RAINY DAY FUND

There are three financial goals everyone should strive to achieve. Save for retirement, pay off debt, and create an emergency or "rainy day" fund. Saving for retirement and paying off debt are generally at the top of the agenda, but creating an emergency fund is also an important component of a solid financial plan.

The game of life will, on occasion, have detours. Sudden and unexpected events such as the loss of a job, essential repairs to a home or car, or costly medical expenses, can create a severe financial hardship. Individuals who are not financially prepared for these situations run the risk of running up credit card debt, and/or raiding their retirement accounts. Both of those are bad choices. Two better options for these situations are carrying adequate insurance coverage (home, auto, health) and building an emergency fund.

Your first step when creating an emergency fund is determining "how much?" The amount you should stash away will vary depending on monthly expenses. Most financial planners recommend an emergency fund that can cover these expenses for three to six months. Sit down and review your spending habits/ bank statements to calculate what you spend each month on essential expenses such as:

- Mortgage or Rent
- Food
- Health Care/Insurance
- Utilities (cable is not an essential utility…)
- Transportation
- Debt payments

This should represent the minimum amount you need to make ends meet each month. Now multiply by three, and you have your starting goal.

Keep in mind the three to six-month rule of thumb may not apply to everyone. You may want to save more if:

- You anticipate difficulty in finding employment if you get laid off.
- You anticipate the possibility of large expenses in the future. Common examples would be recurring health issues, an aging automobile, or a home with a 20-year-old furnace, etc.

A smaller emergency fund may be acceptable if:

- You have substantial dollars left after paying your monthly bills.
- You have excellent insurance coverage.
- You have no or very low debt.
- The equity in your home would allow you to apply for a low interest home equity loan or line of credit.

Now you need to decide where to maintain the fund. It may be tempting to use your current checking or savings account, but most individuals will have better luck creating a separate account. A separate account makes it easier to track the balance and harder to access those funds "on a whim." In addition, your emergency fund should be maintained in an account that is "liquid" and safe from market fluctuations. Traditionally the simplest approach is to use a basic savings account. You won't get much in the way of return, but ease of access and stability are your goals for this fund.

There are several options available when searching for a savings account. Be sure to review the interest rates offered. When selecting an account, search for one that is FDIC insured, has low (or no) minimum balance requirements, and no account maintenance fees. Be aware some accounts may offer an introductory interest rate that will be reduced after a set period of time.

Here is the hard part. Getting funds into your account. A sizeable portion of the dollars left after paying essential expenses should go into your emergency fund. Start small if necessary. Small infusions into the account are better than nothing at all. It may help if you can view the emergency fund as a bill you need to pay each month. Consider setting up an automatic deposit into the fund from your paycheck or checking/saving account.

Finally, you should ONLY tap into the fund for appropriate expenses! Resist the urge to spend those dollars for items or situations that are not actual emergencies, and be sure to replenish the fund after you take a withdrawal.