https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-how-to-build-an-emergency-fund/article_da9932ad-4815-5658-b25c-138e886e9c48.html

Marc A. Hebert's 'Money $ense': How to build an emergency fund

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FINANCIAL ADVISERS generally recommend setting aside three to six months' worth of expenses as an emergency reserve. Having these funds can get you through difficult times in the event of unexpected expenses or job loss. A savings reserve protects against the need to spend other savings, such as assets earmarked for retirement or education, in an emergency.

Here are a few tips to help you get started on building an emergency fund:

Customize

We mentioned that having three to six months in an emergency fund was a good start, but you need to review your individual circumstances to determine the appropriate amount for you. If you have an uncertain income stream, such as being self-employed or paid via commission, it might be better to have more money set aside for those inevitable rainy days. If you are married and are reliant on one spouse's income rather than incomes from both spouses, this could be another reason to have a higher amount allocated towards an emergency fund.

Follow a budget

To create a budget, start by breaking down your expenses into major categories, such as rent, real estate taxes, utilities, entertainment, insurance and groceries. Then list the amounts you are spending and what the spending is on for each category. Some categories on your list represent fixed expenses and are necessities. There is little that can be done to cut down the amount you spend within this category. Some expenses are within your control, however. These are called discretionary expenses and they represent areas where money could be saved for an emergency reserve or used to fund other goals.

The challenge with building a budget is to find a balance between saving and enjoying your life. If you are spending too much on entertainment and other discretionary expenses, try to cut down on the amounts over time. Aim to reduce your spending by 5 to 10% per month. Use the funds to build your emergency reserve, save for retirement, and finance other goals.

Consider the cost of debt

If you have debt, every month you are spending money paying back interest and finance charges from carrying the debt. The first step here is to check if the high interest rate debt can be consolidated or refinanced at a lower-rate. If this is not possible, review your credit card balances and develop a plan for paying these down. One strategy could be to pay down the smallest balances first, giving you more cash flow to tackle the larger balances later. Another strategy is to pay off the highest-interest rate debt first regardless of the total balance. This will save you the most money in total interest paid over the long run. Either way, as you pay your debt down, money will be freed up for other uses like your emergency reserve.

Extra money

Review the use of money that is not part of your routine paycheck, such as a tax refund or a well-deserved bonus. These funds may be best used for adding to your savings or paying off existing debt. Try to avoid spending the money without having a plan in place. Also consider saving any pay increases that you receive from this point on.

Allocate

Since your emergency reserve is money that you are not using for everyday expenses, it may be worth examining the type of account to put the money in to earn some return on your cash. This account should be safe, highly liquid, and easily accessible in the event of an emergency. Certificates of deposit (CDs) or online savings accounts are safe vehicles that generally pay higher interest rates than checking and savings accounts at retail banks.

Get help

If evaluating your financial situation and creating a plan feels overwhelming, it might be time to seek the help of a professional. Proper credit counseling or a financial advisor, such as a certified financial planner may help you get started in the right financial direction.

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