

Some Insights On: Emergency Funds

How Big Should Your Emergency Fund Be?

Building an emergency fund should take precedence over other big financial goals—even retirement and college savings.

Why? Because when a crisis hits, people without emergency funds may resort to raiding their retirement or college savings (which can mean taxes and/or penalties), or dig themselves into debt. The best option is to create a fund that helps you weather life's storms.

But how much is enough? How much is too little?

While financial experts are all over the map, recommending saving anywhere from three month's to a year's worth of life expenses, we recommend at least six months as a rule of thumb.

But six months is a general guideline, and your life may call for a smaller—or perhaps much larger—emergency fund than that. It all depends on what's at risk in a potential crisis.

Here are some of the factors you might take into account:

- Do you own your home? Your car?
- How large is your family?
- How stable is your job?
- How difficult would it be to find a new job that would replace your income?
- Do you have any other sources of income and/or medical insurance?

The bigger your expenses (and debt), and the more difficult it would be to replace your income, the larger your emergency fund should be.

Deciding how many months of expenses to cover is just part of the equation. *Which* expenses should you include when tallying up the reserve you'll need?

It's common to factor in only the very basic expenses, like mortgage or rent payments, utilities, food and gas. But even if you live frugally through your crisis period there may be some other expenses you may want to be able to cover.

Make your own list, check it twice, then set a saving goal for a realistic emergency fund now!

Consider the following:

- **Regular car maintenance and parking lot/garage costs.**
 - Unless you can walk everywhere you need to go, you'll have to keep your wheels in order during an emergency. Average annual cost of operating an average size car = \$8,876.
- **Personal maintenance, like haircuts and gym memberships.**
 - You may need or want to cut back on these things in a crisis, but exercise can help alleviate the stress and taking care of your appearance is especially important if you're working – or looking for work. Average cost per haircut = \$28 (men) and \$44 (women). Average cost of a gym membership = \$50 to \$200 per month.
- **Kids' sports and extracurricular activities.**
 - These may add up to several hundreds of dollars, and while they're technically *discretionary* expenses, you'll likely want to try to keep your kids' lives as normal as possible during an emergency.
 - Parents surveyed say the cost of extracurricular activities = \$396 per school year (though certain sports and activities cost much more).

- **Clothes**
 - Even if you're on a budget, you and your kids will probably need at least *some* new ones within a six-month timeframe. [Average family spending](#) on clothing = \$1,604 per year.
- **Regular contributions to retirement, education or other savings.**
 - Try your best not to let these flounder. If at all possible, add these regular monthly savings into the expenses you'll cover with an emergency fund.
- **Critical home repairs.**
 - Should your emergency fund cover the cost of a kitchen remodel? No. A hole in the roof, broken furnace or leaky pipes? Yes. Average cost: [One rule of thumb](#) says 1% of your home's value annually for maintenance.
- **Regular medical costs not covered by insurance.**
 - Add out-of-pocket cost of preventive care, therapy and prescriptions into your emergency savings. [Average cost per family](#) = \$3,000 or more/year.

It helps to be aware of the sneaky costs, like those listed above, that you may not be thinking about.

Still, it may not be practical for you to save six months (or more) of every possible expense. You'll have to use your judgment and prioritize.

Do a little worst-case-scenario planning and imagine (or remember) yourself in a difficult situation that's financially draining. Talk openly and practically about which expenses you can jettison, and which you feel strongly about covering.

Emergencies are tough enough to deal with. Being prepared financially can take one worry off your plate.

Get real and start saving for an emergency fund that'll have your back when you need it!