

## 3 Steps For Creating An Emergency Fund

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Most Financial Planners recommend setting aside a separate cash reserve to cover expenses for emergencies such as a leaky roof, broken furnace, medical expense not covered by insurance or a job loss. Not sure where and how to start your emergency fund? Here are 3 steps to consider when setting up your fund:

### Step 1: How much to save?

For single individuals and dual income married couples with no children, you need a fund equal to 3-6 months worth of expenses. For all other married couples the amount should be increased to 6-12 months of expenses. All your current monthly expenses need to be considered. Fixed expenses to include would be mortgage or rent payments, insurance premiums and property taxes. Variable expenses are: utility bills, groceries and clothing. If you had a major emergency there are some expenses such as commuting cost, vacations and restaurant meals, which would be eliminated, so you do not need to include them for your emergency fund.

### Step 2: When and how to start saving?

For those of you who have an emergency fund in place, you need to evaluate and adjust to the current economic environment. If you do not have an adequate emergency fund, then you need to start as soon as possible. It takes time to build up an adequate amount to cover those unforeseen emergencies. Start with small additions on a regular basis. A good idea is to have money taken from each paycheck and directly

deposited into your emergency fund. Also include bonuses and tax refunds which will help your fund grow faster. Take a look at your current expenses and see if you can cut back and redirect those dollars to your emergency fund.

### Step 3: Where to put your savings?

When an emergency happens, getting to your money needs to be a quick and easy process. Your savings need to be liquid. This means you need to be able to access the money within a day or two. Not only does the money need to be liquid, but it needs to be a safe and risk free investment. You do not want your money invested in mutual funds or stocks and risk not having the needed dollar amount for that emergency situation. The best place for those dollars is in a CD (certificate of deposit), savings account or a money market account.

Following these 3 steps will help you establish and maintain an emergency fund which will help ease the pain of those unplanned life events.

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