

Building and Keeping an Emergency Fund

An emergency fund is something that I, as an investment adviser and financial planner, always stress is the first bucket of savings anyone should establish. However, I am constantly surprised when talking to others to learn that they either have not shored up enough in funds for a proper emergency fund, or don't have one at all.

So, what is an emergency fund? An emergency fund is just as the name implies: savings you have in an accessible and liquid position (savings account, money market account, or short term CDs) set aside for an emergency – think an injury which prevents you from working, unexpected medical bills, or any type of unexpected expense (like I had last year when my faithful refrigerator died and needed to be replaced). The point of an emergency fund is to give you a cushion so that you don't have to either stop accumulating your savings or go into debt due to said emergency/unexpected expense.

How much should you put into an emergency fund? Typically, we suggest holding 3 – 6 months of monthly expenses in savings. Deciding on how many months of expenses you should set aside will come down to each person's judgement call. However, there are some factors that can help us decide how much to put aside. For example, if you are married in a dual income household of roughly similar incomes – 3 months is probably fine. (If one person gets injured and can't work, the other's income is still being maintained for expenses.) If you are married with only one income – it probably makes sense to set aside 6 months. If you are single, how much you set aside will be a judgement call based on your level of comfort, expenses, lifestyle and other factors.

To put it simply, an emergency fund is a must. Before you start saving for a home, upping your 401(k) contributions or adding more to your non-qualified investment account, make sure you have your bases covered and that you have an emergency fund for a rainy day. Hopefully, you will never have to use any of the money in your emergency fund, but if that rainy day ever comes (which you will be surprised, they do pop up – like the day my refrigerator decided it was clocking out) you will be happy you did.