

DOLLARS & SENSE

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Why You Should Always Have an Emergency Fund (and How to Create One)

Unfortunate events always happen when you least expect them to, and sadly many people are often totally unprepared. Saving for unexpected emergencies is, and should be, a top priority for everyone, no matter how big your bank account is. Maintaining an emergency fund may be the most important and perhaps the greatest difference between staying financially stable and sinking into debt.

Whether your car needs new brakes, your child needs new shoes, you fall ill, your partner needs an expensive dental procedure, or you need to fly across the country to visit a sick parent, an emergency fund can be life saving.

When payday isn't until next week, even the smallest of purchases can add up and result in additional financial debt. As bills and other financial obligations begin to stack up, so do interest rates on any money you've borrowed. If you're unprepared, you can easily borrow too much money and drown in the debt that comes along with repayments.

The Importance of Saving

According to a survey by the Consumer Federation of America and American Savings Education Council, over one-third of Americans don't have an emergency fund and, as a result, don't have sufficient funds to

take care of the expenses associated with the unexpected.

An emergency fund will not only provide you with money to pay for unexpected expenses, but it will also give you the peace of mind in knowing that you can afford to handle any financial emergency that comes your way.

Without this fund, you'll be forced to rely on a credit card, take out a loan, or tap into your retirement savings just to cover the costs. Raiding your retirement is never an ideal situation. Here are a few other reasons you should start building an emergency fund as soon as possible:

Job loss: This is perhaps the most important reason you need an emergency fund. By having an extra stash of money to pay for the things you no longer can without your regular paycheck, you can focus on finding another job rather than worry about paying your bills in the short-term. Saving at least enough to cover three to six months' worth of bills and other expenses is highly suggested, but considering that the average length of unemployment lasts closer to 40 weeks, you may want to save a bit more.

Health care expenses: Many healthy people make the mistake of not setting aside money for major medical expenses, but a trip to the emergency room can cause severe financial strain, especially if you don't have health insurance or a weak coverage policy.

Even if you do have coverage and need surgery, you'd still have to shell out the money to cover your policy's deductible and co-payments, which can be expensive.

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Significant dental expenses: What if your child has a bad cavity that needs to be filled or you need a crown put in? Without dental coverage, it is highly unlikely you'd be able to come up with enough cash to cover the procedure.

Emergency pet care: The regular expenses of being a pet owner can usually be managed easily. Buying food, toys, and a new collar won't break the bank, but would you be prepared to spend thousands of dollars if your beloved pet required surgery? What would you do if Fido decided to get in the trash and eat an entire pan of burnt chocolate brownies you threw away? The cost of medical care for your furry loved one can be extreme, and not all situations are predictable.

Car repairs: Unfortunately, cars seem always to break down when we least

expect them to, even with regular maintenance. In this instance, many people completely rely on credit cards. But what if your credit limit isn't enough to cover the bill? Depending on the year, make, and model of your car, repairs can vary from reasonable to exorbitant.

Home repairs: While most people assume that homeowners insurance covers most major house expenses, high deductibles, and coverage exclusions could leave you holding the bag and covering those costs entirely on your own.

Unanticipated travel: No one likes to think about sickness or death. However, a sick relative or a death in the family could force you to buy a last-minute plane ticket across the country to say your goodbyes or attend fune-

al services. A large expense like this could be put on a credit card, but why rack up interest charges if you have a choice?

Funeral costs: With the average North American funeral costing between \$7,000 and \$10,000, it is important that you both have life insurance coverage and extra savings. If your loved one dies without life insurance, you may be hard pressed to cover the cost yourself. Even if your loved one had life insurance, you might not see that money for an extended period, so you'll need a source of cash to start making payments in the meantime.

Additionally, keeping savings designated for emergencies can help you from spending on a whim. If the money is set aside in a separate account, you are less likely to spend it on a new 74-inch TV or something frivolous. Saving is smart, and it keeps you from making bad financial decisions. ■

How much of an emergency fund should I have?

So you are working hard to provide for your family and the next thing you know you are out of work, or an accident or medical emergency has occurred. How much should you have on hand to make sure you and your family will be ok?

The initial recommended amount you should have available in an easily accessible location is around \$1,000. This will cover most co-payment costs, accident deductibles, or minor unexpected expenses. Once you have your basic fund in place you can begin to add to it for additional security.

"A lot of experts now recommend that everyone keep nine months of income in an emergency account in case of job loss. People are often out of work now for as long as nine months, and if they don't have savings, they live on credit adding to their debt."

— Gail Cunningham, National Foundation for Credit Counseling in Washington, D.C.

As you start to save, look at your budget and income and see what you would need to live for a minimum of 3 months with no income. Once you have reached that level of savings you can work on 6 months and then 9 months of savings for expenses. Take it in small chunks. If you have children you will need to save the maximum amount that you can. If you are retired with regular social security and pension income your rainy day fund could be as low as 3 months. So if you need \$3,000 a month to live on then you should aim for \$9,000-\$10,000 in your initial fund. It may take a few years of savings to reach that goal, but having something is better than having nothing in a crisis.

The important part to remember is that in this job market, you can't afford not to save for emergencies. It's also important to remember that this emergency fund is only for actual emergencies and shouldn't be used to fund vacations, new furniture, or investments, etc. The money is there to protect your family when the unexpected happens.

Creative Ways to Save Money

Truth be told, saving money when you don't have much to put away can be tough. However, with the willingness to change and a little creativity, it is not impossible. Even cutting the smallest of costs can begin to add up. Use these creative tips and tricks to further help you create an emergency fund.

Get rid of gray charges: Gray charges are monthly fees you've opted into without realizing it. These may be small fees for subscriptions, renewals, or other charges that you may not notice on your credit card or bank statements. They can add up to hundreds of dollars every year, and if you cancel them, you can put them into your savings account.

Put something back every time you shop: If you find yourself with a cart full of stuff on your next grocery trip, place one item back on the shelves before getting to the checkout lane. This practice will help save small amounts of money and help prevent the buyer's remorse that will strike as soon as you realize how much you've spent.

Paint your roof white: Air conditioning costs can be extremely high, especially in the summer. By covering your black-tar roof with white paint, you can reduce the temperature both inside and outside of your home. On a hot day, a black roof can get up to double the temperature outside while a white roof, on the other hand, will stay cooler and reduce cooling costs up to 40%.

Pack a lunch: If you eat out every day for lunch, you are spending a lot of extra money on food costs. Packing a lunch not only costs a lot less, but it is also a healthier option.

Unplug: Vampire power is the energy your appliances use even though the power is off. All your appliances; TV, phone charger, toaster, etc., still use energy when they're plugged in. In-

stead, unplug all the appliances unless you're using them. You can even invest in some energy-saving plugins to help.

Live a healthy lifestyle: Drinking more water is not only good for you; it can cut down on the expensive sugary drinks like soda or coffee you're buying every day. If you instead devote more time working on your health and fitness, you'll spend less time shopping, eating out, or heading to the movies. Living a happier, healthier lifestyle will even save you trips to the doctor and a lot of money on medical bills.

Flush less and take shorter showers: The famous saying "If it's yellow, let it mellow" actually can be sound advice if you're trying to save money. (Just close the lid). The water conserved from both flushing less and taking shorter showers can add up.

The Navy, for example, created a shower technique to save water rations that only uses 11 gallons instead of the 60 gallons an average shower takes. How? Turn the water on just enough to get wet and turn it back off. Next, lather up and turn the water back on only when you're ready to rinse.

Cut your hair shorter: If you're female, you know just how much work long hair can take. The water, shampoo and conditioner, hair products, and the energy your hairdryer uses all cost money. By cutting your hair shorter, you can save time and money.

Potty train your cat: It may sound crazy, but training your cat to use the toilet instead of a litter box will save you around \$1,650 in litter costs over the lifetime of your pet. Apparently, the training process isn't very difficult to master either.

Go vegetarian sometimes: Not only are plant-based diets proven to reduce your risk of heart disease, cancer, and diabetes, fruits, veggies,

beans, soy, and rice are all way less expensive than even the cheapest cuts of meat at your local store.

Use professionals-in-training: Not only do students offer discounted rates when it comes to cosmetology schools, dental schools, massage schools, or any other service, they often perform just as well, and they have more to prove. You will need to keep in mind that you'll get what you pay for, but students are more likely to go the extra mile to make you happy.

Don't drive too fast: Excessive accelerating and heavy braking can make your car less efficient and cost you more over time. According to the Department of Energy, for each five mph you go over 60, you pay about 20 cents more per gallon.

Plant a tree: By adding trees to the south, east, and west side of your home, you can shade it and keep it cooler. Planting trees can add up to saving 25% on your home cooling costs. Be sure to keep space between your home and the trees so that the roots do not negatively impact your foundation or plumbing. Also only plant strong trees and not the fast growing, weak kind that may pose a hazard of falling onto your home in inclement weather.

In the end, the truth is, having savings is all about preparedness and freedom. Doing the initial work to prepare offers you the freedom to relax and enjoy life, assured in the knowledge that you are financially secure and prepared for the unexpected. As the many people who have had a significant, unforeseen expense arise can attest, there is nothing that offers more relief than having an emergency fund tucked away when it happens.

Living below your means and making small sacrifices every day to build up your emergency fund is quite literally, worth every penny. There's no doubt about it: the rainy days will come; how well you plan will determine if your family sinks or swims. ■

How to Build an Emergency Fund

Many, many people live from paycheck to paycheck, which can make saving money seem hopeless. However, it's not impossible, and it could be the difference between moving forward financially or heading toward bankruptcy.

To begin building an emergency fund, determine your goals.

Your goals can be determined by considering your income and expenses. As a general rule of thumb, you'd want to save enough money to cover three to six months' worth of necessary expenses.

But some suggest enough money to cover a full year of living expenses in case of a job loss or catastrophic emergency. A savings goal calculator may help you determine how much time you'll need to reach your savings goals.

Different people have different priorities when it comes to saving money, so it makes sense to decide which savings goals are the most important to you, for example, how long you can wait to save up toward your goals and how much you want to put aside every month according to your monthly budget.

Remember setting priorities mean you'll have to make choices. If you want your focus to be saving for retirement or your children's education, you may need to adjust your emergency saving goals as well.

When setting your goal, focus on having enough money to cover your expenses, not only replacing your income.

You want to be sure your expenses can be covered in the event of an emergency. Eventually, you may raise your goal,

but creating smaller goals to start out and working your way up is a great way to begin.

Remember to create realistic expectations.

Any action you take to start an emergency fund will do you good, so don't worry about how long it will take your savings to be at your desired level. Starting out small is great, but try to increase what you're setting aside whenever possible.

For example, when you pay off a credit card that you were making \$40 monthly payments on, start adding the \$40 you would have spent into your savings. You'll still have the same outflow of money, but you'd essentially be paying yourself and investing in your future instead.

Decide where your fund should be kept.

You want the funds to be readily available, but not so much as to tempt you to make withdrawals. Many people prefer to set aside a savings account away from their checking accounts. With online banking, it is easy to transfer the funds from one account to another when you need to.

Because you don't see the account every day, you'd be less likely to spring for a new pair of shoes instead. Plus, standard savings accounts have low-interest rates, and some can accumulate a little more money over time, especially if you don't touch the funds.

Consider keeping your emergency funds in a combination of places

These can include an online savings account, savings bonds, and cash you can store in a lockbox at home. If

your impulse control needs some help, a money market account allows withdrawals only at certain times.

To add to your savings, use your monthly savings goal as a piece of your regular monthly budget.

Set up an automatic money transfer so that the money is immediately deposited into your savings account when you're paid. Automatic transfers will ensure the money is saved each month automatically.

Just make sure to create a balanced budget so that you're not saving too much or too little. Otherwise, you'll need to pull the money right back out of your savings to regularly pay bills, which defeats the purpose.

Regularly review your progress.

Check your progress every month to help you stick to your personal savings plan and help you identify and fix any problems quickly. Regular checkups assist you in ensuring you stay on track and adjust your plan as necessary. ■



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