

7 WAYS TO SAVE MONEY FOR AN EMERGENCY FUND

By: Terri Williams - January 06, 2016

Life is full of unexpected surprises, and some of them can really put a dent in your budget. Emergency situations, such as repairing a car, replacing an appliance, paying a large health insurance deductible, or taking an unexpected trip, can deplete your savings or cause you to make unwise decisions that may cripple your financial future.

To be prepared for life's unexpected events, you need an emergency fund, but first, Andrew Johnson of Michigan-based GreenPath Debt Solutions, advises Investopedia readers to consider a few key factors: "Is the emergency fund for a full-blown layoff? Is it for something big like a new roof or a new heater? How many incomes are in the family? Are you the sole breadwinner? Does your partner have a full- or part-time job?"

Johnson tells Investopedia that answering these questions is the first step in increasing one's level of financial literacy. You need to decide how much money you need. If it's a worst-case scenario, such as a layoff, a household budget must first be developed. "Add up all of your expenses: fixed, such as auto insurance and mortgage, and variable, such as groceries and entertainment."

Once you determine how much money is needed, you're ready to evaluate ways to reach your goal.

Automatic Savings in a Separate Account

Instead of keeping all of your money in one account, Johnson recommends funneling it into a separate emergency fund savings account. "If you simply say you'll save more and leave it in a joint checking or savings account, you can't see that money grow," explains Johnson. However, he says keeping it in a separate account where you can watch it grow will provide an incentive to funnel even more into this fund.

In addition to putting the money in a separate account, also, consider having a specific amount deducted on a regular basis. Chris Britt, co-founder and CEO of San Francisco-based banking app, Chime, tells Investopedia, "Instead of deciding what to save each week or month, enroll in an automatic savings plan, then 'set it and forget it.'"

So how much should you funnel into your emergency fund? Dave Hardin, president of Hardin Financial Group in Troy, Michigan, recommends 10% of your take home income until you have at least three months of income saved. "Always replace any money spent out of the fund as soon as possible or the emergency fund will only work once," warns Hardin.

Consider Interest Rates and Cash Back Options

Sometimes, a few small steps can lead to significant savings. "Maximize your dollar by choosing a banking option that offers cash back on debit purchases," advises Britt. He also recommends considering interest rates when choosing a savings account, since the money from both rewards and rates can add up over a period.

Pay Down Debt

Your financial obligations may be limiting how much money you can contribute to your emergency fund. Britt recommends paying more than the monthly minimum, which will reduce the growing cost of interest, allowing you to pay off the debt quicker so you can direct this money toward your emergency fund.

And Joe Heider, founder of Cirrus Wealth Management in Cleveland, Ohio, says, "Take a look at your credit card debt to see if you might be able to roll that debt into a lower interest rate and use the savings to start an emergency fund."

Get a Part-time Job

Consider putting your skills to use by getting a part-time job to generate extra income to put in your emergency fund. Hardin warns that timing is critical. He says working to save money for a future crisis is fine, but it won't help if you need the funds now.

He also recommends funneling "special" income from bonuses and tax returns to your emergency fund.

Sell It, Scrap It, or Pawn It

Most people have accumulated unused items that are taking up space and collecting dust. Johnson recommends selling everything that you no longer use. "The same can be said for excess metal you may have in the garage, such as copper tubing, aluminum, and steel, which can be sold to a scrap yard," says Johnson. He says that old brass chandelier in the attic can be sold as well, and recommends pawning jewelry that has little or no sentimental value.

Refinance Your Home

If you have equity in your home, Heider recommends that Investopedia readers consider refinancing it. "Even though interest rates have increased, they are still at a low and now is a good time to do that and utilize savings into an emergency fund."

Other Strategies

Dolph Janis, founder and owner of Clear Income Strategies Group in Charlotte, North Carolina, offers three more tips that help save money:

Order water instead of a drink for lunch/dinner. Take that extra \$3.00 and put it in a savings account for later. Doing the math, if you do this ten times a month, that is an extra \$360 savings a year.

Check your phone bill. Do you need both a home phone and cell phone? Do you need that plan you are on? You could easily save \$40 a month here, hence another \$480 a year.

Check your cable or satellite bill. Do you need all of those channels? Potential savings here of \$35 a month, which could be another \$420 a year."

Just making these three changes, Janis concludes that you could save an extra \$1,260 every year by differentiating between wants and needs.

The Bottom Line

An emergency can happen at the most inopportune time, and failing to be financially prepared can have disastrous results. There are many ways to save for an emergency fund, but the most important step is first to evaluate your need and then exercise discipline to reach your goal.



Randall "Dolph" Janis, founder and owner of Clear Income Strategies Group, has been in the retirement services industry for more than 11 years, building a strong network of satisfied clients in Charlotte, N.C. and surrounding areas. Dolph's goal is to provide fulfillment for the visions, hopes and dreams from baby boomers to seniors by providing common sense solutions for their retirement needs.

To contact Dolph call (704) 919-0149 or visit www.clearincomeforlife.com.