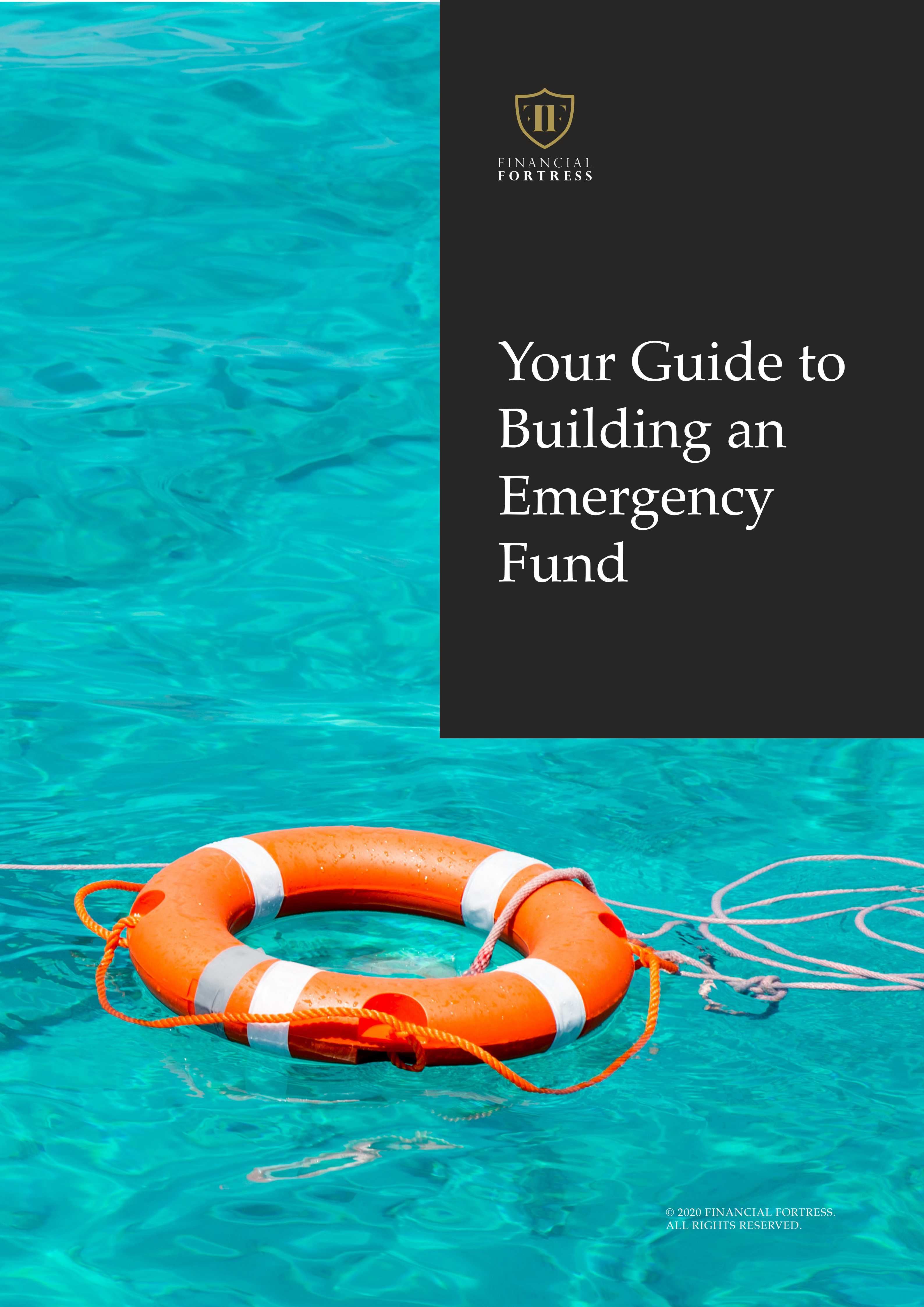


FINANCIAL
FORTRESS

Your Guide to Building an Emergency Fund

An emergency fund is one of the most important assets anyone can have. It refers to a sum of money you've set aside expressly to help you deal with emergency situations.

This may confuse some into thinking that an emergency fund is equivalent to a savings account. But they're actually two different funds that serve different purposes.

A savings account can still be used for non-emergent expenses. For instance, you may dip into your savings account to purchase a gift for your significant other's birthday.

As purchases like those aren't emergencies, however, you shouldn't be tapping on your emergency fund for such an expense. It should only be used for the most urgent circumstances, like a hospital bill for an accident.

An emergency fund is therefore a safety measure meant to see you through sudden and expensive crises. As we all know, these can happen to anyone, which is exactly why everyone should have an emergency fund.

In this guide, we'll demonstrate how you can build up an emergency fund in a few simple steps.

01

Determine where to keep it

First, you have to find a good deposit account where you can keep your emergency fund. You should shop around to find the best options, as different banks and accounts offer different terms.

It would be ideal to get something with a decent interest rate, of course. But as it's an emergency fund, the interest rate on the account is still less important than its liquidity.

In other words, you need an account from which you can easily make withdrawals if an emergency does hit. At the same time, you also want that account to have an interest rate that ensures your money increases over time.

Try to find something like a high-yield savings account for this. A money market fund may also work.

Remember too that this account should be separate from your savings. As noted earlier, combining the two isn't wise - it may lead to you accidentally spending the emergency fund for non-emergencies!

Opening a separate account for your emergency fund may also help keep you from looking at its balance once you hit your target amount for it.

That will reduce the temptation to withdraw money from it for non-emergency purposes. If it's generally out of sight, it's out of mind -- which means you're less likely to think of spending it.

02

Set your target amount for the fund

Now that you've decided where to put your emergency fund, you have to decide how much to put in it.

Setting a target amount ensures that you have enough in the fund to actually make a difference in urgent circumstances. The general rule is to aim for anywhere from 3 to 6 months' worth of living expenses.

That said, some advisors recommend as much as 8-9 months' worth of living expenses. While this may seem intimidating to build up, it will also help you withstand financial crises better.

You can get started by calculating your monthly expenses. Note at this point that it's always better to overestimate than underestimate.

You should also be certain to include any expenses you pay for within your household, like utilities bills or other subscriptions. And if you have dependents like elderly parents or children, their expenses must also be included in the total.

After you get the sum of your monthly expenses, multiply it by the number of months you'd like to provide for in your emergency fund. That tells you how much you should have in your fund in total.

If the figure seems overwhelmingly large, you may want to work towards it in increments. This will make the process of building up your fund less daunting.

For that, just break up your target amount into milestones -- 1 month's worth of expenses, 2 months' worth of expenses, etc. Converting it into a series of smaller, more manageable targets will help you feel that you're making progress.

03 Add emergency fund payments to your budget

The next step is to work emergency fund deposits into your monthly budget as expenses.

It's best to treat these deposits as necessary monthly payments, not payments you make only if you have money "left over" at the end of the month. This way, you'll build up the fund systematically and steadily.

Start by calculating how much to deposit per month. If you've already set a target amount for your fund, you just need to divide the total amount by the number of months you want to spend saving for it.

That will give you the amount to deposit in your emergency fund each month to reach your goal.

Take note that you should also consider automating the deposits if your bank offers that service. That makes you less likely to miss or skip a deposit.

04

Consider shortening the time it takes to hit your target amount

At this point, you should already be on your way to building your emergency fund. But you can consider trying to build it more quickly, as crises can hit out of nowhere (and you want to be prepared ASAP).

There are many ways to hasten the process of building an emergency fund. The simplest way is to allocate a bigger amount of your monthly pay to it.

But you can also rework your budget in order to take cost-cutting measures and free up more of your monthly income. Again, this should then go into the emergency fund.

Finally, you can also try doing a second job, working part-time or taking on one-time income opportunities like freelance projects. All of these can help you increase your income stream and put more money into the fund.

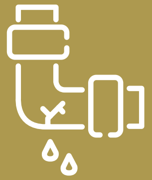
I’ve successfully built my emergency fund! What now?

Once you’ve reached your target amount in your emergency fund, the best thing to do is actually to forget it for the most part. Unless you have a genuine emergency, you shouldn’t touch it!

If you’re still not sure which emergencies situations would warrant you dipping into this fund, here are a few examples besides the one we gave earlier:

An abrupt loss of income. If you suddenly lose your job or your main source of income flops, your emergency fund can tide you over until you can find another job or income source.

Costly natural disasters. Sometimes, natural disasters damage property. The fund can help you defray the repair costs then.



Property issues. Your home can require a structural repair for any number of reasons. If an accident causes a broken window or age leads to leaky plumbing, your emergency fund can come in handy.

Unexpected damage to your car. If you got in an automobile accident and your car took damage, it’s possible to use your emergency fund to repair it.

The idea is to use the emergency fund only for unforeseen and urgent expenses. Draw a line between those and all other expenses, particularly those that have to do with your wants or your expected expenses (like property taxes).

And of course, after you've tapped into the fund, you have to build it up again to its former size. You just need to follow the steps we gave you in this guide.

If you find yourself fortunate enough not to need the emergency fund right now, though, there are still things to be done to further improve your situation.

For example, if you've hit your target emergency fund amount, you can redirect the payments you were making to the fund to your savings account. This way, you continue to build up your financial cushion.

You may also consider increasing the emergency fund to support a few more months' worth of living expenses, for added security. If it can support 6 months now, go for 8!

Keep in mind too that if something causes your monthly expenses to increase significantly, you should assess your fund to see how much you need to add to it.

This is true if you've just started to pay a housing mortgage, for instance, or monthly instalments for your new car. Such things will increase your monthly expenses appreciably.

In any event, you should also remember that an emergency fund is just one of the requirements of sound financial planning. There are many other steps you can take to ensure your financial security.

For instance, although we noted that an emergency fund may be used to cover unexpected hospitalisation fees, they shouldn't have to in most cases.

That's because part of your financial planning should include getting insurance with adequate coverage for accidents or hospitalisation bills.

If you want to learn more about the steps you can take to improve your financial standing, we can help. We'll put you in touch with financial advisors who can give you the keys to wealth management and financial planning.

That way, you'll be in a better position to face emergencies and other financial drains in the future. Contact us today to start planning for your financial future.