



EVANS EDWARDS

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How to Build an Emergency Fund When You're on a Budget

If there's one thing the COVID-19 pandemic has shown us, it's that the unexpected can happen at any time. And, while there are many things in life you can't control, you can make sure you have enough funds put aside to help you get by. Here's how to build your emergency savings, even on a budget.

As anyone who lost their job overnight due to COVID-19 will tell you, it pays to have cash stashed away for a rainy day.

An emergency can happen at any time, for any number of reasons. If it does, your emergency fund will provide a safety net to cover your living expenses until you can get back on your feet.

It's best not to turn to a credit card to get you through an emergency, as credit doesn't replace your income. It just creates a debt that you'll need to start repaying almost straight away, whether or not your income is back to normal.

Anyone can start an emergency savings fund, even if you're not a regular saver. Here's how to build up your emergency savings, the smart way.

1. SET A GOAL

You'll need to keep enough cash in your emergency fund to cover your living expenses for at least three to six months. For example, if your living expenses come to \$3000 a month, you'll need to keep at least \$12,000 in your emergency fund.

2. PLAN HOW YOU'LL GET THERE

Next, think about a realistic timeline for achieving your goal. How long it will take depends on how much extra cash you're able to put aside each week or month.

For example, say you wanted to build your emergency fund within one year. If you needed \$12,000 in your fund, that means you'd need to contribute \$1000 a month, or roughly \$230 a week.

Does the figure seem realistic? If not, you can spread the contributions out over a longer time, or find ways to increase your savings.

3. FINDING EXTRA PENNIES

If money is tight, you'll need to go over your budget with a fine tooth comb. Find every possible place where you could tighten up your spending and divert the cash to your emergency fund. Think about cancelling subscriptions you don't use, or try negotiating a better deal on your services. Cut back on eating out for a while, or don't buy any new clothes for a few months. Be ruthless to slash your unnecessary spending, so you can put the money towards your emergency fund.

4. SAVE A PERCENTAGE OF YOUR INCOME

Another option is to divert a set percentage of your income into your emergency savings, once your non-discretionary expenses have come out. Whatever you have leftover is your spending money for the month. For example, if you have \$150 a week left over after expenses, you could contribute 30 per cent (\$50) to your emergency savings fund.

5. REACHING YOUR GOAL

Once you reach your savings goal, and you're comfortable you can keep yourself afloat for three to six months, you can hit pause on your contributions. At this stage, you might want to divert the money you've been putting into your emergency savings into another type of savings, or even start an investment portfolio.

WHERE TO STASH YOUR EMERGENCY SAVINGS

You want to keep your emergency fund in a separate online savings account that isn't accessible via a bank card or credit card. Out of sight is out of mind, so keeping it at a different bank to your regular transaction account is even better.

Don't be tempted to invest your emergency savings. Investments by their nature increase and decrease in value over time. The last thing you want is to find yourself in a situation where you're forced to sell down your investment at a loss, just so you can get access to your emergency funds.

Similarly, cash is king when it comes to emergency savings. If you need quick access to the money, it's easiest to withdraw cash from your bank account.

HOW TO REBUILD AFTER AN EMERGENCY

If a situation arises where you need to access your emergency savings, go for it, that's what they're there for. Once the emergency has passed, and you have an income to rely upon, you can simply top up the fund again and continue along your way.

Source: Money and Life

If you have any questions around setting up your savings plan, give Shaun or Vicky a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon).



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