



General Board

Pension and Health Benefits

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An Emergency Fund: Your First Step Toward Financial Health

What is an Emergency Fund and Why Everyone Needs One

An emergency fund is money put into a safe place—usually a savings account or a money market account—and is used only when an emergency expense causes a monthly household budget not to balance. Generally, it is a good idea for the budget to accommodate small unexpected expenses like a blown tire or a visit to the doctor's office, but in the case of a true emergency, such as the loss of a job, a major medical event, or a large car repair, more cash is needed than the monthly budget allows for.



An emergency fund can help in several ways:

- **It can prevent further debt:** When an emergency occurs and there is no emergency fund available, often money is borrowed to cover the expense or the expense is put on a credit card, resulting in further debt. An emergency fund will prevent this scenario.
- **It helps keep the household budget on track:** When unexpected expenses arise, they can be covered with the emergency fund instead of having to re-shift the budget to accommodate the extra expense.
- **It can reduce fees:** Living paycheck-to-paycheck often results in extra bank or late payment fees. These costs can add up quickly. An emergency fund helps to prevent these unnecessary additional costs.
- **It can help you get ahead:** An emergency fund can allow you to get ahead of expenses, helping to avoid the stress of always trying to play catch-up with finances.

How Much Money Should be in an Emergency Fund?

Most financial consultants agree that an emergency fund should cover basic living expenses for three to six months, depending on the size of your family and the amount of debt you are carrying.

This amount is recommended because the most common reason for an emergency is the loss of income. If you or your spouse lose a job, it often takes several months to find a new job, and you still will need to pay the bills.

One suggestion is to save \$1,000 in a "mini fund" and then begin to aggressively reduce your debt load. Once your debt is paid off, you can continue to save for your three to six month emergency fund.

How to Get Started

Starting an emergency fund can be as simple as budgeting an amount to deposit every week or month. Just be sure to take care of your basic expenses first.

It is a good idea to place your money into an interest-bearing savings or money market account that you can access in an emergency, but which also forces you to think about it if you want to use it for a non-emergency. You could open an internet bank account, for example, or an account on the other side of town. Don't carry a card attached to the account though!

Make Saving a Habit

The key is to start small. Try putting \$10 per week into your account. After a few weeks, you probably won't miss it. Then try bumping the amount to \$20 per week.

But I Can't Afford an Emergency Fund!

Most financial advisors believe that people can't afford not to have an emergency fund—even students and people earning low incomes.

Here are some ideas for starting an emergency fund even if you think you cannot afford one. You can even combine more than one of these ideas to increase your saving.

- Every evening, put all of your change into a jar. Once a month, deposit all of your saved change into a savings account.
- Determine an amount to save every week. It could be \$5, \$20, or more. Then have it automatically deposited into your savings account.
- Pay yourself first. When you get your paycheck, put your predetermined amount into savings before you pay your other bills.
- Make a list of your “needs” and your “wants”. Where can you trim costs? Try bringing your lunch to work a few days per week, or try giving up a couple of coffee drinks per week. Then put the money you saved into your fund.
- Take a second job. If your current job isn't paying the bills or doesn't allow for any extra savings, look for a part-time second job or start a service, such as pet care, babysitting, or catering, and then save the proceeds.
- Save any windfalls such as tax refunds or gifts. If you get a raise, put the additional money into your fund.
- Sell something. Do you have unused items in your home? You could have a yard sale or eBay sale, save some money, and reduce clutter in your home.

Be Patient

Building an emergency fund can take time, but if you focus, cut back on some of your incidental spending, and apply some of these suggestions you may be able to save money faster than you think!

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