Steps Toward Financial Resilience

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Barbara O’Neill, Ph.D., CFP®
Extension Specialist in Financial Resource Management
Rutgers Cooperative Extension

The words “resilience” and “resiliency” have been used frequently in conversation since the start of the mortgage meltdown and resulting financial crisis. In everyday language, resiliency is the ability to “roll with the punches” and carry on despite life’s challenges and setbacks. Financial resilience is the ability to withstand life events that impact one’s income and/or assets. Some financially stressful events, such as unemployment, divorce, disability, and health problems affect people individually. Others, such as recessions, stock market downturns, and acts of terrorism, affect society as a whole.

Research by Dr. Sharon Danes, a professor and Extension specialist at the University of Minnesota, found that there are five characteristics that enhance people’s resilience in the face of life’s changes and challenges. These five characteristics are being positive, focused, flexible, organized, and proactive:

- **Positive** people view challenges as opportunities and consistently “use lemons to make lemonade.” They reframe situations positively and often use the expression “it could have been a lot worse” when comparing their misfortune to others.
- **Focused** people determine where they are headed in the future and stick to their goals so that life events and other barriers do not deter them.
- **Flexible** people are open to new and different options when faced with uncertainty.
- **Organized** people set priorities and develop structured approaches to manage change.
- **Proactive** people work with change rather than defend against it.

Financial resiliency is enhanced with financial resources, such as savings, health insurance, and a good-paying job. Another resource is one’s human capital. Economists define human capital as all of the knowledge, skills, experiences, contacts, and other personal qualities that people have to “sell” to potential employers. Personal health is part of human capital because it affects job performance and productivity.
Social capital also increases financial resiliency. This includes a support system of family, friends, co-workers, neighbors, and others that can provide financial assistance, not to mention emotional support, during hard times. An example is someone driving friends to a cancer treatment, thereby saving them the cost and stress of getting to the hospital on their own.

Commonly recommended financial practices can increase financial resiliency and are especially important during a tough economy. Every small positive step makes a difference. Below are five examples:

- Maintain a low debt-to-income ratio. Monthly consumer debt payments should be 15% or less of monthly take-home pay. Example: $275 of debt payments divided by $2,500 of net pay equals a consumer debt-to-income ratio of 11% (275 divided by 2,500), which is under the 15% danger zone.
- Maintain an emergency fund of at least three month's expenses. Keep this money liquid in cash equivalents such as a bank or credit union savings account, money market fund, or short-term CD.
- Never consider your education or job training finished. Continue to develop new marketable skills and take care of your health (e.g., good nutrition, screening exams, and exercise) to increase your human capital and remain employable in today's very competitive labor market.
- Purchase adequate life insurance to protect dependents against the loss of a breadwinner's income and disability insurance to provide continued income following an accident or illness.
- Increase your knowledge of financial topics so that you make smart financial decisions. To learn more about basic investment principles and characteristics of specific securities, visit Rutgers Cooperative Extension's *Investing for Your Future* home study course Web site www.investing.rutgers.edu.

How is your personal financial resiliency? Take Rutgers Cooperative Extension's online *Personal Resiliency Resources Quiz* and find out.