

Title:

How to Establish Emergency Money

Word Count:

588

Summary:

How to Establish Emergency Money

Keywords:

finance, blog, articles, How To Establish Emergency Money

Article Body:

Inevitable and unexpected things can happen anytime. And life always gives us surprises, leaving us with expenses that we usually didn't plan for. Sickness, accidents and other form of injuries can come and your budget may not be enough. Such occurrences can create debts and you cannot recover easily from it. It is for this reason that emergency money is really needed now and again.

Emergency money or fund is money that you set aside not as an investment or savings but for emergency purposes. It isn't money for groceries and other needs but strictly for emergencies. Establishing an emergency fund is always important especially in bad times. What matters is you set the money aside consistently then gets it only for real emergency use. The success of your emergency fund depends more on consistently saving your money and leaving it there unless there's an emergency.

It is advisable that your emergency money contains about three months' worth of living expenses. It doesn't mean that your emergency money should be equal to your salary for three months, but you have to make sure that the money you put away for this purpose is enough to sufficiently handle whatever emergency that may come up.

It is way easy to calculate the amount that should go to your emergency money. What you need is enough amounts to cover the rent of your apartment, to pay for your bills and your car, to purchase food and cover other expenses for a normal month. Experts based the three-month rule from the reality that majority of short-term incapacitating sickness need almost three months to heal and recover.

You should make sure that your emergency money is a liquid investment that's very accessible. Of course, there's always a risk that if you don't have that

self-control, you can easily get your money for impulse shopping, vacation trips and for buying some needed equipments. Because of this, you need to lock your emergency money up and hide the key.

The best thing that you can do to secure your emergency money is to put it in a very liquid account like money market account or savings account.

Money Market Funds. The most famous option is money market account. This is a liquid investment that is short term and can be accessed through mutual funds and several banks. These banks and mutual funds also provide cash type liquidity. Putting your emergency money in a money market account will give you nominal rate of return that's above the average savings account rate of a bank.

Savings Account or Certificate of Deposit. Other option that you can possibly do to your emergency money is to put it in savings account or some other assets which can be liquidated easily without taking a loss. There are lots of CD's that would meet this criterion and can be considered as an option. Putting a portion or all of your emergency money into a CD or certificate of deposit will give you higher interest rate. When your certificate has already matured and the interest has been gathered, you have the choice to transfer it into a savings account or you can put them again in a shorter-term certificate.

Remember that the longer the term of your CD, the higher its rate will be. However, you have to make sure that you didn't lock up your emergency money for too long, because you might beat its purpose of having an easy access.