

Why You Need to Create an Emergency Fund (Part I)

Emergencies happen when you least expect them. In life you should expect the unexpected, and this is why you need to build an emergency fund. The best you can do is to prepare for emergencies that require access to additional money and having an emergency fund is the ideal solution. Financial emergencies can come in many forms; a layoff, strike, or other job disruption, significant medical expenses, home or auto repairs or something you've never dreamed of. The last thing you want to do is be forced to rely on credit cards or a loan which could simply compound the problem.

How Big Should Your Emergency Fund Be?

Most experts agree that you should keep between three and six months worth of your living expenses set aside in your emergency fund. Depending on your specific situation and whether or not you have children will determine what amount is best for you. The reason you want to have three to six months or expenses saved up is that the most common reason for the need of an emergency fund is due to a sudden loss of income. If you or your spouse loses a job you still have bills to pay and it

may take a few months to find suitable new employment. It is best to plan for a worst-case scenario so that the smaller emergencies such as replacing the hot water heater that just went out will be easily covered.

Start Small

If you currently don't have an emergency fund or find it difficult to save money, the key is to start small. You have to realize that accumulating one month's worth of expenses will take some time, let alone three to six months. If you set your immediate goals to be small and manageable you will have a better chance in reaching them. The best way to get started would probably be through your bank. Open up a new savings account if you currently don't have one and begin to save with this first. The next step is to get into the habit of making regular deposits into this account. Whether it is weekly, bi-weekly or monthly, create a schedule and stick to it. Once you make saving automatic you won't even have to think about it. If you feel it is difficult to begin saving simply start with a small amount. Maybe you begin with \$10 a week initially. While this amount won't add up all that quickly the important thing is to start putting something away and to make it a



habit. After a few weeks you won't even notice that \$10 missing so you can bump it up to \$15 or \$20 after a month or so. You will begin to get used to that money not being there and can slightly increase it again.

Where to Keep Your Emergency Fund

You should start with a savings account because it is simple to use and generally does not cost anything. The convenience factor is what is important when getting started. As your account grows you will want to find an account that can earn reasonable interest so that your money is working for you. The next best options to look into are money market accounts or certificate of deposits (CDs). It is important to keep this emergency fund in a place that will be fairly liquid so that you can get to the money quickly in the event of an emergency. You also don't want to have this money tied into stocks or mutual funds because the volatility of the market could cause you to lose money over the short term.