Emergency Funds  Part 1 of a two-part article
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• What is an Emergency Fund?

An emergency fund is simply some amount of money that you have set aside to use if and when the unexpected occurs. Sometimes referred to as an uncertainty fund, or a rainy day fund, it’s money that you have saved, to be called upon when the unpredictable happens.

Unexpected events can range from needing a new water pump, to accidental injury resulting in unforeseen medical expenses, or a job loss causing a reduction in income. These are all examples of separate events, but what they all have in common is that they cannot be anticipated, and they can happen to anyone at any time.

• How do I know if I need one?

Everybody needs an emergency fund. It’s that simple. Everybody needs a reserve source of cash that they can rely on when that sudden need arises.

It’s time to think about those uncertainties and set aside whatever you can. The events may be unplanned, but you can create a plan that will help you deal with them. The current health crisis reinforces the fact that we really don’t know what is going to happen in the future, but the better prepared we are, the better equipped we are to deal with things. You can’t prevent the unexpected, but you can hopefully soften the impact.

• How much do I need?

General recommendations range from having $500 in the bank to having 3 – 6 months of living expenses saved up. The amount you need will depend on whether you have multiple sources of income that you can rely on and whether you have any other funds that you can pull from. The main thing is, something is better than nothing.

Determine your basic living expenses, the essentials, the things you need to survive. This generally covers food, housing and utilities. Make your best guess as to how long you may need to cover those expenses. Does your household rely on more than one source of income? Are any income replacement options available? Keep in mind that the amount you think you need to have in your emergency fund can never be precisely known, it will always be your estimate of what you think is most likely to happen.

• How do I get started?
The simplest way to start an emergency fund is to specifically allocate a portion of your paycheck to a separate savings account. That account should only be used in case of emergencies. You can set this up to be an automatic bank transfer, so you don’t even have to think about it. You can also use cash, make sure you deposit a fixed amount on a regular basis. Consider this to be the first “bill payment” you make each month, a transfer to your emergency fund.

Take advantage of bonuses and raises to increase your savings – your spending does not need to grow at the same rate as your income, so whenever unexpected money comes your way, try to save as much of that as you can.

- What if I don’t have extra money each month?

Something is better than nothing, so any amount, regardless of size, should be saved. This is when strategies such as saving loose change in a jar or putting $2 bills in an envelope can get you started building up your emergency fund.

If what you earn only just covers what you spend, then the next thing to do is to look at your expenses and see if you can find any savings there. Cutting back on expenses, even if only temporarily, can go a long way to building up your emergency fund. Can you give something up for a few weeks in exchange for the peace of mind that you’ll get from knowing that you’ve managed to put some money aside to help in the future? Be as aggressive as you can.

There may be a silver lining to the current work from home mandate. If you’re not buying lunch, if you’re making your own coffee, if you’re not able to travel – look at how much you may be saving! That’s money that you can put aside and use to build up your reserves for the future.

In part 2 of this article, we’ll talk about what you can do if you don’t have an emergency fund or if you don’t have enough already saved to meet your current challenges.

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