

Saving for Unplanned Expenses

Many people set “have an emergency fund” as one of their financial goals. Setting aside funds for use during emergencies (such as unexpected car repairs, medical expenses, or job loss) is an important step to financial independence, but how much should you save? Here are some tips to help you calculate your ideal emergency fund amount.

Determine your expenses.

The first step to calculating how much you should have in your emergency fund is to track all of your regular expenses. Once you have a list of all of your expenditures for the month, cross off the ones you could comfortably live without during a financially stressed time period. For some people that’s cable/satellite TV, for others it’s eating out. Be sure not to erase any expense that cannot be quickly removed from your budget, such as car payments or childcare costs. Keep in mind that most cell phone payments fall in this category, too.

Save for 3-6 months.

Once you’ve determined your total expenses for one month, multiply the amount by the number of months you wish to be able to live off of your emergency fund. Most financial experts recommend saving for at least 3-6 months with no income. If your family has multiple income streams, such as two working adults, you can save for 2-4 months, assuming that at least one adult will continue to earn income during the emergency fund’s use.

Have a separate account.

It’s not critical to have your emergency fund in a separate account from your usual savings, but it is a useful way to see exactly how much you’ve saved. Since you won’t need constant access to the funds, you can also place them into savings accounts that have limits on the number of transactions you can conduct but acquire higher savings rates. Talk with your banker about which account is best for your situation.

Start saving.

The simplest step to establishing an emergency fund is also the hardest: start saving money. Setting aside just \$25 per month will give you a \$300 start in one year. Consider setting up an automatic transfer to put your saving on autopilot. The satisfaction over seeing your emergency fund account grow will also help motivate you to continue this good financial habit.



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