Dollar SIGNS
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Financial Planning 101

The second issue of our "Dollar Signs" series covers introductory financial planning. This article may seem basic, and if it does, please bear with us. For pilots who are just starting out or have never been able to plan past their next paycheck, it may not be so simple.

Does a discussion about basic financial planning cause your eyes to roll?

Consider the following three questions:

- Can you summarize to the nearest $100 what your monthly expenses are?
- If you had a general household emergency on the order of $5,000, could you easily pay for it with liquid cash?
- If you multiply your answer to the first question by six, is your emergency fund at least that large?

If your answers to these three questions were all "yes," then you are doing a great job with your personal finances. Otherwise, please continue reading for some valuable guidance.

Think of banking as time travel for money. When you save money, you are sending today's earnings into the future. When you borrow money, you are sending your future earnings back in time to the present. It follows that, in most cases, debt reduction is good. It costs you money to borrow money, so in addition to taking money from your future self, you are paying a banker a percentage for the convenience. If you have any doubts about the way compounding interest works, spend some time researching it. You'll certainly be motivated to reduce debt, and borrow only when it is absolutely necessary.

The skills and experience we bring to the table as pilots enable us to negotiate a "good wage," but surely you have coworkers who always seem to be short on cash. Income level does not determine financial health; rather, it's the difference between income and spending. A person earning $25,000 per year and spending $20,000 per year is going to be more financially secure than one making $250,000 per year and spending $251,000. Our human nature drives us to operate right to the limit of comfort, and spending money is no exception. It takes active discipline to overcome this natural tendency, and without discipline, we will increase spending until there is a really compelling reason not to.

Some of us have the choice of being able to adjust our income by working more or working less each month, but this flexibility requires even more discipline and it comes with a cost. Combine this flexibility with that natural tendency to increase spending, and we can find ourselves in a situation where we have to work much harder than our peers, spending more and more time away from our loved ones to support the financial commitments that we have made. You may know someone who has to credit something over 95 hours each month just to pay the bills. You may be that person! *This* *is not a sustainable financial plan in the long run.*

Pilots are forward-looking, pragmatic people. If we were asked to take a flight that required a 100 knot tailwind to complete, but the winds were forecast with a 50 knot headwind, of course we wouldn't do it. But yet, some of us create the same scenario by establishing a lifestyle that requires us to work above and beyond the bid divisors each month. We don't always apply our highly developed pilot judgement to our own personal finances.

Saving an emergency fund is another task that requires more discipline than intuition. Interest rates in plain savings accounts are roughly one-sixth of average inflation. Money in the bank is much less fun and glamorous than the latest toy or an immediate need. We all know this, and that doesn't make it any easier to save. The first step to saving more is spending less, and the next article will address just that.

Until then, we welcome your feedback and discussion. If you have any questions for your subject-matter experts, ideas for additional topics that we should cover, or just want to let us know what you think, please visit B6Alpa.com or contact us at JBUCommunications@alpa.org.

In unity.

FINANCIAL EXPERTS AGREE THAT YOU SHOULD HAVE AT LEAST SIX MONTHS OF YOUR BASIC EXPENSES IN SAVINGS FOR ANY FINANCIAL EMERGENCY THAT MIGHT COME YOUR WAY—THIS INCLUDES THE POSSIBILITY OF A LEGAL JOB ACTION SUCH AS A WORK STOPPAGE.

TAKE A LOOK AT YOUR LIFE AND START SAVING TODAY.

STAY SAFE ▪ STAY INFORMED ▪ STAY INVOLVED

CONTRACT ABOVE ALL

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