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How People Need to Rethink Emergency-Savings Funds

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Why aren't people saving for emergencies? What's more, if they do save for emergencies, why do they so often not use those savings wisely?

It's not like people don't know what to do. I've been to many meetings where financial experts tell each other, "if we could just get people to save six to nine months of income." This advice seems so sensible, so economically sound, my peers believe that if they repeat it often enough, people eventually will act on it.

But it's not resonating—50% of Americans do not have a "rainy day" fund, according to the 2015 National Capability Study.

So what are the mental traps that people fall into that prevent them from saving for–and wisely using–emergency funds? Here are four:

It's just too much money. Preaching six to nine months, while theoretically sound, is broadly unrealistic. Instead, let's be encouraging—even a small amount of $500 is meaningful. It's achievable and validates progress. It's a relatively low price tag to reduce stress. Imagine what $1,000 or $2,000 feels like? Hit that starting goal, raise the bar higher and never stop. For those who can reach the six-to-nine-months ceiling, bust through it and keep stashing.

I don't believe I'll need it, so I don't save. First, let's acknowledge that accumulating six to nine months of income isn't easy. Saving 10% a year would take five to 7.5 years to accumulate six to nine months of salary–and that's without ever touching it.

But people have to understand that it isn't a question of *if* unexpected events will happen, but *when* they will happen. It's inevitable. There's a 60% probability that you will experience a financial shock in 2017, and these odds are consistent from year to year. If you're among the fortunate 40%, it's only a matter of time. The suspects are familiar. How old is that car you're driving? When was the last time you had to replace an appliance or something fell apart in the house? Do you really think you can anticipate the high costs of an injury or medical emergency, even with insurance?

Most people refuse to accept something can—and probably will—financially set them back. They're in denial and it's stressing them out. Research studying the financial fragility of Americans discovers that almost half—46%—of the population couldn't come up with as little as $400 if needed urgently.

I've saved money, but I don't want to use it. Congratulations: You've saved money for an emergency. But here's another common problem: Diligent savers who squirrel away emergency savings often don't want to use it when hit with an unavoidable financial shock. It feels like failure, watching those hard-earned savings drain away. They instead turn to alternative sources like credit cards and help from family or friends to help them get by–alternatives that can be much more costly financially or psychologically. We need to reassure people that using emergency savings is a mark of financial competence.

I spent it and I don't want to start over. It hurts losing your safety net, but you have to acknowledge this will be the case—perhaps several times throughout your life. It's true that even six to nine months of savings can be wiped out with an unforeseen event. We have to concede that when this happens our emergency savings must serve its purpose. And then start rebuilding for the next unforeseen event.