

## **Setting Up A Financial Cushion**

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Having a financial cushion is nothing more than having sufficient liquid cash reserves saved in an accessible account. The cushion should be in a savings or money market account that is at the same bank as your personal checking account. This will facilitate easy transferring of money between your personal checking account and the cushion account. Another name for this account is a “mad” account.

The cushion account is available to be used and replenished based on periodic fluctuations in your monthly business income and unanticipated personal expenses. It is used to pay for emergencies, unusual expenses, quick get away vacations, Etc.

During months of low income or high expenses, you can draw down on your cushion account as you continue your tax savings, investment savings and debt payoff programs. Many businesses seem to have one or more months where cash flow is really tight. It can seem like your business has simply disappeared as your income dries up. Without any cash reserves, it's easy to feel like your back is against the wall during these times. Without a cushion your choices are to get behind on some of your bills or go borrow more money. This will set you back on your financial program. In these circumstances it's easy to see why many people often give up and quit trying to manage their money. Your stress level and fear can get quite high, even to the point of influencing your business. Having a cushion account, while not completely eliminating the stress, can help with your regular cash flow and help keep you on your savings and debt payoff programs.

Fortunately, there are also above average collection months in most businesses as well. The extra cash flow during these good months should be used to replenish your cushion account to your comfort level amount.

How much should you keep in your cushion account on an ongoing basis? I recommend you look at the particular circumstances of your personal expenditures. Some people keep as low a balance as \$5,000 while others maintain a balance as high as \$25,000 in their account. If you have high personal overhead and little investment savings, I would recommend a higher amount. If your debts are fairly low and you have investments that are relatively liquid, then you don't need as high as balance.

Another important factor in deciding how much to keep in the account is your personal comfort level. If you sleep better at night with a higher amount, by all means, go for it. Remember that your comfort level will affect the amount of stress you feel during the down months, so adjust accordingly.

I recommend that you deposit your salary check or the personal portion of your the draw (after funding your tax account) from your business account into your cushion savings account rather than your personal checking account. If you put the draw money into your checking account it's easy to get distracted and spend more than you intend on unimportant things. When you look at your checking account balance and the money is there, what happens? It's easy to spend. By putting the funds into your cushion savings account and only transferring money to the checking account as needed, you force yourself to spend time before making some purchases because you must make an account transfer to get the funds in your checking account. This time can give you an opportunity

to decide whether the item is really a priority for you. Additionally, you get invested in watching and maintaining the balance in your cushion account at your particular comfort level.