

EMERGENCY CASH FOR THE UNEXPECTED

Once you've got your budget in place, everything else starts falling into place. The next step is to earmark some money to put away for emergencies. You can call it saving for a rainy day, but sometimes, the emergency becomes a hurricane with genuine gale winds. We've stressed before how crucial it is to have a rainy-day fund: 3 to 6 months' living expenses put away in safe, liquid cash investments, in case you're unable to work. It may be due to a layoff, a health problem, a vehicle or appliance that stops working, or even a sudden death.

Yet a lot of people out there have absolutely no money saved. None. This is a very dangerous position to be in, and it puts your family at great risk.

What is the emergency fund for? Emergency funds are a stash of cash that you can get your hands on when the need arises. How much money do I need to keep on hand? Where should I keep it? These two great questions often get asked.

The best way to determine how much money you need for emergency purposes is to do some planning. Some things to think about would include:

- Travel expenses to family or relatives for illness or death
- Deductibles or co-pays on medical expenses
- Automobile deductibles or temporary replacements in case of an accident
- Auto repairs, tires and other mechanical issues
- Family or friends' weddings, travel expenses and gifts involved
- Replacement of old appliances you know are on their last leg

When you plan your budget each year, generate some numbers for any of these examples that might be applicable to you. Try to keep some money available for use in an emergency. If you can't save the money from your regular paycheck, then sell some assets. You might have some stocks to sell, some collectibles, or, at the very least, have a multi-week garage or yard sale. Unload some stuff that's been taking up way too much room in your garage.

Some places to keep your emergency funds are:

- a savings account,
- bank money market deposit accounts,
- certificates of deposit or
- money market funds.

Just remember that when you have an emergency, you are going to need the cash and need it fast.

Automatic Savings

The way to get your emergency cushion where you need it—especially if you're starting at zero—is to build it automatically. Build it into your budget.

Have \$100 taken out of your checking account or paycheck each month and put into a money market fund—more if you can afford it, less if that feels like too big a burden. Trust me, if you don't see the money, you won't miss it.

And what about compounding? At 6 percent a year, that \$100 monthly stake will grow to \$1,339.72 just in time to start year #2 of your new budget. That may not feel like a lot, but this is money you don't plan to touch unless you absolutely have to, so it will just continue to grow.

Five years down the road, you'll have \$7,500. And if you can boost your monthly contributions, your emergency stake will soar even faster. (One way to do so without feeling pinched is to increase your savings by the amount of any raise you get at work.)