

MANAGING YOUR MONEY \$

The Pyramid Approach To Financial Health

By Richard A. Koob, CLU,
ChFC, AEP

(NAPS)—The USDA's Food Pyramid was created to provide the public with guidance about nutrition. A similar concept—a financial pyramid—offers a model for financial health.

The base tier of the pyramid represents the foundation of a sound financial plan. The function of this tier is to “guard against life's uncertainties,” primarily with insurance. This includes life and health insurance, disability insurance, long-term care, homeowner's and auto insurance. With adequate coverage, a family can be protected against unexpected occurrences in life that might otherwise create a financial hardship.

Another key element of the foundation is having adequate “cash on hand” in case of an emergency. This includes your regular savings accounts and money market funds—in fact, any type of account that allows easy access to your money, penalty-free. The goal is to have a cash reserve that is equal to three, and preferably six, months of expenses.

Additionally, you should have a will for both you and your spouse. Your insurance or financial advisor will be glad to give you the names of local attorneys who specialize in wills and estate planning.

The second level involves “growing money” through investment. Here, you want to make sure your plan includes the practice of diversification. Today, many people invest in mutual funds, which by their definition are diversified and professionally managed. However, there are other investments and tactics to consider



The function of the first tier of the financial pyramid is to “guard against life's uncertainty.”

when building a successful portfolio. Your best bet is to review your desires and goals with a professional financial advisor.

The third tier of the pyramid addresses how to manage your retirement and how to protect and distribute your estate. This can be achieved with an estate plan and other advanced planning strategies, including trusts and updated wills.

Once again, conferring with a financial advisor or an estate planning professional is advisable. Their expertise and guidance can help ensure that your estate is managed according to your desires and goals.

For more information on the Financial Planning Pyramid and how to choose an insurance or financial advisor, visit the Web site at www.naifa.org and click on the “Consumers” section.

Mr. Koob is president of the National Association of Insurance and Financial Advisors, a national nonprofit association founded in 1890 that represents 75,000 insurance and financial advisors nationwide.