

Fundamentals of Cash Management

Cash Management

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OPINION – In the world of finance, cash is King. However, how we use it can give us financial freedom or have you screaming “Where’s Did My Money Go!” The following article, if used pragmatically and well-orchestrated can make your retirement years one of peace and happiness.

Objectives of Cash Management

Cash Management is a method related to cash transactions (payments) and short-term liquid investments (the term liquid means converting something into cash money).

A rule of thumb: Never hold cash. Bank it, save it or invest it, but never hold cash for any long period of time. There are three basic reasons to hold cash:

- Managing transactions – Cash to pay bills, withdraw funds for immediate needs and to write checks.
- Cash Emergencies – You should always have a least three to six months of accumulated cash in case of an emergency. How it’s done: look at your budget and figure out how much money you need to maintain that budget for three to six months without other outside income.
- Make Temporary Investments – Anticipation of near term needs by using Certificates of Deposits (CD’s), investing in short term U.S. Treasures (one year or less) and money market funds (a place to park money you will need soon and is easy to get).
- Cash management means savings; not long-term investments. Note: We will discuss the difference in another article.

Rules for Effective Cash Management

Effective cash management reduces the risk of bank charges. Here is a list of four practices to follow:

1. Balance your checkbook at least once per month (daily balancing is best but not always needed).
2. Pay your bills on time. Set up a specific bill pay period to pay all of your obligations. The first of the month is a best practice. Impact: Your FICO or Credit Score (which we will discuss in another article) depends on this habit.
3. Pay yourself first. If possible, pay yourself 10% of your earning first by taking these funds and putting them into a separate saving account. This account is not attached to any Automatic Teller Machine Card (ATM), Checking Account or other easy access account. Saving means “Savings”!

Evaluate alternative accounts and providers: Types of Depository Institutions

Type

Characteristics

Commercial Banks

Gets its funds from checking and savings account deposits. Provides an array of financial services. Examples: Bank of America, Chase, Wells Fargo, Citi etc. (Insured by the Fed. Depository Ins. Corp.)

Savings Institutions (formally called Saving and Loan Associations)	Primarily home mortgage lenders that offer checking and savings accounts. Required to use a large percent of their funds for mortgages. Savings institutions have the letters SSB or FSB after the name to indicate whether they are a state savings bank or a federal savings bank.
Credit Unions	Special form of mutual depository institution. Funds come from depositors who are also the owners of the Union. There is a common bond among the members, such as belonging to the same organization or living in the same geographical area. (Insured by Nat. Credit Union Assoc.).
Web-Only	An institution that does not have a location but provides web only banking services. Example: Ally Bank, Discover Bank, Salem Five Direct, Radius Bank, E-Trade, Capital One 360, iGobanking, CIBC Bank USA, USAA and BankPurely.

Evaluating Financial Institutions

Financial providers should be rated using the “four P’s.”

- Products – the institution has all the services you need.
- Price – the interest you earn and fees you pay.
- People – customer services; people should always be nice to you.
- Place – location of the branch and ATM machines (easy access).

Cash Management Products & Services

- All checking accounts are demand deposit accounts.
- A regular checking account pays no interest. It is basic checking.
- An interest-earning account pays interest and includes other features, like a debit card.

Savings Accounts

- Savings accounts can either:
- Demand Deposit allows you to withdraw money at any time.
- Time Deposit account requires a waiting period before withdrawing the money.

Alternative Saving Accounts

<u>Type</u>	<u>Characteristics</u>
Regular Savings Accounts (Demand)	Once called passbook accounts.
Certificates of Deposits (CD’s or Time Deposits)	A savings account that pays a stated rate of interest if the funds remain for a stated period of time. The end of that period is a maturity date. These can be redeemed or rolled over for another time period.
Money Market Mutual Fund	These funds invest in short-term, low risk financial assets, and have limited check writing privileges. Not FDIC insured.
Money Market Account	A money market account pays interest, requires a high minimum balance, and has check writing ability. Not FDIC insured.
Government Savings Bonds	Bonds are exempt from state and local income taxes and pay interest that fluctuates with market rates.

Other Cash Management Products & Services

Banking services today include:

1. Debit Cards
2. ATM Card (not a Debt Card)
3. Other electronic banking services

Specialized checks:

- Travelers' checks
- Certified checks
- Cashier's checks
- Money order

Evaluating Your Options

Liquidity – Can you withdraw funds at any time (24/7)?

Safety – Is the account insured (FDIC or NCUA)? Does it expose you to any other bank closure risk?

Costs & Interest – What types of fees are associated with the account? Is there a fee for not have a certain balance each month? How much do they charge for their specialized services?

Do your homework and research your financial institution before you go and put money in it!!!

Resolving Cash Management Problems

- The best way to avoid bouncing a check is to balance your checking account on a regularly scheduled basis.
- Arrange for overdraft protection by having a saving account connected to your checking account.
- If you deposit a check and it bounces, you will be charged a fee (\$25.00+ Times 2).
- Check your account frequently to prevent fraud and identity thief.
- You can also place a stop payment on a check (Costs vary between \$5.00 and up).
- If you are facing a late payment, arrange a wire transfer (Costs vary from \$13.00 to \$30.00). This can be done immediately.

As you can see you have lots of option in managing your cash. With time and patience, you can reach financial freedom which builds confidence and self-esteem. In our next article will be on the Fundamentals of Money Management.

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