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The Ultimate Guide to Creating an Emergency Fund

Extra Bonus: 50/30/20 Budget Infographic

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Emergency Fund:
What Is It? And Why It Matters.

An emergency fund is an account for funds set aside in case of the event of a personal financial dilemma, such as the loss of a job, a debilitating illness or a major repair to your home. The purpose of the fund is to improve financial security by creating a safety net of funds that can be used to meet emergency expenses as well as reducing the need to draw from high-interest debt options, such as credit cards or unsecured loans.

What type of expenses should an emergency fund be reserved for?

- Medical emergencies
- Job loss
- Major car repairs
- Major home repairs
- Peace of mind

Why do I need an emergency fund?

Having money in a high rate savings account can help you avoid borrowing. The financial buffer an emergency fund provides can keep you afloat in a time of need without having to rely on credit cards or take out high-interest loans. This is especially important if you already have these obligations. "One of the first steps in climbing out of debt," says NerdWallet columnist Liz Weston, "is to give yourself a way not to go further into debt."

How much should I save?

Up to half a year of expenses: The answer depends on your financial circumstances, but a good rule of thumb is to have enough to cover three to six months' worth of living expenses. If you lose your job, for instance, you could use the money to pay for necessities while you find a new one, or the funds could supplement your unemployment benefits. Start small, Weston says, but start. Having $500 saved can get you out of many financial scrapes. Put something away now, and build your fund over time.

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Where do I put my emergency fund?

Because an emergency can strike at any time, having quick access is crucial. But the account should be separate from a bank account you use daily, so you're not tempted to dip into your reserves. A high-yield savings account is a good place for your money. It is federally insured up to $250,000, so it's safe. The money earns interest, and you can access your cash quickly when needed, whether through withdrawal or funds transfer.

7 steps to build an emergency fund

1. Set a monthly savings goal. This will get you into the habit of saving regularly and will make the task less daunting. One way to do this is by automatically transferring funds to your savings account each time you get paid.

2. Keep the change. When you get $1 and $5 bills after breaking a $20, drop some in a jar at home. When the jar fills up, move it into your savings account. If you don't carry cash, you could try a mobile savings app that makes automatic transfers, with rules that are based on the transactions you make. Read more about our recommendations for savings apps: Qapital, Acorns and Digit.

3. Tidy up your checking account. If there's money left at the end of a pay period, move some into your emergency fund.

4. If there's no money left, cut expenses. See which parts of your monthly spending you can trim, so you'll have cash left over to build your fund. Some ways to save including: carpooling, cooking more meals at home, saving leftovers and avoiding small daily purchases, such as takeout coffee.

5. Get supplemental income. If you have the time and willpower, get a second job or sell unused items from home to accumulate more money for your fund. (See 19 Ways to Find Fast Cash, More Savings.)

6. Save your tax refund. You get a shot at this once a year at tax time — and only if you expect a refund. Saving it can be an easy way to boost to your emergency stash. When you file your taxes, consider having your refund deposited directly into your emergency account. Alternatively, you can adjust your W-4 tax form so that you have less money withheld. Then direct the extra cash into your emergency fund.

7. Assess and adjust contributions. Check in after a few months to see how much you're saving, and adjust if you need to add more. This is especially important if you go through an expensive major life event, such as marriage or a move to a new city or have an emergency that causes you to dip into your existing fund.

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5 reasons for an emergency fund

Need No. 1: Medical Expenses

Even if you exercise obsessively, and eat a perfect diet and are young, accidents and illnesses happen. The only thing you can do is try your best to be financially prepared.

Consider this stat ▸ *A study by researchers at Harvard Medical and Law Schools found that **62%** of all personal bankruptcies are due to medical bills and illness.*

Need No. 2: Job Loss

Size up your situation. How would you fare money wise going 7 months without a job?

Consider this stat ▸ *According to the Bureau of Labor Statistics (BLS), the average duration for a person to remain unemployed in December 2017 after a job loss is just over 27 weeks, or approximately seven months.*

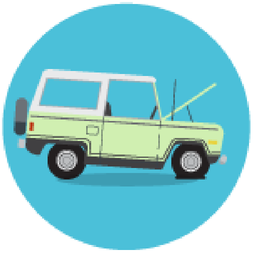
Need No. 3: Car Repairs

It happens to everyone. You're cruising along in your daily routine, living within your means, when emergency car repairs strike. And they strike hard.

Consider this stat ▸ *On average, auto repairs cost drivers 4 percent of the yearly cost to own their vehicles, according to Consumer Reports. So, even if you drive one of the least expensive cars to own, you still could be looking at hundreds of dollars per year in maintenance and repair costs. Throw in a few common emergencies — blowing a tire, overheating or killing your battery — and that number quickly can increase beyond your budget.*

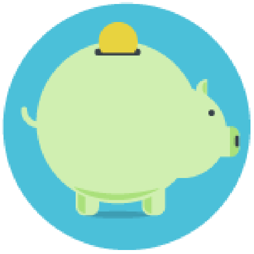
Medical Emergencies

Job Loss



Car Repairs

Home Repairs



Peace of Mind

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Need No. 4: Home Repairs

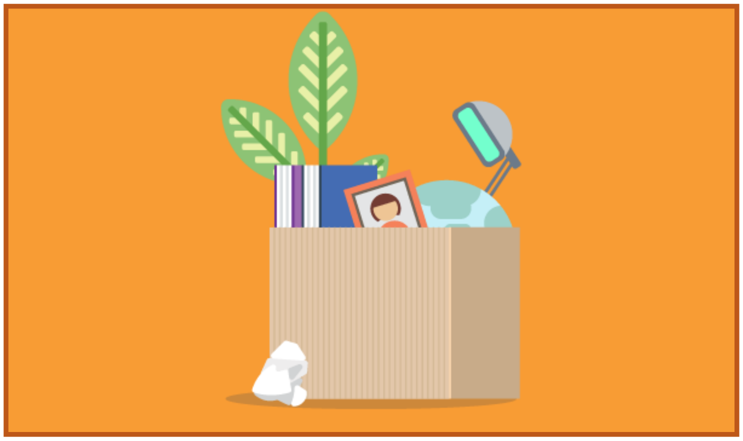
The temperatures outside have gotten colder and you turn on your furnace. Two hours later, you notice that you have to put on another sweater. Another hour goes by and you're still chilled. With the realization that you'll need to call a furnace repair shop in the morning, you think, "I wonder what this will cost me?'

Consider this stat ▸ *Average repair costs for a furnace according to HomeAdvisor.com, is $269.00. However, electrical repairs caused by circuits or malfunctions to furnace parts and components can be over $1,000.00.*

Need No. 5: Peace of Mind

Financial stress can negatively affect your health and personal life. There is real psychological power in knowing you have the funds to rely on if you encounter unplanned expenses or a job loss in the future. A solid long-term emergency fund can help you sleep better at night, knowing that you can survive most potential financial calamities.

Consider this stat ▸ *According to Smartaboutmoney.org, 71% of individuals worry a great deal about managing financial obligations. And the amount that would provide them with peace of mind is over $2,500.*



70% of individuals surveyed said they would need to borrow money or use credit for basic living expenses, if they lost their job.

Smartaboutmoney.org

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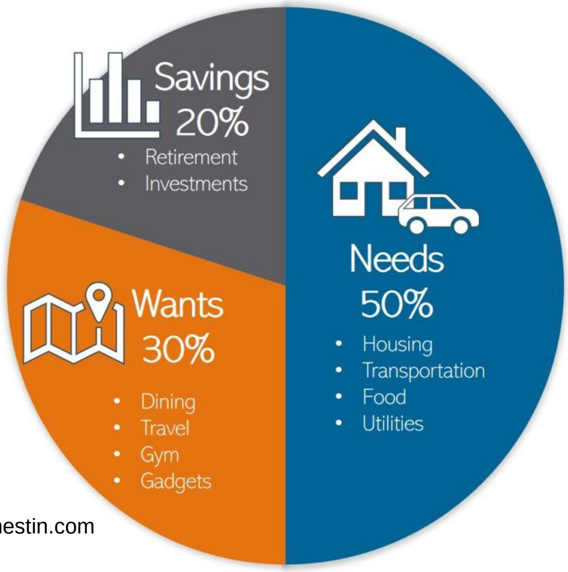
The 50 30 20 budget plan. What is it and why it works?

The 50 30 20 budget plan went mainstream with the 2006 publication of the book *All Your Worth: The Ultimate Lifetime Money Plan* by Senator-Presidential Candidate Elizabeth Warren.
This rule book design is to help you to find balance with your money.

The concept is to divide your after-tax income into three categories: Needs – Wants – Savings. Each group is entirely subjective and encourages you to think about your finances and place a value on each of your monthly expenses. The spending on each category directly relates to a percentage of your income.

50% of your income is for **NEEDS**
30% of your income is for **WANTS**
20% of your income is for **SAVINGS**

Although these "rules" are not hard and fast, they are rules that help you dig deep and decide what value you place on your monthly expenses.



Emptynestin.com

50% of your income on NEEDS

Needs are those items for sustaining life. The basics like food, water and shelter. The tricky thing here is that identifying the difference between needs and wants can be blurry. It is a percentage that you must be truthful with yourself when identifying these expenses. You may want to use the expenses that are in this category to determine how much money you will need on hand for our Emergency Fund. All of the items that we classify in this category are the ones that we need to live.

30% of your income on WANTS

The wants category is a significant category; this is the category that makes budgeting fun by allowing you to reward yourself for all your hard work. By incorporating play into your budget, you increase your odds of success. When you increase your odds of success, you develop a plan, a strategy that you want to replicate.

20% of your income on SAVINGS

If you are anything like we were going into 2018, a 20% savings rate seems unattainable. With the 50/30/20 budget rules, saving 20% of your take-home pay is a priority. By following this rule, you have a guideline when making any new purchase. "Will I need to sacrifice our savings goal to purchase this item?" It is this simple question that makes this budget method successful for building wealth. It is a built-in accountability factor that makes sure that you keep your spending in check!

So now it is time to get started with your debt repayment and your savings and investing goals. Good luck!

Contact your
Ulliance Life Advisor EAP®
Today!

LifeAdvisor.com | 800.448.8326

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