

Peace of Mind

STARTER EMERGENCY FUND

If you don't have an Emergency Fund of at least \$1000, start here.

Resist the temptation to jump straight to paying off debt. **You NEED to put a buffer between you and unexpected expenses.** Without an emergency fund, you'll be forced to fall back onto the credit card for emergencies. To break that habit, an emergency fund is a necessity.

Start with \$1000 at minimum, and work as fast as you can by trimming expenses and increasing your income where you can (sell your unneeded stuff like crazy). Don't make it too big to start or it will take too long to get to the debt payoff and you might lose steam.

I've included a worksheet if you want a more precise number, but \$1000-\$3000 is usually plenty to get you started. And yes, the amount might not feel like "enough" but that can keep your motivation higher to get that debt paid off so you can save a bigger emergency fund.

When an unexpected expense comes up, use your Emergency Fund to pay for it. Then refill your Emergency Fund. Then start saving up a **Sinking Fund** for the next time that expense will come around.

Your Emergency Fund is NOT a savings account. Don't fall into the trap of not using it and turning to debt instead. The purpose is to catch unexpected expenses and break the debt habit. If it helps, think of using it as a debt that you owe to yourself, which you pay back by refilling it.

If used correctly, the Emergency Fund will rise and fall like the tides, more at the start, and less as time goes on and you get control over your money.



Emergency Fund Worksheet

How much should you save for your Emergency Fund? I have heard recommendations ranging from \$500 to a full month's income. The truth is there is no "right" answer. Don't get bogged down in how much, just choose an amount that feels achievable in under 3 months, and get going. If you'd like a more precise number than that, you can use this sheet to calculate a reasonable amount (but honestly, any amount is better than nothing).

Fill in the amounts for your necessary monthly expenses. This does not include “wants” for the month, only “needs”. Imagine you had a job loss for 30 days, what would you absolutely have to pay for during that time? It’s probably safe to say you won’t be buying clothes or going out for a fancy dinner, you’ll be cooking from your pantry and paying the minimum on all your bills. This is a great Starter Emergency Fund amount.

Later, when you've paid off your consumer debt, you can add to your Emergency Fund and get it up to the recommended 3-12 months. But for now, start small, just enough for an emergency month, which should catch most of the typical emergency expenses.

If your budget is so tight it squeaks, and the total you come up with below feels impossible, you can start with half of the total.

[illegible]