



The House Always Wins & Why Cash is King.

A few posts back I talked about the two types of emergency funds – Short-term and long-term. Those funds keep you out of temporary poverty when bad things happen, allowing you to borrow at zero interest from yourself.

There is another arrangement that will save you dollars and headaches over time. That is to become your own insurance company – with the smaller stuff.

I am talking about extended warranties, care/maintenance plans, and insurance for various gadgets and products: Your car, home appliances, TV, Printer, smartphone, laptop – you name it.

✘ Because the house always wins. If this weren't the case, there would be no offer.

These offers are pitched on irrational “what if” fears and sold under the disguise of making life easy – “Just call and we will take care of it”.

In reality though – it is not easy. There is always fine print and 1-800 numbers with menus and wait times. They will wear you out – we've all been there.

Instead, categorically say no thanks. Instead, use the money you would have sunk into those pits to fund your own warranty fund. Here you can bolster your existing emergency fund or open another high-yield online account dedicated to the purpose.

You can scale this strategy up.

In this case, you balance insurance premiums versus deductibles for your car or home insurance. For car insurance, you may consider skipping the collision part altogether on an older high-mileage car that has little dollar value.

You can extend this strategy to deductibles on your health insurance, but this is an area of more caution and consideration and is best when implemented alongside an HSA (Health Savings Account) – because then the IRS de facto becomes a co-sponsor. (We will cover that in a later post)

In essence, you simply take over a portion of the insurance yourself. The risk does not change (who knows what will happen...it's all statistics), but the cost of insuring against that risk is lowered because you are managing that as a non-profit with no overhead, even making interest on the money "in waiting".

✘ Dealing with warranty and insurance companies complicates life.

✓ Half of the financial coaching is about simplifying life.

✓ Cash makes life simple.