



BalanceWorks[®] Newsletter

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Financial Tip: Stash Some Cash for Emergencies

One of the first and most important steps you should take to safeguard your financial stability is to set aside an emergency reserve fund. The idea is that the fund can be used either for a major unexpected cost (such as medical expenses) or to cover your basic living expenses if you (or your spouse or partner) is temporarily out of work.

How Much is Enough?

Exactly how much money you should keep in your emergency fund is open to debate. At an absolute minimum, it should cover your daily living expenses for three months. Six months would be wiser, and some planners recommend a full year.

Just how cautious you want to be depends on your personal circumstances and what it takes to give you peace of mind. If, for example, you have well-to-do parents who've always been willing to back you up in a financial jam, a three-month emergency fund might be just fine. If, on the other hand, you'd reach for your credit

cards in an emergency, and would then wind up paying 15% interest on the debt, you'd be better off saving enough to cover expenses for at least six months. And if your income fluctuates -- perhaps you're self-employed or make some of your money from commissions -- you'd do well to have a bigger cash cushion.

Choosing between putting money into your emergency fund, paying off credit card debt, or funding your 401(k)?

Start with the credit card debt. There's no point in having your own money sit in a bank earning 2% interest while you're simultaneously paying 15% interest to use someone else's money. Contribute to the 401(k) next. This is especially true if your employer offers a match -- not taking advantage of it would be turning down free money. And in the worst-case scenario, you can later borrow from your 401(k). But as soon as you can, return to the project of setting up your emergency fund.



For more information about talking to your children about troubling events, contact the work/life experts at BalanceWorks[®] by calling:

1.800.EAP.CALL
(1.800.327.2255)

eni's BalanceWorks[®] program is a confidential 24/7 service provided by your employer to help achieve work/life balance.



Where to Stash Your Cash

Because you might need to get to your emergency fund in a hurry, keep it somewhere that's both easy to access and safe. Don't put cash in your freezer, but don't tie it up in funds like a long-term CD or in stocks whose worth may have declined just when you need the money. Your best options would most likely be a savings account or money market account, depending on what they're offering by way of an interest rate, minimum balance, and other terms.

And when you've saved up enough, stop! You can now sleep easier, and start putting any additional savings into higher-interest (usually less accessible) accounts or investments.

How Do You Begin?

Don't feel like you have to create your entire fund this week. Most people start by setting aside a monthly amount -- for example, 5% of their paychecks, or another amount that lets them build up one month's worth of living expenses over the course of a year. It helps to make this automatic, for example, by asking your bank to set up an automatic deduction program from your checking account to your savings account.

Also monitor your monthly spending, and look for areas you can trim. And if you receive any promotions, work bonuses, or other unexpected windfalls, think first about adding them to your emergency fund -- before you get used to spending the extra money.



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