Emergency Fund- An Alternative Form of Saving

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Abstract- An emergency fund is secret money set aside to cover the sudden or unexpected financial requirements. Specific independent variables of interest include the household's attitude towards credit, how they spent, the expectation of future income, the working status of the other family members and alternatives to emergency funds. The actual emergency fund level held by households is more closely related to the capability to save than to the need for emergency funds. A long-term emergency fund allow us to save for large-scale emergencies, such as Job loss, medical emergency, home repairs, vehicle repairs, unanticipated travels and so on and make a little higher level of interest. Accessibility is still important here, it is acceptable to choose investment that take a few days to liquidate- as long as we have a short-term emergency fund to cover us in the interim.

Key terms: Emergency Fund, unexpected financial need, accessibility,

EMERGENCY FUND- AN ALTERNATIVE FORM OF SAVING

An emergency fund is secret money set aside to cover the sudden/ unexpected financial requirements. These unexpected requirements can be sometimes costly. An emergency fund is to be allocated for spending on urgent or unplanned conditions only. The aim to have emergency money is to keep away from financial disturbances which may deviate from savings for long term goals. Having money in a high rate savings account can help us avoid borrowing. An emergency fund can keep us balanced in a time of need without thinking of credit cards or taking loans. When we have an emergency fund, we have peace of mind. We don't have to rush to come up with money we need and we need not go for credit cards. Even if our emergency fund isn't big enough to solve the financial emergency, it can still help reduce the amount of money we plan to borrow from friends and family or credit cards.

Here is some of the top emergencies people face: Job loss, medical emergency, home repairs, vehicle repairs, unanticipated travels and so on.

Until we practically face such situation, we may not realize the importance of an emergency fund. Most financial advisers agree that everyone, apart from of financial position, needs an emergency fund. They recommend that, saving for an emergency fund that's large enough to cover minimum 3 to 6 months of expenses. It is very important that, retirement savings are generally not considered as emergency funds, even if we are permitted to withdraw the principal contribution. An emergency fund is also called as a worst-case-scenario fund, rainy day fund.

Emergency fund fundamentals

An emergency fund investment need to be guaranteed or at least very low-risk. They also must be liquid and accessible.

1. Low / No risk: For an emergency fund, investing in savings accounts, bank short-term deposits and even liquid cash are good choices.
2. Liquidity: This represents how quickly our assets can be converted to usable cash. A Savings account is 100% liquid cash.
3. Accessibility: Make sure that the accessibility of our emergency fund at any time when we need it. Along with keeping cash on hand, make sure we have a debit card and preferably cheque writing benefit attached to our short-term emergency fund. That way, we can access money at any time in almost any place.

The ways to raise an emergency fund:

Start building an emergency fund with a exact objective in mind that will depend on income and expenses. When setting saving goal, one should focus on having enough to cover expenses. Emergency funds are usually kept in savings accounts or money market accounts. It's important that they are at least maintained in a liquid account so that it can be accessed quickly. An emergency fund should be easily accessible, but not so easily accessible that we'll be tempted to make withdrawals for everyday necessity. The following are the common ways to rise and emergency fund:

1. Decide where to keep the fund: Emergency funds are normally held in savings accounts or money market accounts. We can follow the traditional way of saving money, say, kiddy banks etc. But make sure that, we'll not be tempted to make withdrawals for everyday need.
2. Treat it like a bill: Establish a monthly savings goal and make it part of our regular budget. Consider setting up an automatic monthly transfer, just as we pay the electric bill etc, to ensure the money is saved each month. But make sure we've created a balanced budget so that we save the appropriate amount.
3. Use only for emergencies: An emergency fund should be used only for expenses we can't predict events.
4. Start with low amount: Don't be afraid to start with a small amount of savings each month, but try to increase it whenever possible. When we get an unexpected income or gift cheque, add it to the fund. And gradually increase savings by selling items we don't require.

Where to keep the Emergency Fund?

The emergency fund has to be in liquid and easily accessible, but make sure that it is away from temptation. We may keep at least 10% - 15% as cash at home in proper secured almirahs or valets. Make sure that we keep it in a secured place to be free from theft. The rest can be put in bank account which is accessible easily.

How much to save in Emergency Fund?

To decide how much should be set aside for emergencies, nearly all financial planning experts use liquid assets divided by monthly expenses. Financial advisers normally recommend investing at minimum, two to three months of expenses in liquid assets. The popular recommendation of investing three to six months of expenses in liquid assets became common.

An Emergency fund is to be utilized in the following circumstances:

Emergency fund can be used to help stabilizing our monthly budget and even by making a few savings like saving on late payment penalties and allows us to negotiate price in certain cases as we have the money to purchase in bulk. The following are the circumstances where an emergency find is to be utilized:

1. Medical emergencies if there is no mediclaim facility
2. Financial emergencies like replacement of asset in case of sudden breakage
3. Income emergencies like loss of job
4. Household emergencies like expenses required for unplanned education trip of children or a house repairs which are to be rectified immediately
5. Other medical emergencies like friends or other family members require our financial support

To enhance the return on investment, divide emergency fund into two main categories into short-term emergency fund and long-term emergency fund. Short-term emergency is when we have an immediate emergency and should be an accessible account. It can also be used as a bridge to get us through the few days until we can access our long-term emergency funds in case of more severe circumstances. A long-term emergency fund allow us to save for large-scale emergencies, such as Job loss, medical emergency, home repairs, vehicle repairs, unanticipated travels and so on and make a little higher level of interest. Accessibility is still important here, it is acceptable to choose investment that take a few days to liquidate- as long as we have a short-term emergency fund to support us immediately.

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