Saving for Household Emergencies

Every Household or Family Faces Emergency Situations — They Are Part of Life

These include home repair, car repair, medical bills not covered by insurance, loss of income due to injury or illness, family emergencies, and lower income due to loss of overtime or a job change. These situations happen to everyone and having an emergency fund set aside to deal with them can often mean the difference between facing temporary difficulties successfully or getting into serious financial hardship.

What Can Happen if You Are Not Prepared

Many people will rely on credit cards to keep them going until they get "back on their feet". Unfortunately, the high interest rates on credit cards usually add to their financial hardships when the monthly bills come in. Families struggling to make ends meet usually cannot afford the extra monthly payments for credit card bills. This may lead to late payments and even higher minimum payments due to late fees and higher interest rates. This is usually the start of a downward spiral as the balances increase, despite someone's best efforts to make some payments each month.

How Much Should I Try to Save?

Most experts suggest between 3 and 6 months of living expenses. If your monthly living expense (including mortgage, car loans, etc) are $4,000, then a good target is $12,000. If this seems like an impossible amount to save, don't be discouraged. Most people who have been able to set up their emergency fund started right where you are today. The key is to track expenses and income, identify areas where you may be able to cut back on spending, and then put that money into the emergency fund on a regular basis. Other good ways to start your fund include using a tax refund, holiday gift, or bonus. Many people tell us that once you get started, it becomes easier as you realize the peace of mind an emergency fund provides you and your family.

Where Should I Put the Money, and In What Type of Account?

Since you may need this money at any time, financial experts suggest a regular savings account or a money market account in a financial institution that has FDIC deposit insurance. While these types of accounts don't pay the highest interest rate, the key is to be able to withdraw the money in an emergency. Accounts that pay higher interest rates, such as Certificates of Deposit, usually require that the money stay on deposit for a fixed period of time and may charge a penalty if you withdraw money before the fixed period ends. Once you have setup your savings or money market account, avoid ATM access and the temptation to use those funds for non-emergency spending. Remember—this money is for household emergencies and not for shopping or other uses. Simply putting money into an account and taking it out to spend will defeat your primary purpose, which is to have funds available to you and your family in an emergency.

I'm Having Difficulty Saving Money for Emergencies

Call us at 1-800-992-4557 and a certified counselor will review your situation to give you some ideas, options and suggestions to help you.

An Educational Message from

novadebt

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