

GETTING FISCALLY FIT

Protecting Financial Security

Just thinking about risk makes some people anxious. It's one of those topics many would prefer to avoid. Others thrive on risk -- it's what makes life exciting. Whether you're one of the former or one of the latter, the risks in your life have potential financial impacts. To manage them, you need to develop sound strategies that suit your needs and lifestyle.

It's important to distinguish between financial and non-financial losses that accompany risks because the ways you prepare to handle them are different. Financial losses will have a dollar value, whereas non-financial losses are measured in the emotional toll they take.

The financial risks most people face are usually one of five types:

Loss of:

- Income due to premature death
- Income due to accident or sickness
- Property through theft, fire or accident
- Monetary assets due to personal liability
- Monetary assets due to sickness or accident

Each of these categories of risk has a potential financial loss associated with it. And each household will view the potential loss differently, based on the values important to that household, its financial situation and other resources available.

Successful money managers combine four techniques in their risk management plans:

- **Retain risk**
- **Transfer risk**
- **Reduce risk**
- **Avoid risk**

To minimize potential losses while balancing costs, consumers should:

Retain the losses they can afford; insure the losses they cannot afford.

To evaluate how much risk to retain or transfer, estimate both the frequency of the loss and the severity of the loss. As frequency and severity increase, the cost of insurance goes up. Fortunately, those risks that occur most frequently are the least expensive ones, while those with catastrophic costs have a far lower frequency.

To keep costs low, consumers can:

Retain frequent losses; transfer severe losses.

Each household faces a unique set of risks depending on its individual circumstances and resources. Developing a plan for managing risk will help families and individuals protect their financial security.



The Center for Personal Financial Education is an educational resource and research center whose mission is to advance the adoption of sound personal financial practices by developing and delivering personal financial education programs and conducting related research. The Center, established in 1996, is a joint venture between the University of Rhode Island and the Consumer Credit Counseling Service of Southern New England.

Development of the Getting Fiscally Fit program was made possible by a grant from the CDNE Foundation.
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