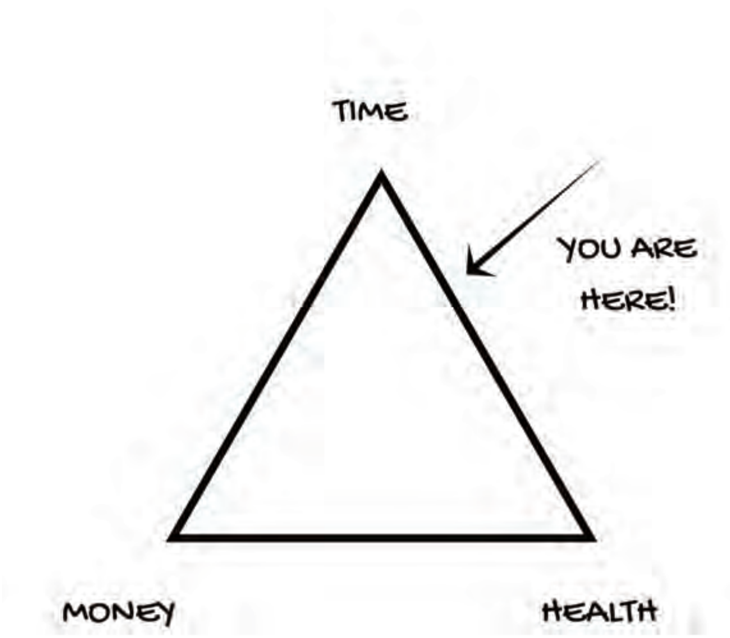


Figure 1: Labour Exchange

You can see that the arrow marks a point on the Time/Health axis. If your employer cuts your hours, but you want the same income, you have to choose whether to find additional hours elsewhere. Working longer hours comes at a cost to your health, so you have to decide how much health you are willing to sacrifice for that income. Preserving your heath gives you less money but more time for activities that make you happy. Maintaining your free time, leads to less income but potentially better health.

That's not to say that it's an either/or proposition. In reality, you move your arrows across all three axes according to the way your life unfolds. For example, you decide to save money by cleaning your second-floor windows yourself, but you risk falling and injuring yourself. Or you spend too much money on new clothes no one will see because you only wear them to watch television.

As a philosopher, I see the fundamental goal of life as increasing happiness and decreasing unhappiness. I don't mean happiness in the sense of a good mood, but the feeling of well-being that comes from living a worthwhile or meaningful life.

Ancient Philosophers called this "flourishing"; an awareness of growing and developing, reaching to become more than you were before. For you it might be "serving your country", "making glorious art" or something else. And the resulting feeling may be satisfaction, pleasure or similar.

It's not the money that makes you happy, but if you have the time and health to enjoy it, having some in the bank means you don't have to worry. You have the opportunity to choose a fuller and happier life by focusing on the things that are important to you; the activities you pursue and the people you share them with.

Like your five morning minutes standing on the rug, you bought on honeymoon, drinking coffee from the mug you made at pottery class watching your kids play in the garden you planted out yourself. Maybe your cat is purring in the sunshine on a window sill nearby, and you can hear your partner singing in the shower.

Knowing what your important is guides your spending from big events like getting married or booking a trip to the small purchases like magazines and chocolate bars.

You may have heard the expression “a means to an end” or perhaps a debate about whether “the end justified the means”. The end is the result you want, and the means the way you get there. So, if you want to visit the Eiffel Tower, the tower is your end, and your means will probably be a combination of walking, driving and flying.

The means/ends debate comes from the moral philosophy of Immanuel Kant (1724 - 1804). He argued that people are valuable because they are people (an end in themselves), not tools (the means).

When you *choose* to spend money, you spend it on things that increase your happiness. Which is a roundabout way of explaining that while many people think money is the end (happiness), it’s actually the means to happiness.

Let’s think about your Paris trip one more time. You have to plan how you are going to get there. If you are flying, you have to examine your options based on the things that are important to you; flight duration, arrival time, legroom and so on. You could call these your values; they guide your choices (means) towards your goal (end).

Which brings up another issue. The word “value” has become an expression of *both* means and end. It’s a bit confusing, so let’s take your home as an example.

The house you own is valuable; it increases your net worth, you can borrow against it, and you can put more money into it to increase its value (means). But you don’t buy a house just to store value; you want a secure and stable home to bring up your children, a comfortable place to enjoy your leisure time or its proximity to restaurants and nightlife (ends).

You don't value the house for itself, you "value" it as a home for the lifestyle it provides. It is a means to your end. You can see we need a different word to describe our values.

Fortunately for us, the Ancient Philosophers are once more on hand to help out with the concept of "Virtue". While Virtue has grown a veneer of morality (good and bad), it's original meaning was to develop excellence of character.

Our Ancient Philosophers believed developing excellence in beauty was just as virtuous as developing excellence in building houses. It was the effort of devoting your lifetime to becoming something more than you were that was important.

Some people, and particularly businesses, use values to guide their goals and work. That seems reasonable, but so often the values are nebulous concepts like "respect", "integrity", "teamwork" and "accountability".

These concepts come with definitions that limit their applicability, and that's reasonable too because value is a fixed point. Any Realtor can give you a "value" for your house, but you won't know what it's worth until you sell it.

Nor will you know what "respect" really means until you are in a position to challenge that business, for example, trying to get a refund for your Paris plane tickets.

Ancient Virtues, on the other hand, are works in progress. You get to define both your means and ends knowing that they are movable and that each is a step towards something bigger.

Coming back to your money, you need to develop virtues to guide your choices (means) across your lifetime. Before you put this book down, think about how you got here, and you'll see that you are already doing this, though not consciously.

If you believe that education is important, you've got some qualifications. Or if you think life experience is important, you've probably travelled and done interesting things in other cities or countries. If your family is important, you've made choices about where to live and what work to do. This book just guides you to think more deeply about your choices.

Still with me?

I'm assuming that spending money is not bringing you happiness. It may be that you are spending too much, or not thinking about what's important while you are spending it. I'm sure you can give me many reasons (excuses), but if you have a money problem, it comes from spending more than you earn. And this is because you think about money as if it is separate to you. But it is as much a part of you as the brain that chooses (or not) how to spend it, and the hand that passes it over - it's the life you exchanged for it.

Most people offering financial advice tell you to *either* earn more *or* spend less. If you just stop buying coffee every day you will save hundreds of dollars by the end of the year. All very well, but there are a thousand things I'd rather give up first! If you were to tell me to stop buying coffee, I'd ignore you, and you would see me at the Café Parisien ordering caffé latte as the Titanic sank beneath me. (Of course, I would only have access to the First-Class café because everyone else would be abandoning ship).

The Cost of Living is a calculation each jurisdiction makes about how much it costs to maintain a given standard of living. If you examine the list of goods your government uses for its price surveys, you'll find it doesn't include products you use but includes others you don't. Your cost of living isn't the rational, objective thing your government collates, but a subjective interpretation of your thoughts and feelings about what you need for a happy life.

Your necessity is someone else's luxury, both of you choosing the standard of living that best meets your needs for food, pleasant surroundings, and aspirations. Pick a priority area to indulge yourself in, but reduce your spend in other areas to compensate. If you enjoy take out coffee, buy and enjoy it guilt-free, but don't buy another iPad as well.

Your priorities change as your life changes. At some point the latest fashions will be the most important thing, at another paying off your student debt, saving for a house deposit, or saving towards your retirement. And this is another key point; you need to plan to make these things happen.

By the time you stop paid work, you need to have saved enough money to generate an income that meets your cost of living. Plus, you'll need to know how to fill the 168 weekly hours you won't be working or commuting. That could be retirement at 65, but you might be financially independent sooner - it's just a matter of focus and scale.

It's going to take the rest of your life to develop the skills and habits you need to live a comfortable and secure retirement. Managing your investments and living within the income they provide. Opening your credit card statements, balancing your cheque account, and maintaining a balanced stock portfolio. Sharing with those less fortunate, and enjoying a show or nice restaurant as well. You will create the life you want - you can have it all, but not at the same time.

Managing your lifetime wealth is more about handling your fear of not having enough than it is about the money. It's controlling your expectations and protecting your wealth so you can live comfortably for the rest of your life.

Managing your money ensures you will always have enough regardless of stock market crashes, inheritances, or job losses. When you manage your time, you can spend it on the activities that make you happy. And when you manage your health, you can enjoy your time and money to its fullest extent.

Notes

I've invented some families, to guide us through the wealth management cycle. You can check the appendices any time you want to refresh your memory.

> **The Baker Family**
> Emily Baker is a single woman in her mid-twenties. She lives at home with her parents but pays them board. She continues to perform her childhood chores, does her own laundry, and eats the meals her mother prepares. She has a college degree and an entry-level job in a big company.
>
> **The Smith Family**
> Bob and Amanda Smith are married, have two children (Daniel 8, Lisa 6), and a dog named Toby. They live in a mortgaged house in the suburbs. Bob commutes to the city, and Amanda takes care of the house and children. Now that both children are at school, she volunteers at their school.
>
> **The Butcher Family**
> Ash and Jo are an older couple who've been in a committed relationship for 25 years. They live together in an inner-city apartment with their cats Tiger and Shadow. They both work long hours in upper-management jobs, so they eat out most of the time.

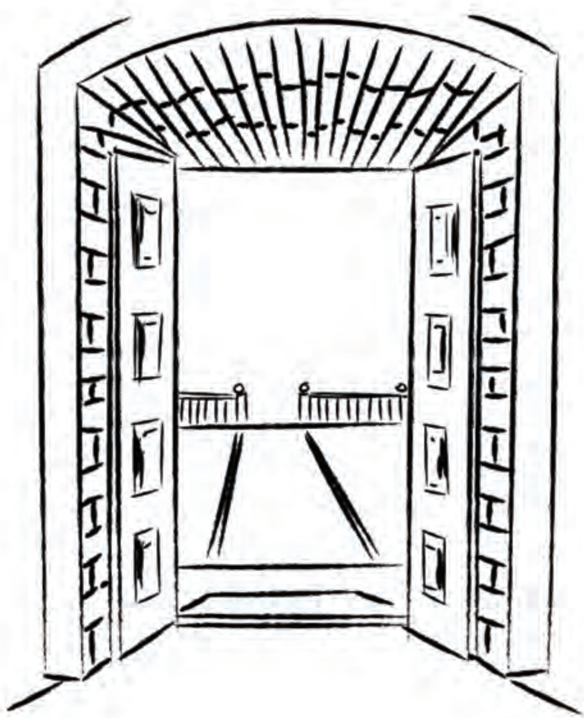
I'm using the term "partner" to denote husbands, wives, de facto and same-sex spouses. I also use legal and accounting terminology (explained in the glossary).

My one exception is that Accountants use the term "account" for different spending categories. To avoid confusion, I use the term "department". I also think that it neatly captures the specialisation of activities while calling to mind the stores you could be spending your money in.

These pages
are not
included in
this sample

CHAPTER 1

Vision, Mission, and Virtues



PEOPLE WHO OWN BUSINESSES ARE often very focused on growing a business that generates enough income to cover its costs, and a bit more to live on. This often involves developing:

- A vision statement to describe its goal.
- A mission statement about how they are going to achieve that goal.
- Values to explain what drives them to achieve their mission.

Theoretically, these statements describe the company's core philosophy; its what, how and why. They underpin every decision made at every level.

Vision Statement

Your vision statement is an expression of what your ideal universe looks like, and your place in it. You could set it as an imaginary future, but if you want to make it inspiring and actionable, it's more useful to give it a long-term time frame of five to ten years.

For example, if you are in a "minority group" you may look for a world where all people receive equal consideration, but for your five-year time frame limit it to equal consideration under the law. Or if you hope for a world without war, hunger, or corruption, you may restrict it to your community or state.

Visions don't have to be BIG things, but they need to be big enough and inspiring enough to form a firm foundation for you to work from and towards. It doesn't have to be A vision either. It can be a combination of ideas, as long as you can make it an inspiring and memorable statement, like a 140-character tweetable comment.

Life being what it is, things change often. You may marry and draft a joint statement as well as your own. And later have children and want a family statement to join your personal and couple statements. Maybe you discover you have a terminal disease and that will change your ideas as well. Because of this, rather than set and forget the vision, we'll be including it in an Annual Review Cycle (see Chapter 5).

But for the moment, just consider what you want right now. Let's take a look at what our families might say:

The Baker Family

Emily hopes to meet a nice boy and get married, but first, she wants to get her own place. Not necessarily buy right now because she wants to pay off her student debt and travel as well, but a little place that she doesn't have to share, and can come and go as she pleases.

Her vision statement could be

> "I live debt-free in an inexpensive, cosy apartment with red geraniums on my window sill. My lovely neighbours water my plants when I travel."

The Smiths

Bob and Amanda are concerned about the world their children are growing up in. The air and water are polluted, the climate is changing, and there are additives in the food. They worry about the quality of education and feel they are not living in the kind of village that they want bringing up their children.

They feel a move to a more rural location might be best, somewhere with a large yard to play in, plenty of space to grow fruit, vegetables and chickens. Somewhere in a close-knit community with a good school.

The Smith vision could be

> "We are part of a close-knit rural community, growing healthy produce, and the children are receiving a good independent education."

The Butchers

As they approach their retirement, Ash and Jo don't feel that they spend enough time together. They want to nurture their relationship and pursue an activity together, perhaps cooking, or taking a Spanish class so they can travel. Maybe walk the 500-mile (790 km) Camino de Santiago, though they acknowledge they would need to build their fitness and stamina for that. They would like to have a more active role in the lives of their nieces and nephews.

Their vision statement might be

> "A long, happy and healthy life, enjoying indoor and outdoor activities together. Building an enormous memory bank to share with our family."

As you can see, these are different impressions of what people may hope for, reduced into a simple, memorable statement. They aren't detailed enough to plan, but they are detailed enough to imagine, and this is the key component of keeping your vision alive:

- The softness of your couch on your skin as you drink coffee and listen to the silence of being alone in your own home.
- Hearing birdsong and the wind in the trees as you sit on your deck with your family watching the sunset.
- Feeling the sun on your back, the strength in your limbs and smelling wild thyme as you walk.

Mission Statement

Your mission statement turns your vision into a reality. It explains what you are going to do and why. It doesn't have to be particularly detailed, it's a hint at how you will proceed. If your vision statement was set in five years' time, your mission is your three-year milestone.

It's another short, positive statement bringing your vision into reality.

- "Promoting equal consideration under the law through community action, and policy advocacy."
- "Ending hunger in my local community by seeking food donations and cooking at the homeless shelter."
- "Help sick animals by getting good grades and becoming a veterinarian."
- "Love God and serve people."
- "Treasure my children."

Like your vision, you may want to come up with joint or family missions as well.

Baker

> "Commit to an abundant future with a Spending Plan that pays off debt quickly and maximises long-term savings."

Smith

> "Prioritise the children's long-term interests with a healthier and happier lifestyle in a cleaner nutritive environment."

Butcher

> "Treasuring our relationship by enjoying time together; getting fit, hiking in the country, cooking and speaking Spanish."

Virtues Statement

With your vision (big picture) and mission (medium size picture) taken care of, it's time to zoom in closer and think about the things that are important to you.

As I said in the introduction, these are often called values, but I prefer the term Virtues (the development of excellence).

Essentially, your Virtues are your means of bringing your vision and mission (ends) alive. They are your road map, or these days your Global Positioning System (GPS). Once you plug in your destination, your GPS calculates your route and rules out all the options that don't take you where you want to go. And if you lose focus and get lost, it gently suggests you "turn around where possible" so you can get back on track.

You can have as many Virtues as you want, but they will be easier to develop and incorporate into your life if you can keep them down to a reasonable number. What's reasonable depends on you, but most life coaches and advisers recommend somewhere between three and seven.

Each Virtue is both a core belief and a decision-making criterion that is relevant to your life right now. And like the other statements, you'll want to personalise it for your situation and revise it annually.

For example, if one of your Virtues is Honesty, you are committing to telling the truth in all circumstances. This may be difficult, particularly if you don't like hurting people's feelings. But if you hope for a career in politics, being known for telling the truth could be an asset.

Courage might translate into a career in the military, a commitment to visiting a dentist twice a year, or simply getting the spiders out of the bath yourself.

Simplicity could mean decluttering, less complicated financial arrangements or following a weekly menu plan.

Virtues are also opportunities for personal development so you can choose attributes you want to grow into, like Calm, Joy or Openness. And of course, you can describe these in a way that is meaningful to you.

If you look back through the Family visions and missions, you can see that they share themes, and these are an indication of where their Virtues lie.

Baker

While Emily wants marriage and a family someday, the things that her statements suggest are important to her in the short-term are Independence, Prosperity and Freedom. If she was inclined, she might add Affection and Friendship, or just leave it at three virtues for the moment. She could go a little further and define what they look like for the next couple of years, for example, Independence could mean developing self-reliance, or Prosperity learning about wealth management.

Smith

Clearly, Bob and Amanda think Family is the most important, and following (or because of) this, Health, Education, and Community or perhaps Connection.

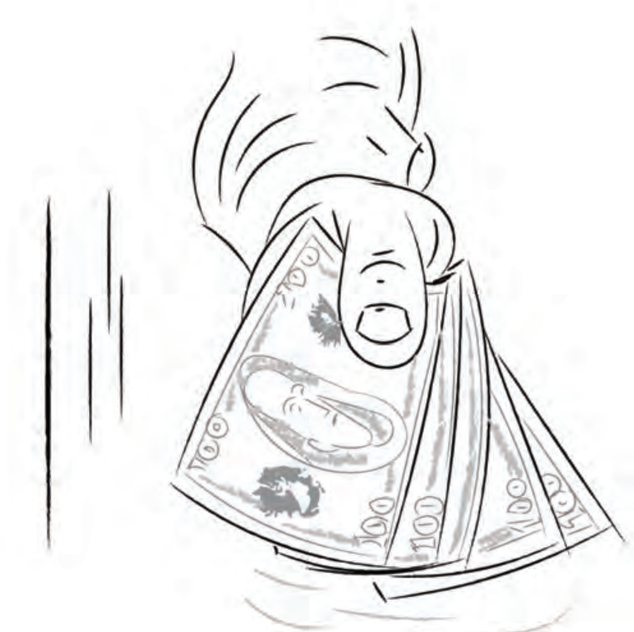
Butcher

Ash and Jo have recognised that they are in danger of losing touch with each other, and want to make their relationship their top priority so their first Virtue may be Love, Relationship, or Romance. And as they want to work on it together, another could be Teamwork. They have a focus on cooking and an activity that requires a high level of fitness so they could round it out with Health or Well-being.

These pages are not included in this sample

CHAPTER 7

Spending Money



We've come to the somewhat paradoxical part of managing money. Money is the thing you get in exchange for pieces of your life, and in return, you spend it to get more life. Or at any rate, different bits of life; like a game of golf, a piece of chocolate cake or a new clothes washer. I suspect that you not only don't notice your time passing, but you also don't see that you are spending it as well.

Unless you make an effort, you can go for days without touching any hard currency. Your employer puts your pay into your bank account, your bills come out automatically, and you use a small plastic card (or your phone) at a bright beepy electronic machine to buy your groceries.

To get back in touch with money, you need to start touching it again; experience its smell, and texture in your hand. Taste the emotion of putting some into another person's hand and seeing how little remains in yours. It may not be practical to take $1,000 cash to the store for your new washer (though you would really feel that transaction taking place), but you can gain some insight from paying cash for your cake or golf.

Give yourself a business-like petty cash float (or pocket money). Keep it in a beautiful new wallet with your notes sorted in order of denomination, all lined up the same way. Don't add any grubby old receipts or loyalty cards you don't use. Resolve to keep your wallet neat and organised.

Work out what's a reasonable float for you (based on your Spending Plan), and top it up each week. For comparison, here's what our families might do:

Baker

Emily may not need more than $100 for her morning coffees, the odd lunch and an after-work drink.

Smith

Amanda might need $300 for child and household incidentals.

Butcher

Ash and Jo may have been carrying $500 each, but drop it down to $250 to bring their focus back home to each other.

How Businesses Spend Money

In business, only appropriately trained and experienced people are permitted to negotiate purchases. It's part of their job to continue their purchasing education and keep up-to-date with the market conditions that could impact pricing. An experienced agent, guided by the organisational vision, mission, values and goals will save the business lots of money by planning purchases.

To make the process as efficient as possible, they develop a Purchasing Plan. This ensures the right materials are bought in the right quantity and quality at the right price at the right time. The best time to buy is not so early that you have to store and maintain the goods, but not so late that you have to halt production.

The Purchasing Plan focuses chiefly on price, but the purchasing agent negotiates prices and delivery dates according to the strategy that is most likely to meet the business goals in keeping with its vision. Put like that, it may not make a lot of sense, but if it is a business dedicated to child welfare, it's not going to knowingly buy products manufactured by indentured children in toxic environments.

Your Role as Purchasing Agent

From the perspective of a modern household, it's more important to know how to spend money than save it, and this means you may need to acquire new skills and knowledge. It's a science, based on your virtues and living standards. You develop a straightforward and sustainable standard that works for the life you lead, instead of copying other people (e.g., the Joneses. Or some big-name celebrity).

As the purchasing agent, it is your responsibility to:

1. Maximise value and reduce waste by choosing brain, brawn, or money as the most appropriate purchasing medium, according to your vision and virtues.
2. Consider the additional costs such as deliveries, interest charges, and returns.
3. Evaluate the time and effort required to maintain the purchases, in line with your standard of living.

This sounds a bit abstract, so let's imagine you're a philatelist (stamp collector). Over time you have learned a lot of information that helps you separate good quality stamps from poorer. You know how best to store them to preserve their value. You have an idea of what they should cost, where to get the best prices and you have developed relationships with those dealers. There's a lot of other detailed knowledge too.

This is exactly the sort of knowledge you need to start developing about your Spending Plan departments.

Developing Your Purchasing Plan

Your Purchasing Plan consists of twelve calendar months, and takes account of major impacts on your spending including:

- Important dates, (e.g., birthdays, events like weddings, and other celebrations).
- Other calendars you use, (e.g., academic, religious, or sporting).
- The seasons.

To get started, you'll need your Spending Plan, some post-its, and markers. I suggest starting with post-its because they're easier to see and move about than a fixed width screen or calendar. Plus, it's more fun!

As shown in Figure 7: Purchasing Plan, start by laying out a post-it for each month, and add the relevant information from your calendars. Then start thinking about the seasonality of your Purchasing Plan.

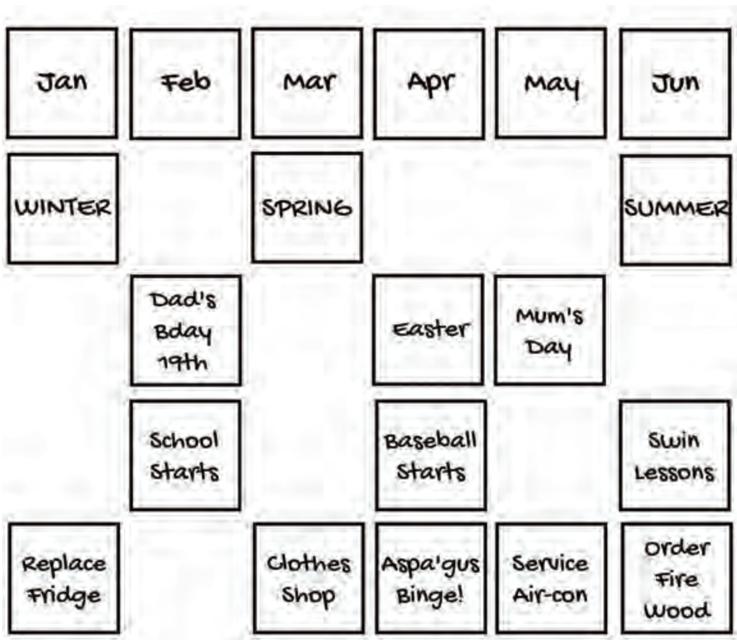


Figure 7: Purchasing Plan

For example, clothing comes in two major seasons (Spring/Summer and Autumn/Winter). The stores start changing stock around March and September, so if wearing the latest fashions is important to you mark this period clothes shopping time. Or if bargains are more important, mark the main sales periods instead.

Do a little local research to find out when your best sales and buying times are for other things like linens and homewares, and note these on your calendar as well.

There are other logical times to buy; mid-summer is the most cost-effective time to buy winter fuel (if you have the space to store it). And as fruit and vegetables come into season they get cheaper, and the further they travel the more expensive they are.

It's a good idea to schedule the maintenance and services of your fixtures before you need them, for example, your air-conditioner before summer, and your heating before winter.

While you won't need to replace your refrigerator every year, you might like to schedule major appliance replacement. If you buy them all at the same time, they may all need replacing at the same time, so try to schedule them for different years within their estimated life spans. This also gives you time to compare prices or research the features and benefits of different models.

Once you've got it all down, you can start setting reminders and due dates in your calendar or diary app. Give yourself a month's notice for birthdays, or two for ones that need to be posted. If you know exactly when payments are due, you can put them in the calendar too.

You could leave it at that, or you could adjust your Spending Plan to match it. The Purchasing Plan in Figure 7 shows clothing shopping in March, so you would reduce your Spending Plan clothing allocations in other months to increase provisions for March. And the same across all your months for all your planned purchases.

It's perfectly fine to start by averaging your expenses out across the whole year because you'll probably forget to include something(s) in the first year. Your second year will come from your account book spending records.

Growing Your Knowledge and Experience

Price is not always the best indicator of value. Things like speed, durability or sustainability may be more important. To become the best purchasing agent you can be, you need to know a little about business, politics, government, health, labour, society and the relationships between them. You also need to know things like:

- What your version of quality looks like.
- Manufacturing wages and employment conditions (e.g., occupational health and safety).
- What the costs of selling goods are.
- If the quality looks about right for the time and cost of production.
- Whether the price is appropriate for the seasonal availability of goods.
- Whether the price reflects efficient and effective production (or implies waste and disorganisation).
- The difference between price and value, and the importance of cost per use.

The best way to develop purchasing skill is to start where you are and consciously experiment:

- Consider the value, quality, durability and future investment of goods. Start keeping records to track these characteristics.
- Learn something about nutrition, food labelling, and the health impacts of additives and preservatives in food products. Understand the impact of food handling and manufacturing legislation, particularly when it comes to faults, errors and contamination.
- Learn about the properties and manufacture of fabrics, cookware coatings, cleaning products, and other items you use regularly.

- Understand the differences between trademarks, labels, advertising, product sizes and so on.
- If it's one of your virtues, join and work with organised buyers or advocacy groups.

How Your Virtues Apply to Purchasing

As a consumer, you and your virtues have an important part to play in issues of social justice and a sustainable environment. Your choices have a direct impact on the wages and working conditions of the people who make the goods you buy, and the social and environmental decisions made by manufacturers.

For example, Bisphenol A (BPA), is a chemical used to manufacture or coat food storage containers as well as some dental products. It leaches into the food it contacts, and as it is a known endocrine disruptor, many countries have imposed "safe limits" on it. Community lobbyists raised its profile, which increased media coverage leading to greater community concern, legislative changes and now manufacturers label their products BPA free.

Conversely, your ongoing support of brand manufacturers can help them survive in an increasingly competitive global market based on cheaper, lower quality goods. Those who cannot compete may reduce quality to remain price competitive or go out of business (a lose-lose situation for you).

Understand that when you drop your standards, the market drops theirs too.

What to Buy

At some point, you are probably going to have to buy everything, so it's worth developing a purchasing policy or framework to guide your choices. Consider whether:

1. You need the item or not, followed by whether you will use it often enough to recoup the cost. Don't buy tools unless you expect to use them frequently over an extended period of time, making the cost per use, not the purchase price your primary concern. For example, an expensive toaster used daily will provide better value than a cheap waffle iron used only a few times. For more expensive items you could include the amount of interest foregone or charged as well as depreciation over the life you expect it to have.
2. The item will perform its task adequately for its life and is compatible for use with the rest of your equipment. Additionally, it must be comfortable to handle and easy to use; pay particular attention to the ease and comfort of levers and handles, and their size, shape and location. Despite their low cost, flawed items (”seconds”) are very unlikely to be useful or efficient tools due to their inherent flaws.
3. You can easily clean it; it shouldn't be harder or take longer to clean than to use. And you won't use it unless the end results are significantly better than otherwise. Can you, and will you take care of it properly? Will you have it serviced, get the blades sharpened use the correct detergent, and so on?
4. It has the most appropriate finishes for your goals. For example: is your non-stick pan the best for the food you regularly cook, or would you be better with plain aluminium, enamelware, or glass? Understand the requirements of your equipment and the differences between the models so that you will make the most efficient purchase.
5. It is a good fit for your life; will you make and eat fresh bread sufficiently often to justify a bread maker? Will

it fit in the space you have prepared for it? Is it light enough for you to handle on your own?

6. Will it meet your needs; will you spend more time emptying than using the vacuum? Will the clothes washer/dryer take all your bedlinen in one wash?

Only once all these boxes have been ticked can you start considering its attractiveness.

Bulk Buying

While bulk buying can save money, it costs in other ways. You need adequate storage space, knowledge of the best way to store for long-term viability, and how to deter pests. Plus, you need to spend time and effort maintaining your stores.

The best products to bulk buy are the ones you use a lot. But you need to know how long they will last before you can make informed choices about how many to get.

For example, if you know it takes you three months to use a bottle of spray cleaner, and you have the opportunity to buy a crate of 24 (at a very generous discount), you will be able to decide whether you want, and have the room to store six years' worth. If it was something perishable instead, (e.g., coffee) you'd also need to know whether it would still be viable after that period of time, and so on. You might not want 24, but three for the price of two could be a more reasonable purchase.

Where to Buy

Your choices about where and when to shop have a wider impact than you might expect, so consider that when you buy too.

The first thing to think about is whether it may be more efficient to hire someone to shop for you. Shopping costs you more than just the product price. It costs you the time and effort getting to the store as well as shopping. Not to mention the time spent looking for “bargains”.

And if your time is better used to generate income, it costs you lost income too. These days having someone else shop for you is more likely to involve subscribing to a delivery service or ordering online than hiring an actual person to shop for you.

When you shop yourself, you'll find the retail distribution chain has four major pathways:

1. Producer/grower sells to manufacturer (e.g., pea farmer to a producer of frozen goods).
2. Manufacturer sells to small wholesaler or retailer (e.g., a warehousing supply facility or supermarket chain).
3. Small wholesaler sells to a retailer (e.g. your local greengrocer).
4. Commission merchant buys from grower and sells to retailer (e.g., restaurant supply wholesale market or your subscription service).

You can buy from any link in the chain.

In practice, your preferred perishables and necessities probably come in conveniently sized packages from convenient places closer to the end of the chain than the beginning. You are probably happy to pay extra for that convenience. You may prefer it that way because you can see and feel the individual quality whereas you might not in other links.

You pay distribution costs, for each link in the chain, and your overall cost includes an allowance to cover the risk that you won’t buy at all. So, take this into account whether you are considering purchasing from the farm gate or the big supermarket.

The right place for you to shop balances the costs and benefits. For example, the Smiths might choose to take the children to the farm so they can see how food is grown, but the Jones might use a subscription service because they live in the inner city and don't have a car.

Aside from time and cost, you might like to consider your impact on your wider community. Most of us have to choose between big company owned supermarket chains and smaller local retailers (owned and run by people like you).

You might lose time travelling to the big supermarket chain to save money, but the time saved shopping locally may outweigh the money saving. In the longer-term, small local stores will close without customers, and you may be forced to travel as far as you must to the big company store. And that might not be cheaper anymore (you may have already seen this where you live).

Small local stores depend on local shopper's repeat business and are more likely to provide personal attention and care as well as stock the reliable brands that sell consistently well. Chain stores are primarily concerned with company profits, not quality or repeat business. They prefer to sell their own labels because they don't need to worry about product reputation, and they get to keep the profit that would otherwise go to brand manufacturers.

These pages are not included in this sample

CHAPTER 12

Managing Risk

THINGS GO WRONG ALL THE time, and usually we find ourselves saying "If only...". Being prepared, and managing your risks gives you the opportunity to turn that around and say "Thank goodness I...".

How Businesses Manage Risk

Risk management is another area where we can learn from business; they employ a Risk Manager to think about what might go wrong in the future and recommend steps to eliminate or minimise the risks and their consequences.

Plus, they think about what might go well, and how to maximise the benefits. However, some risks and opportunities can't be identified until they happen because there just isn't enough information to see them coming.

Risks are events with causes and effects. Some are more likely, and others have more severe effects. Some are caused by the external environment (you can't control those), and others by your internal environment (you can control these).

Some events affect the broader population, and these are generally external events you can't do anything about. Others affect just you, and these are usually internal events you can.

Once risk events happen, they become issues and must be dealt with, so the Risk Manager develops a Risk Management Plan. It identifies the risks, assesses their likelihood and the severity of their effects, and recommends strategies to treat them. You have the opportunity to reduce the risks, and effects as well as deal with the event at the time and recover after.

Your Role as Risk Manager

For you, risk management is about protecting your vision, mission and goals. Your virtues guide and constrain the actions you take to protect them.

You may find this difficult because you will be thinking about worse case scenarios including your death, the destruction of your property, and losing everything you hold dear. But I urge you to persevere so you can rest safe in the knowledge that you have done all that you can to contain the fallout, and that these preparations will minimise the damage.

I know it's not very helpful to say, but you are the one who knows best what your risks are. They are the things in your life that give you nightmares; hurricanes, car crashes, having your home broken into, being assaulted in the street and so on.

You are also the expert on your local environment, you know who to call in an emergency, and the limits of your abilities. All I can do is offer some thoughts to guide your process.

Developing Your Risk Management Plan

The first thing to do is to think about your life as it is, and your life as you want it to be, and write down all the things that you can think of that could go wrong and prevent you from achieving your goals.

You don't have enough information to predict everything, but anything you can is a good start. You'll be reviewing the plan during your Annual Review (see Chapter 5: Annual Review) so you can update it as you think of new risks.

It doesn't matter whether the risks you identify seem small or unlikely, list everything that you can think of; for example, that a tree might fall on your home.

And if anything pops into your head about things that might go really well, write that down too.

Determine Your Events

Then, for each of those risks, write down all the possible causes that you can think of. The cause of a tree falling could be a storm that blows it over, someone drives into it, or it is infested with termites. As you run out of causes, start thinking about the effects; death or injury, the house is damaged, or you must move out.

Determine their Likelihood

Next, use Table 3: Risk Likelihood to give your causes a likelihood rating.

	The event…
Rare	will only occur in *exceptional* circumstances
Unlikely	*could* occur at some time
Possible	*should* occur at some time
Likely	will *probably* occur in most circumstances
Bound to	is *expected* to occur in most circumstances

Table 3: Risk Likelihood

For example:

- If the Smith's new property is partly forested, a tree might fall on the house during a storm. It would have to be a big storm, so the likelihood is Possible.
- The Butcher's inner-city apartment would need some kind of fantastical event to cause a tree to fall on their home, so the likelihood is Rare.

Calculate the Severity

Next, give each consequence a severity rating. The severity is a little harder, because it is often subjective, and will be different for each person.

I've made some suggestions in Table 4: Risk Severity based on the time and cost of repairing my home, but you should adjust the figures for your circumstances. You can add other rows for things like injuries, family relationships, or lost income depending on the consequence.

Your Slight will be the time and cost that you are prepared to pay for an event. It might be easier for you to start with the worst possible consequence that you can think of and work back into more manageable territory.

	Slight (<3%)	**Minor (10%)**	**Fair (20%)**	**Major (33%)**	**Tragic (>33%)**
Time	<1 month	1 – 2 months	3 – 6 months	7 – 12 months	>12 months
Cost	<$999	$1,00 - $4,499	$5,000 - $9,999	$10,000 - $19,999	>$20,000

Table 4: Risk Severity

Back to our families:

- The Smiths are likely to have only a portion of the building damaged. Depending on the season they could make the house safe themselves while they wait for a builder to make proper repairs. Their scenario is Fair.
- If the Butcher's building is damaged by a falling tree, they could be denied access for months, and potentially forced to pay their mortgage and rent somewhere to live at the same time which would be Tragic!

Prioritise Your Risks

Next, prioritise your risks. Use Table 5: Risk Rating to give each cause an overall rating.

	Slight	Minor	Fair	Major	Tragic
Bound to	High	High	Severe	Severe	Severe
Likely	Fair	High	High	Severe	Severe
Possible	Low	Fair	High	Severe	Severe
Unlikely	Low	Low	Fair	High	Severe
Rare	Low	Low	Fair	High	High

Table 5: Risk Rating

For our families:

- The Smiths are Possible by Fair which is High.
- The Butchers are Rare by Tragic is also a High risk.

Manage the Risks

Having identified and prioritised your risks, the next step is to manage them. Depending on your causes, you might find it's not feasible or possible to manage the low or fair risks, but both High and Severe ratings should be dealt with.

Both the Smiths and Butchers should manage the risk of a tree falling on their home. There are four main ways to do that:

- **Avoidance:** choose to withdraw from the risk situation. In this instance, the Butchers have chosen not to live in a forested area, but the Smiths will not.
- **Reduction:** reduce the probability or the impact. For example, remove trees near the house, or find and install some sort of device that would allow a tree to fall but prevent it reaching the house. Though it might not look pretty or be inexpensive.
- **Retention:** accept the risk, particularly when there is little that you can do about it. This will work for the

Butchers as we've already decided that a tree falling on their home is probably not going to be a problem. But, they should consider developing a contingency plan to deal with it. This isn't a sensible option for the Smiths.

- **Transfer:** pass the risk or consequence on to someone/thing else. In the Butcher's case, the risk is passed onto their building management; they don't have to think about the damage to the building. However, the Smiths should transfer the consequences to an insurance company - if a tree falls on their house, the insurance company will pay for the repairs (hopefully).

You can apply as many of these techniques as you feel comfortable with, and in most cases, you would use a combination of the most appropriate and achievable for you. They should satisfactorily minimise the risks within your time, cost and ability constraints. And most importantly, they shouldn't make things worse!

Contingency Plans

A contingency plan is like a risk management plan, but instead of taking action before the event to minimise the outcome, you don't act until the risk is imminent.

It's like a fall-back plan, and consists of identified actions you take when it's apparent they are needed; like hanging storm shutters. Or the Smiths pre-screening builders. You don't spend any time or money until you have to.

This is how you will deal with many of the risk events you rated as low or fair as well as your seasonal preparations for extreme weather-related events.

Recovery Plans

Sometimes things are so much worse than you expect. You see it all the time on the television news; one house left standing while the rest of the neighbourhood is decimated. When this happens, you need a recovery plan.

A recovery plan is your way to get back to normal; what to do, how much to spend, and how long it will take. With a plan, you will not only be prepared but may uncover additional risks or change your opinion about your risk ratings.

For the families:

- The Smiths could pre-screen builders, stockpile tarpaulins and other quick fix materials, and ensure Toby is unable to escape the property.
- The Butcher's might move in with Ash's sister for a few weeks until they know what's happening, save a few thousand dollars (so they have money available for an immediate move), and stay in contact with their real estate agent friend. They may have to put Tiger and Shadow in their usual cattery.

Personal Risks to Consider Managing

You are your greatest asset, in particular, your income generation potential. Your greatest risk is losing that potential.

Risk Event: You Are Injured or Become Ill

There is little in the way of happiness to be had without good health to enjoy it. Here are some suggestions to manage your health risks.

- **Avoidance:** Choose to avoid risky activities and areas. Don't develop unhealthy habits. Buy cars and houses that are less likely to injure you. Be aware of your surroundings, and if you are attacked, don't overestimate your hand to hand combat abilities - hand over your wallet and jewellery to avoid enraging your attacker. Don't allow yourself to be taken to a second location.

- **Reduction:** Eat, sleep and exercise well to maintain good health (see Chapter 13: Maintaining Your Health). When you have no choice but to undertake risky activities, consider using safety equipment to help to prevent injury.

  If you are afraid of stalking or kidnapping, vary your routine. Carrying a weapon will not benefit you if you cannot use it properly, and increases the likelihood that it will be used on your or your children if they are with you. Take personal defence classes, and commit to regular training so you don't forget it.

  Additionally, schedule annual physical and dental health check-ups to ensure you get ahead of potential health problems.

- **Retention:** There will always be some residual risk that you have no choice but to retain. This generally comes in the form of total incapacitation on life support, with no hope of reclaiming the life you had (see Chapter 20: Estate Planning).

  If you are facing a year or more of treatment, you might find it useful to develop a Health Care Plan detailing your treatments and required care. Collect all the relevant information into one place so you can share it with medical professionals, other caregivers and respite or palliative care facilities.

  Draw on all the resources you need for support; when people offer to help, tell them what you need. Schedule time for the primary carer to take care of their mental and physical needs.

- Decide whether you need to hire professional carers and how you will pay for them.
- How you will cover the additional costs of parking, takeout meals and childcare.
- Whether you can negotiate a change in working hours.
- How you are going to manage your emotions and keep family members informed.

- **Transfer:** Steering a path through the health care system is a journey worthy of immortalisation in an epic poem like Homer's *Iliad*, and it starts with buying full coverage health insurance. You will want the best possible treatment, as soon as possible, and this is not possible without adequate cover.

  Once you have it, use it to access preventative screening for chronic health conditions and early diagnosis of serious conditions like cancer.
- **Recovery:** Consider Long-Term Disability Insurance cover to replace a proportion of your income should you become unable to work. It becomes more important as you age; at 40 you are three times more likely to be disabled than to die, and the likelihood and duration of incapacity increases as you get older.

  Assess any cover provided by your employer, retirement savings scheme, or as part of your other financial arrangements before you buy. It will come with a waiting period and an expiry somewhere around retirement age.

  Look for a policy that covers injury *and* illness, renews automatically without re-qualification, and provides a top-up payment if you can secure paid work.

  Pay close attention to the occupations covered; some cover only your current job, while others cover any. This is important because you will need an income while you retrain and look for a different occupation if you can't take up yours again. Try to find a policy that provides cover even if your employment becomes insecure or unreliable.

Risk Event: You Die

This one is about taking care of the people you leave behind.

- **Avoidance:** Sorry, no avoiding death.
- **Reduction:** Reduce the risk of early death by taking care of your health and not making rash choices.
- **Retention:** you have no choice but to retain this one. You need to focus on a recovery plan for others.
- **Transfer:** You can't transfer the risk. You can transfer some costs, for example, with funeral insurance. However, it may be more cost effective to open a high-interest savings account for this.
- **Recovery:** The original purpose of life insurance was to take care of your family in the event you died leaving them destitute, so if you don't have dependents, you don't need it.

  If you do have dependents, but there would be sufficient income to cover family expenses, then you probably don't *need* life insurance either, but depending on your virtues, you might *want* some. If there won't be enough money, then you definitely do need it, and if you want to make sure your family will be adequately protected, you need to think in terms of the worst-case scenario.

  In the worst-case, your family would need to replace your entire income. This is best settled as a lump sum that can be invested to generate an income while preserving the original payment. It will be expensive, so you have to shop around and perhaps select a cheaper policy with a lower settlement figure.

If you can't afford to provide an income, get a fixed sum to pay off your debts. As you grow older, you will accrue more savings for your retirement and pay down debt, and therefore need less life insurance. Typically, by 65 your need for it will have passed and you could add the payments to your retirement plan instead.

The most logical form of life insurance is a fixed term life insurance. As the likelihood of your death is low for most of the policy period, the premiums will be too. Term insurance comes in a range of lengths, generally one to twenty years depending on your jurisdiction, and needs.

A whole of life policy has higher premiums based on the assumption that a payment will be made. It has a cash value that can be bought back, but it's never going to be anywhere near the amount you put in as the value will be eaten away by long-tail commissions.

Risk Event: You Enter Long-Term Residential Care

This is primarily a concern for those over 50, but younger people who suffer severe injuries may find themselves in a care facility as their needs are greater than can be managed at home.

- **Avoidance:** Sadly, the better you look after yourself as a young person, the more likely it is that you will need long-term care. Best avoidance tactic is to die young, though this is not an appealing option either!
- **Reduction:** Eat, sleep and exercise well to maintain good health. Try not to contract any long-term degenerative or cognitive diseases.
- **Retention:** Changes in medical technology and family structure means you will probably have to retain this

one. Frightening as it is, and no matter how irrelevant it seems, make time to look into the cost of nursing home care. See what the basic costs are, and the cost of additional extras. Think about where that money is going to come from.

Also talk to your parents about what their plans are - are they relying on you to provide or pay for their care? How can you take care of them while you are caring for your children? Will you need to move into a bigger home? Where will the money come from for that? And in the end, who is going to take care of you?

Circumstances will be different by the time you need care, but you will have an idea of what to expect.

- **Transfer:** You can't transfer the risk, but you can transfer the cost with long-term-care insurance. It may not be available in your jurisdiction yet, but it is useful to consider what costs you will incur when you need to enter a residential care facility, or to secure appropriate care at home.

When you or your partner enters a facility, you are responsible for some or all of the costs of it, and will essentially be paying for two homes which will chew through your savings and investments quickly potentially leaving the partner at home with nothing.

It may seem like a huge waste of money that could be better invested elsewhere, but like all insurances, (e.g., car, house and contents), you always hope that you will never need it. Sadly, you are more likely to need long-term-care insurance than any other kind.

Start thinking about coverage around 59, for an average stay of 10 - 15 years. Like life insurance, consider the policies in the light of how much cover you can afford over the long-term - you could be paying it for 15

– 20 years before you make a claim. Take into account your potential retirement income and government or other assistances you may be entitled to or eligible for.

- **Recovery:** The likelihood is that this will all cost more than you think it will. While you are planning for the cost of care, make a separate provision to ensure that there is something left for the one remaining at home. You might like to consider trusts and other protective instruments (see Chapter 20: Estate Planning).

Household Risks to Consider Managing

In terms of stuff, your home is generally the biggest asset that you will acquire. Not only will you invest a lot in its purchase and maintenance, but you will probably use it to guarantee other borrowings too.

Some insurers will exclude people who are not policy owners, so ensure that policies are in the name of all owners. And if you move the property into a trust, make sure you put the policy in the trust's name.

Risk Event: Your Home is Damaged

Your home may be damaged by external events (e.g., weather, fire, or careless drivers) or internal events (e.g., faulty plumbing, electrics, or fixtures).

- **Avoidance:** You may be able to avoid internal events through judicious purchasing, but external events will be largely out of your control.
- **Reduction:** Regular maintenance and replacement of external features like roofing and use of appropriate storm fixtures. Careful selection, maintenance, and replacement of internal appliances and fixtures that may fail and cause damage.

- **Retention:** You will carry some risk because there will be a point where this is the most practical choice.
- **Transfer:** You can't transfer the risk, but you can transfer the cost with building insurance. The insurer will decide whether the building can be repaired or must be replaced, so choose full replacement value.
- **Recovery:** This might include the cost of living somewhere else while you wait for the insurance company to approve payment.

  Ensure that your children know how to evacuate your home in an emergency situation, can recite your name, address and phone number, and will not go away with strangers. You could use a code word to identify people they don't know who you have sent to get them. Make sure they know the emergency procedures at their school.

Risk Event: Your Goods are Stolen

While this can be very traumatic, do not risk your personal safety to protect your things.

- **Avoidance:** Don't make a big show of new purchases; dispose of the packaging discreetly.
- **Reduction:** Install window and door locks, external lighting, or an alarm system. If you are in a remote area, consider motion detectors and security cameras.
- **Retention:** Theft is more of a risk in some areas than others, and some people have more things than others. You may not need to worry about theft.
- **Transfer:** You can't transfer the risk, but you can transfer the cost with contents insurance; the best kind will be replacement cover. You will need your inventory and may need to purchase specific cover for

valuable items like jewellery, antiques or art above a given value. Don't forget to insure your car.

- **Recovery:** A Purchasing Plan for the new things.

Risk Event: Someone is Injured on Your Property

The worst effect could be someone suing you. And even if they don't win, your legal costs could be crippling.

- **Avoidance:** You might find that the likelihood of this increases along with your wealth or public profile, and as your children reach driving age.
- **Reduction:** Maintain your property in a safe state. Only hire licensed, insured, and supervised trades with good reputations.
- **Retention:** If you are a "regular" private citizen, with a well-maintained property, you may feel comfortable retaining this risk. However, should someone sue and win you could lose everything.
- **Transfer:** you can't transfer the risk, but you can transfer the cost with liability insurance. Liability insurance covers you for injury to a third party or damage to their property. It's commonly included in homeowner and car insurances so examine your existing coverage to see if that's sufficient or you need a top up policy.

  Additionally, consider insurances like workers compensation you might need to cover people you employ directly to work in or on your property.

  Depending on your circumstances, you might need additional cover for discrimination or harassment. Or extra liability insurance for trades and contractors.
- **Recovery:** Hopefully you are making plans to recover your good reputation rather than selling your assets to pay the bills. But you might still need to sell up and move somewhere else.

Other Risks You Could Think About Managing

There are other less obvious risks to consider.

Risk Event: Your Identity or Reputation is Stolen

Having your identity stolen is an event that is almost impossible to recover from.

- **Avoidance:** Where possible, keep a low profile and be careful about the information you put "out there".
- **Reduction:** Protect your home computers; not just from viruses, but malware, spyware and hackers too. Use additional encryption or private networks to protect your information.

  Do not invite strangers into your home, put a lock on your mailbox, and buy a shredder for personal documentation. Consider having confidential mail such as bank statements and utility bills sent by secure email.

  Keep your original valuable documents like wills, powers of attorney, passports and other financial and identity documents in a secure off-site location (e.g., bank security deposit box). Store electronic copies on an encrypted, password protected USB flash or thumb drive, and a second copy somewhere secure but easily accessible in case the originals are sealed on your death. (See Chapter 6: Record Keeping).

  Ensure all staff that work for you are working legally and that you are complying with your obligations as an employer. Do background checks, and look for risk indicators like police investigations and bad credit. If you hire through an agency that claims to do checks, ask to see them. Apply your basic checks equally across all staff, though you may prefer deeper or additional checks on those performing more sensitive or intimate work if this is legal where you live.

- **Retention:** You will carry some risk regardless, so monitor your bank accounts and credit cards for unexpected transactions, know when to expect your bills so you will notice when they don't arrive, and if you start getting bills and calls that you aren't expecting from debt collectors, be prepared to act immediately.
- **Transfer:** You may be able to transfer some of the risk by hiring a reputable security firm to review your building, personal and information security. Get the most comprehensive check you can, and follow the recommendations.
- **Recovery:** You need a recovery plan because the sooner you act, the less damage there will be. Immediately call the relevant companies about fraudulent transactions and ask them to freeze or close your accounts. You may need to arrange a cash withdraw to tide you over.

  Notify the relevant law enforcement authorities. Contact the credit bureaus and ask them to put a hold on any further credit applications until the situation is resolved. Get a copy of your credit report and notify them in writing of transactions and accounts that aren't yours. You should also notify the companies that have opened fraudulent accounts in your name.

Risk Event: You or Your Child is Kidnapped

Kidnapping is a risk for all people, at home as well as abroad. It might be:

- "Express" kidnapping where you are forced to withdraw money from an ATM.
- "Traditional" kidnap for ransom.

    - Politically motivated kidnapping (e.g., by a terrorist group).

In each of these cases, you risk physical harm and potentially death.

- **Avoidance:** Before you travel, check your relevant Government department's website to determine your level of risk. Note that if the threat assessment is high, you may not be able to obtain travel insurance. Register your travel arrangements with your embassy in the country you are travelling to. If you are travelling for work, ask to see their security assessment.

    Take advice about how to control your children's presence on social media and so on. Perhaps a service that monitors usage for key terms or new people. Limit the information you release yourself.
- **Reduction:** Women in particular need to adopt some precautions, such as dressing modestly and not wearing a lot of jewellery. Stay in hotels with good security and facilities so that you don't have to leave it to eat or access cash. Have the hotel arrange transport for you, or book it before you leave. Do not tell strangers about your arrangements, and try to avoid speaking to men you don't know in restaurants and bars.

    Do not have people working in your home when your children are there. Teach your children about stranger danger, and particularly, teach your teenage daughters to avoid dangerous places, be aware of their surroundings, and be careful about what they say. Make them watch the movie *Taken*.

    If your child wants to participate in a group trip overseas, review the security plan. You're looking for some sort of systematic risk assessment, with steps in place to manage the risks (like you're doing now). This includes things like transport, housing, adult supervision, medical treatment, law enforcement.

For children at particular risk, (e.g., high-profile), consider hiring a security firm to review the plan.

- **Retention:** You can't completely eliminate this risk, so have a regular check-in procedure, such as calling home at 8 pm every day. If the call doesn't come, you know what to do. (You may need to make it plain that if the call doesn't come in they will be the subject of an international man hunt).
- **Transfer:** You may be able to transfer some recovery costs with travel or specialist insurance.
- **Recovery:** Create electronic identity kits containing recent photographs, copies of passports and identity papers, fingerprints and a detailed description. Keep it up to date and ready to distribute to the police services should the worst come to the worst.

Bonus Tip: Develop a Disaster Recovery Plan

We've talked a lot about risk management and how to recover from risk events. You have probably noticed that there is a lot of similarity in the suggestions I have made. That's because most risk events follow a similar path with similar consequences; it doesn't really matter whether your house burns down, is carried away by a tornado, or washed away in a flood. The steps you are going to take to recover will be the same, regardless of whether they are big or small events.

1. Designate an emergency contact person outside of your area. A good first point is the International Red Cross, which operates a service that you can call to register that you are safe, and others can call in to see if you have registered (and are safe). They can also

take messages, like heading to or meeting at a given location. If your mobile phone is still working, change your message to say that you are ok on this date, at this time, and in this location.

2. Make some basic preparations for independence, because you could be on your own for several weeks depending on your location. Ensure that you have food, water and medical supplies for at least three days. Ideally, stored in waterproof containers in bags you can easily carry if you need to evacuate. You will also need a battery-operated radio with spare batteries. Do some research about your area and risks (e.g., wildlife, sunburn, water borne diseases) and pack an appropriate emergency kit.
3. Each person should have their own kit, plus a larger combined car kit, all packed and ready to go.
4. Teach your children basic survival skills. Prepare and rehearse an emergency plan including evacuations and communications.
5. Research fire/storm/flood safety, emergency first aid, and how to leverage your slight body weight for lifting and moving items and people.

You may also find it useful to develop worse case scenarios and disaster plans for financial setbacks (you lose everything). For example, if like the Butchers, you lost your home, you:

- Will leave some spare clothes in your sister's basement so you can maintain a sense of normality.
- Will put a few thousand in a separate emergency housing account for bond and first month's rent.
- Would move into your sister's basement (you might want to check she's ok with that).
- Would get a job at a burger joint to keep the money coming in.

These pages are not included in this sample

CHAPTER 20

Estate Planning

THIS CHAPTER MAY BE DIFFICULT because we are talking about making provisions for the disposal of your assets after your death.

I can tell you from my own experience that while it's hard coming to terms with your loss when a family member dies, it is almost impossible when you have to sort out their financial chaos as well.

Making a will is one of the best risk management plans you can make, a final gift that gives you and your beneficiaries peace of mind, before and after your death.

However, estate planning is more than just writing a will. It also includes consideration of tax implications and assets that fall outside the scope of your will (like joint, trust, and business).

And it should also make provision for the care of your young children and pets as well as consider the potential for future divorce and children from multiple marriages.

Develop a Philosophy of Dying

This will probably just be an extension of the virtues you have been working within and, but it will guide your decisions. It might, for example, continue to include Environment with minimal preservation of your remains and a cardboard coffin.

Some of it will be new, for instance, a commitment to speak honestly and openly about your death. Giving your friends and family permission to exchange feelings and talk freely (for good or ill) about their unfinished business with you. Preparing for the end of this life and the start of the next, within the context of your religious beliefs.

Start sharing your family history and stories; you might write this down, or make a recording. Share the essence of yourself, your beliefs, and your virtues with your family if you are not already living them together. Tell them what you hope for them - preferably in a way they want to hear; that you want them to be loved, healthy and happy rather than your specific hopes for a haircut and a flourishing dentistry practice.

You might like to plan your funeral, and include detailed instructions about what to do with your remains (cremation or burial), and how you would like your service conducted. Your family will probably appreciate it if you designate a fund to pay for it, as even basic funerals can be expensive. If you know where you would like to be interred, buy the space now and make provisions for the memorial that you would like as well.

Living Will

A Living Will expresses your preferences for medical care should you be unable to speak for yourself; for example, do not resuscitate. Depending on where you live, it might be called an Advanced Care Directive, a Medical Power of Attorney, or something similar. It grants the person of your choosing authority to make those decisions on your behalf. Choose someone you know will be strong enough to carry out your wishes when the time comes.

Most hospitals have an appropriate form for your jurisdiction. Once it has been completed, make sure that relevant family members and medical specialists get a copy as well.

Depending on your virtues, choose the treatment you prefer and make your wishes well known, for example, to have:

- Your life maintained regardless of the cost and possibility of recovery.
- Treatment administered until you have been in a persistent vegetative state for a period of time, and two doctors agree on your prognosis.

- Treatment withheld unless there is a better than 85% chance your full health is recoverable.

Discuss your end of life care with your family in the hope that they will endorse your do not resuscitate order and support your desire to donate your viable organs. Or to die in your home with your pets and family nearby.

Intestacy

If you die without a legal will, or your will cannot be located, you are considered to have died intestate, and a probate court decides the division of your assets.

Most jurisdictions consider that you have died without a will if you have not made a *formal* will. However, you can write an informal will which will be taken into account by the court that determines what happens to your estate.

To give it the best possible chance, hand write it using one pen on a clean, unmarked piece of paper, with the date and your signature at the end. If you make a mistake, start again on a fresh sheet of paper.

As an executor has not been named, someone must apply for authorisation to administer the estate *before* any action can be taken to settle it. Some jurisdictions require that they deposit a bond or obtain a guarantee before approval is granted.

While there are differences in the jurisdictions, courts will generally split assets according to their ownership. For example, if you and your current partner are living in a property that you jointly own with your ex, the property will most likely be granted to your ex (depending on the purchase contract, see Chapter 15: Buying Property).

If you are the sole owner of your property, it may be split between your partner and the children of your previous relationship excluding the children of your current relationship.

Your joint bank account may transfer directly to your partner, or it may be held by the court pending further investigation.

It will be difficult for everyone involved, so it's best to make arrangements before you die.

Wills

Your will is a simple statement of what you want to happen to your stuff when you die. However, as it has standing under the law, it involves dealings with courts, and that means that things may not always turn out the way that you hope.

Depending on the complexity of your affairs, you can have a formal will drawn up by a lawyer, buy a blank do-it-yourself will kit, or use a computer program. Regardless, it must be properly signed and witnessed; all of you in the same place at the time of the signing.

Depending on your jurisdiction, you may need two or three witnesses, but they can't be named as beneficiaries.

You can add to it at any time with a codicil describing the changes you want, similarly signed and witnessed. The codicil becomes part of the will, so it's important to make sure that it is stored with the will, but not stapled or taped to it.

You must name an executor, who is responsible for carrying out your court approved wishes; selling your assets, paying your debts and distributing the balance to the beneficiaries. It would be kind of you to check whether they are willing to take on this responsibility because it can be a challenging role.

On your death, most wills undergo a probate process where a court will confirm that it conforms to the legal requirements.

If the will is valid, the court authorises the transfer of assets, so that once the formalities are complete, you are the legal owner of Aunty Eglantine's diamond bracelet or that the title of Uncle Melvin's house can be transferred to you.

A simple estate might only take a couple of weeks to process, but a more complex one could take several years. In the meantime, there are statutory fees (set by law) that need to be paid. Some jurisdictions offer a cheaper and simpler process for small estates, so it's worth checking what the situation is where you live.

It's also possible that someone may contest your will; they could challenge your guardianship arrangements, or may feel entitled to a greater share than you have allocated them.

These issues are considered by the judge as part of the probate process but could be referred to other courts for resolution before coming back for authorisation.

Actions like these will increase the length of time required and will probably need a relevant legal professional(s) to act on your behalf. They will expect payment.

When you are writing your will, be very specific about who gets which of your personal belongings. You could start including details of the beneficiaries in your annual inventory, or set up a dedicated inventory for just this goal. Include your will in your annual review to ensure that it remains current; that you haven't sold your diamond bracelet in the meantime and that the right number of children are named.

Don't assume that the right thing to do is to leave it all to your children. Think about what you want for them right now; their jobs, their income and consider what you would be willing to give them at school or college or as independent adults were you alive at the time. Think about your sharing program and how you want to include those arrangements.

Discuss your plans with your family; encourage them to make suggestions but don't feel compelled to act on them. Unless you see some benefit in them, and they are in keeping with your virtues and goals.

Don’t let them make assumptions that will be dashed when your will is read, and the estate wound up.

Trusts

One of the most effective ways to minimise tax and probate issues is set up a trust fund and transfer your assets into it. There are a lot of different kinds of trusts around the world, so the following is just a general overview. They are very complex, there’s a lot of law that surrounds them so if you want to set one up, I strongly encourage you to seek financial and legal advice from qualified local professionals.

The simplest explanation I’ve heard comes from Suze Orman. She says a trust is like a suitcase; you pack and unpack your assets during your life, each with a little label explaining who the asset belongs to. When you die, the new trustee opens the case for the beneficiaries to withdraw their assets.

Trusts are an excellent way to take assets out of your personal ownership. They don't belong to you anymore and are excluded from your tax considerations, the probate process, and are protected from forced sale in payment of debts or legal action. The trust deed sets out how the assets are to be disposed of, so they can also protect you and your beneficiaries from themselves.

While you are alive, you can act as the trustee, or nominate someone else to manage the fund (companies can charge by commission or fee, so choose wisely).

Additionally, court records, including probated wills become public records. This is great news for genealogists and historians, but your beneficiaries may not care to share the knowledge that they are the recipient of your licentious jade collection, or have your video testimony explaining why you have excluded them going viral on YouTube.

What happens in the trust, stays in the trust.

Businesses

If you own or have interests in business, you need to think about how you are going to divest them. See Chapter 14: Owning a Business for more.

Children

Appoint guardians who will raise your children to be caring and responsible adults with the virtues you hope for them. Try to ensure that the people spending the money on their behalf are not the same people that manage it (to avoid conflicts of interest), and that all of them are people who your children can have respectful and cooperative relationships with.

If the inheritance is large, consider a trust that will leave the money in three instalments:

1. In the early twenties to fund lifestyle acquisitions like cars, vacations and shopping.
2. In the late twenties to fund asset accumulations like a home, or to start a business.
3. In the mid-thirties when it is more likely to go towards long-term goals or retirement planning.

Not that you can control how they spend it, but you can deliver it at different times of their lives where they are more likely to use it wisely than others.

Your Inheritances

Should you be fortunate enough to receive a legacy from someone else's estate, don't make any rash or hasty decisions that might lead you to fritter it away. Give yourself a little to spend, but lock the rest away in a high-interest savings account you can't access for six to twelve months while you grieve and come to terms with your loss.

When the account matures, consider how you can best honour the memory of the person who left it to you. Would they want you to pay off your debts, get an education, or sail around the world for a year? Would they buy you a home, a significant piece of art, or invest it for your retirement? You could also give some to a cause that you shared.

These pages are not included in this sample

About the Author

Author, philosopher and dog magnet Alexandria Blaelock advises embracing things that matter, like beauty, friendship and wisdom.

Drawing on a career in project and event management, she is the author of three personal development books describing how rational thought about activities like getting dressed and feeding your friends can lead to the kind of pleasure that makes life worthwhile.

She lives in Melbourne (Australia) with her husband and two Labradors where she is pursuing a little Famous Five adventure. While she likes ginger beer and ham rolls you are more likely to find her drinking red wine with antipasto.

Discover more at www.alexandriablaelock.com.