

How To Safeguard Your Financial Life

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Several financial planners would agree that one of the foremost and important steps that you should take to protect your financial stability is to set aside funds as emergency reserve. The concept that you have the fund for emergency and unexpected events is enough to help you stay away from using your credit card and drown yourself in debt.

How to Get Started

Everyone must stash a little extra cash in case of emergencies. However, how much money should you keep? Although the topic of exactly how much money is needed for your emergency fund is open to debate, the minimum amount should be enough to cover your expenses for daily living for at least three months. It is also wiser to save for six months though most financial planners agree on a full year worth of cash.

Your personal circumstances and what it takes to provide you with a peace of mind are the elements to help you determine just how cautious you want to be. If for instance, you have well-off parents who have always been supportive and willing to help you in a financial crisis, an emergency fund for three months will be sufficient. On the other hand, if you had reach for you credit card for help and end up paying 15% in interest on the debt, you would be better off saving enough money for your expenses that would last for at least six months.

If by any chance you are thinking about where to place your money, emergency fund, paying off the credit card debt or funding your 401(k), you can always start with your credit card debt. Next, you can contribute to your 401(k). This step is especially useful since you can later borrow money from your 401(k). However, as soon as all those are finished, return to your project of setting up your emergency fund.

If you do not feel like you are required to make your entire funds this week, you can start like everyone else. Begin by setting aside a monthly amount, like for instance, 5% of your paycheck or other amount that allows you to build one month's worth of living expenses over the course of a full year. It is also advisable and helpful to make this automatic. You can do this by asking your bank to do an automatic program for deduction from your checking account to your savings account.

Additionally, monitor your spending habit each month and always search for areas that you can develop. If by any chance you receive a promotion, bonuses, or other unexpected windfalls, always think about including them to your emergency fund.

Where to Keep the Cash

Keep your emergency fund somewhere that is both easily accessible and safe because you might be required to get the cash in a hurry during emergencies. Remember not to put your cash in the freezer but do not tie them up together in stocks whose worth may have declined by the time you need them.

The best option you have is to open a savings account or money market account. However, always examine their offer with regards to the minimum balance, interest rate and other terms.

By time you think you have saved enough, learn how to stop. You can now sleep easier and try to start placing your additional saving into higher-interest and usually less accessible investments or accounts.