



Planning for “*What If...?*”

Tools for Protecting Your Family and Managing Your Assets

Emergency Fund

What Is It? Money set aside in a liquid investment (i.e., short-term CD, money market account or treasury bill) to be accessed in the case of an emergency. An emergency fund should have between 3 and 6 months' living expenses. It provides a financial cushion against an event that causes higher expenses or a reduction in income.

Who Should Have It and Why?

Everyone should have an emergency fund.

Standard recommendations are that it should be equal to between 3 and 6 months of family living expenses. If your job is insecure, your family relies solely on one source of income, or your income is irregular, you should work toward having an emergency fund to cover six months or more of expenses.

An emergency fund can

- give your family spendable money if you become disabled, before the disability insurance kicks in or to make up some of the shortfall between the disability income and your regular income.
- give your family money they can live on until your estate is settled or until the life insurance check comes after your death.
- see you through a period of unemployment.
- provide the cash to deal with any unexpected emergency, like totaling the old car on which you just cancelled the collision insurance.

Issues and Limitations

- There is an opportunity cost for keeping a substantial amount of money in a low-return type of savings account. You could use a strategy called *laddering* (setting up a series of CDs or bonds with staggered maturity dates) to maximize your return without incurring penalties on all your money if you needed some of it.
 - There is a risk that you will use the money for things other than an emergency.
 - A credit line may be a substitute for an emergency fund.
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Ask Yourself

Given my situation, how much should I have in an emergency fund?

How much do I have now?

How can I begin to accumulate the amount I need?

Where will I keep my emergency fund?



<http://www.ace.uiuc.edu/cfe/whatif/index.html>

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