

Emergency Savings

Preparing for the unknown can give ourselves some peace of mind.

Have you ever experienced an emergency or unexpected event? Many of us do each year, and with these events can follow a financial burden. Some of the most common unexpected situations we face include:

- Limited or lost income
- Home repairs
- Medical issues
- Vehicle repairs
- Child and pet needs

It's easy to be unprepared for the unexpected and unknown. And even when you do plan it can be difficult to assign an appropriate number. Another situation that can arise is when starting a budget. When starting to plan it can be easy to leave out expenses causing a shortage and a need for emergency funds.

Assessing Your Financial Position

If you are one of the many people for whom the word "budget" is the same as the word "denial," you may be surprised to learn that the opposite is true. A well designed budget is the best way for you to reach goals and achieve financial independence without having to sacrifice all of life's pleasures.

Budgeting means analyzing what you have coming in and then developing a reasonable and goal-oriented plan for what goes out. Though your budget should be as unique as you are, there is a common rule: expenses should never exceed income. It should also be livable – flexible enough to allow for some changes, but not so loose as to be ineffective. Essentially, a budget is a tool to make the most out of your money. With it, you will be able to identify and eliminate wasteful spending while keeping and even adding to those expenses that are truly important to you.

Track Where It Goes

The last step to take before setting up your budget is to gain an accurate understanding of where you are spending your money every month. Ever wonder how the \$40 ATM "fast cash" disappeared so quickly without any memory of where it went? An accurate budget depends on first being highly aware of every purchase you make.

There are several good methods you can use to track spending. However, when you begin the process, try to spend as you normally would. You can make adjustments based on your discoveries later.

- **Write it down.** Record your purchases using the Weekly Tracking Worksheet on page 7 or a small notebook. Make sure to note the date, item, and cost. Add up your spending at the end of the day and week. After several weeks of doing this, you will have a good idea of where and how you spend your cash.

- **Keep receipts.** Keeping receipts from each purchase you make and tallying them up at the end of the day is another method of tracking expenses. However, it won't be absolutely accurate if you make purchases where no receipt is given, such as a newspaper or soda from a machine.
- **Use checks or debit cards.** While you aren't guaranteed a completely accurate record, using a debit card or credit to track purchases gives you a handy electronic record of expenses. Of course, remember that using a credit card doesn't give you an excuse to expand your spending habits.
- **Monitor ATM use.** While keeping tabs on how much cash you extract from the ATM won't help you with tracking all of your purchases, it will help you become aware of how often you go and how quickly you spend that cash.
- **Use expense tracking software.** Plugging your expenses into tracking software cuts down on paperwork and makes it easier to look at your past spending habits. Some software even links to your accounts and automatically imports checking account and credit card purchases.

Constructing Your Budget

What does a budget look like? Remember that a budget is nothing more than a spending and savings plan. You can create it with a pen and paper using the Essential and Discretionary Expenses Worksheet on pages 8-9, or with a computer spreadsheet. Whatever shape it takes, your personal budget should include your income, expenses, and action items.

Income

Begin with income, as it will determine what you can afford to spend and save each month. Don't forget the primary rule of budgeting: expenses should always fit within earnings.

When completing the Monthly Income Worksheet on page 9, avoid overestimating your income. If you work overtime hours, include the extra income only if you are absolutely sure that it will continue. It is always best to use conservative figures for income. You may not be able to (or want to) work those hours in the future. Bonuses are also problematic when estimating income for the purposes of a budget – include them only if they are guaranteed.

If you are self-employed, or your income fluctuates because of commissions or seasonal work, you may have some challenges estimating your income exactly. In this case, use the previous year's income as a base and estimate whether you think you will be earning more or

less. Again, be conservative. It is better to have money left over than be caught not being able to meet your expenses.

You should list both your gross (pre-tax) and net (post-tax) income. If you get a large tax refund, you may want to increase the exemptions you claim on IRS Form W-4. This will reduce the amount of money taken out of each paycheck for taxes, increasing your net income. It is better to have the extra money throughout the year to put in savings and/or pay down debt than to wait until you file your return to get the cash. However, you do not want to increase your exemptions so much that you wind up owing money come tax time. The IRS's withholding calculator (www.irs.gov/individuals) is a helpful tool for determining the proper number of exemptions to claim.

Expenses

When developing the expense section, you should have two columns to work with – one for what you have been spending your money on (using the tracking work you have already done) and the other for proposed spending.

Evaluate your cash flow by listing all of your expenses in the current column. Make sure you include everything. Many well-intentioned plans are tripped up by not accounting for such “unexpected” expenses as car repairs or veterinary bills. A workable budget makes room for the financial outlays that arise throughout the year. Of course, there are those truly unexpected expenses that you simply cannot plan for. This is why an emergency account should be part of your budget.

Some essential expenses will be fixed (the same amount every month, such as your rent) while others will be variable (for example, your gas and electric bill may be more or less expensive based on the season). For those bills that fluctuate, determine an average by totaling what it typically costs you for the year, then divide that amount by 12 months.

Discretionary expenses are those that if you had to, you could live without. This is not to say they aren't important – they make life fun and interesting. However, they will probably be your focal point when determining where to make cuts. Reducing nonessential expenses may be your answer to repaying debt, living within your means, or saving for a more important goal.

Total your current expenses and then subtract the sum from your current income. Are you over or under? If you find there is more going out than is coming in, don't panic. Very often this means you are charging what you cannot afford to pay with cash. This realization may be the very call to action that you need to make positive budgetary changes.

The proposed column is where you actively decide where you want your dollars to go each month. Using the current side as a guide, consider each expense carefully. If you are spending more than you are earning, some expenses will need to be reduced or cut. If you are not spending more than you are earning, you may want to keep things as they are now or you may want to rearrange your spending to better suit your wants and needs (e.g., reduce your dining out costs so that you will have money to take tap dancing

lessons). As long as you are spending less than you are earning and dedicate enough money to meet your needs, you can spend your cash however you want.

Your goals are of vital importance to your budget. Again, in the proposed column, enter the amount you have earmarked for short-, mid-, and long-term goals. They are now an expense and you can “pay yourself” as you would any other important bill.

Constructing Your Emergency Savings

Your Emergency Savings is a goal; and all goals are important to all budgets. Goals are the final reward that encourages you to stick to your plan. To improve the odds that you will achieve your financial dreams, all your goals should have the same basic characteristics. In the words of author Paul J. Meyer, they should be S.M.A.R.T.:

- Specific
- Measurable
- Attainable
- Realistic
- Time-bound

Think about what you really want out of your money. Would you like to repay debt, buy a new car, or save for a down payment for a home? Each of these is a good example of a strong goal: they are specific rather than vague (e.g., the goal of “saving money” or “being able to relax about money”). After you decide what you would like to save for, determine how much it will cost and the time frame for achieving it. The next step is ensuring the goal is measurable. You should be able to break the price down into amounts that you can regularly deposit so you can monitor growth and track progress. For example, you may have a goal of establishing an emergency savings one year from today. After researching you have determined that it will cost you a total of \$1,000. Therefore you will need to set aside approximately \$84 per month for twelve months ($\$1,000/12$). Watching your savings grow as you advance toward your goal date will keep the drive to save strong.

Strive to keep your goals reasonable and reachable. Too modest a goal and you may not have the desire to continue, overly large and you can find yourself too discouraged to keep going.

Lastly, your aspirations should have a proposed end date. This will let you know how much you need to save each month and will help you keep your progress on track.

Once you have determined your goals, you are ready to distribute them into time frame categories. A short-term goal will take 12 months or less to achieve, a midterm goal from one to five years, and a long-term goal will take more than five years. Many people will have more than one goal for each category. If that is the case, there may not be enough money to save for all your goals simultaneously. You will have to prioritize according to demand and desire.

The calculation for short-term goals is simple: the amount of the goal divided by the number of months you have to save. There is little time for interest accumulation to help build savings. For mid- and long-term goals, however, the calculation is more complicated if you choose to invest

your savings. Years of compounding interest will greatly increase your dollar power – you can afford to save less each month because interest will add to the total. It is also important to keep in mind that, due to inflation, the cost mid- and long-term goals may be higher in the future than they are now. The total goal amount should be the estimated cost at purchase, not the current cost.

Example:

You would like to save \$10,000 in 10 years. To achieve that goal with no investment earnings, you would need to set aside \$84 each month. However, if you invested your savings into an account with an average return of 7%, you would only have to save \$58 each month to reach your goal.

You can use the emergency savings calculator at <https://www.greenpath.com/calculators/Emergency.html> to calculate how much you should save each month factoring in the rate of return. For investments with a variable return, like stocks, use a conservative estimate of what you expect the return to be. To record your goals and develop a savings plan for achieving them, complete the Budgeting Worksheet at the end of the handout.

Establish an Emergency Account

Establishing and maintaining an emergency savings account is key to any sound financial plan. Having money in a liquid account (one that you can quickly access without tax or penalty consequences) will prevent you from turning to your credit cards or friends and family in times of financial crisis. A good rule of thumb is having three to six times the amount of your essential living expenses readily available.

Example:

You have determined that your total monthly living expenses are \$2,400. This includes such nonessential expenses as dining out, gifts, and gym membership. However, your essentials (rent, basic food needs, gas, utilities, etc.) run you \$1,500 per month. In this case, an appropriate emergency account amount would be at least \$4,500 ($\$1,500 \times 3$).

Start Saving Now

So why do today what you can do tomorrow? Because waiting to save money until after you have paid all of your bills almost guarantees that you will put nothing aside. With money in a wallet or checking account, the urge to spend it often surpasses the desire to save it. However, by beginning with saving – depositing money into a savings account before or as other bills are paid – you can defeat the urge to postpone this very important task.

When you build your budget, you should be putting a fixed savings amount into your essential expenses. Why? Because your dreams – your goals – should take on as much importance to your budget as other necessary expenses.

Monitor and Adjust For Improvements

The next step is to take action. If you found that your income is insufficient to start an emergency savings, consider ways to increase it. Do you have the opportunity to work longer hours or acquire part-time work? Now may be the perfect time to ask for a raise or seek out a better paying job. If you receive a large tax return each year look to make adjustments to free up funds from your reported income. If you have property that you don't need or use, consider selling it. The proceeds can be an instant emergency account.

If you're needing to reduce debt to free up funds, consider different payoff strategies to fulfill all payments and apply extra to target accounts. The Avalanche Method targets accounts with the highest interest first. The Snowball Method targets accounts with the lowest balance first. Between the two the Snowball Method can appear more motivating due to account payoffs occurring faster in the beginning.

If you determine that decreasing spending will empower you to achieve your goals, act now to make that a reality. Call your cable company to change your television package, get cheaper long distance, or cancel your cell phone. Substitute dining out for eating in more often, or skip gourmet coffees and make your own. Use your creativity to brainstorm ways to cut costs and then put them into action. To reduce the urges for impulse purchase try the 30 day Rule. This rule tells you to take the money you were going to spend on an impulse buy and save it in a savings account instead for 30 days.

One essential action item is to open a savings account, if you don't already have one. To help you save effectively, sign up for automatic deposit with your financial institution. Your monthly savings amount can be regularly transferred from your checking account into a savings account. If your goal is to save for an emergency savings, your employer will deduct the amount from your paycheck for you. It's up to you to make it happen.

Whatever the amount try to keep balance within your finances. Some rules to consider are:

- 50-20-30 Rule
 - 50% on needs
 - 30% on wants
 - 20% toward savings
- 70-20-10 Rule
 - Spend 70% money earned
 - Save 20%
 - Donate 10%

When it comes to our spending you make powerful choices every day. From food to clothes to a mortgage payment, you not only have the power to spend, but also to save. To help you make the best decisions possible (and to keep you on your newly developed budget), take a moment to assess your money choices before you open your wallet.

When Should I Use My Emergency Fund?

- **Is it unexpected?** – When a sudden expense pops up, it can feel like an emergency—but that might not be true. Turns out Christmas happens the same time every year. (It's December 25.) And that semiannual car insurance payment? Well, you know that's coming too. If you're not budgeting ahead for these expected expenses, it's time to start. Otherwise you'll be tempted to use your emergency fund for something that's not an emergency. It's just poor planning. Unexpected needs can include:

- Job loss
- Pay cut or fewer hours
- Storm damage to your home
- Car accident repairs
- Emergency medical expenses

- **Is it necessary?** – Most of us would say we know the difference between a want and a need. But sometimes the line between the two gets a little blurry. For example, self-care is important. But a weekend getaway isn't necessary. Don't use your emergency fund for that. A good library book or a hike in the woods can be just as good for you. And both of those happen to be free.

- Needs include:
 - o Loss of reliable transportation
 - o Higher-than-anticipated tax bill
 - o Unexpected travel in time of family crisis
- Wants include:
 - o Upgrade to a nicer, newer car
 - o Latest iPhone or technology
 - o Last-minute vacation

- **Is it urgent?** – The more you answer yes, the more likely that situation you're in is an emergency and justifies using money from your emergency fund. Ever had an employer who said everything on your to-do list was urgent? Or been around a kid who needed everything right now? It's exhausting. And if you live with that attitude in spending, you'll soon exhaust your emergency fund. Don't do that; instead, practice the art of patience whenever possible. Here's some examples of urgent vs. not:

- Probably Urgent:
 - o Broken AC in the middle of summer
 - o Sudden, out-of-state move
- Can Wait:
 - o The sale of the century at your favorite store

Stay Motivated

You can stay motivated to stick to your budget by using the following techniques:

- **Visualize success.** Picture yourself where you want to be financially, or tape a photo of your goals to your computer or refrigerator.
- **Stay organized.** Pay your bills on time, set up an area in your home for money management, and have your budget on hand and refer to it often.
- **Be realistic.** Recognize that you won't achieve your goals overnight and that changing habits takes commitment.
- **Monitor progress.** Enjoy the process of watching your dollars grow. Marvel at your savings account each month – it is a real achievement.
- **Expect setbacks.** They happen. By knowing that they will eventually occur, you will be prepared and won't be tempted to abandon your dreams.
- **Reward yourself along the way.** Your hard work deserves recognition from the most important person: you!

What Are You Going to Do Now?

Keep the plan going! Decide now what specific tasks you will need to complete to achieve your goals.

What can you do today, in the next three months, this year? Mark your calendar with proposed milestones.

A well-developed budget is your springboard to financial independence. It will help you clarify objectives, organize your finances, refine spending, and attain those goals you previously only dreamed of. Success takes time. But by starting now, you will be that much closer tomorrow

Budgeting Worksheet

Our spending habits should match our priorities in life. This organizer helps us ensure that we're using income effectively and accomplishing goals!

Date: ____/____/____

1. Goals – List your financial goals.

Goals	Target Date	Total Needed	Current Savings	Savings Needed	Pay Periods Until Target Date	Savings Needed Per Pay Period	Savings Needed Per Month
Short-term Goals (under 1 year)							
Mid-term Goals (1-5 years)							
Long-term Goals (over 5 years)							
TOTAL MONTHLY SAVINGS NEEDED TO REACH GOALS ON TIME:							

2. Average Spending – Track current weekly spending using receipts/statements to understand your averages.

Item	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Expense Totals	Monthly Projection (total x 4)
Groceries									
Restaurants									
Laundry									
Medical/ Dental									
Auto/Gas/ Parking									
Other Transportation									
Child Care									
Personal Care									
Clothing									
Bank Fees/ Postage									
Streaming Entertainment									
Books/Music/ Videos									
Cigarettes/ Alcohol									
Gifts									
Home/Garden									
Church/ Charities									
Other									
Other									
Other									
Other									

3. Essential Expenses – Use receipts/statements and Table 2 to list average monthly spending.

Category	Expenses	Average Per Month	Goal Per Month
Housing	Rent/ Mortgage		
	2nd Mortgage/ Equity Line		
	Homeowner's/Renter's Insurance		
	Condo Fees/HOA Dues		
	Home Maintenance/Monitored Alarm		
	Lawn/Garden/Pool		
	Gas/Electric		
	Water/Sewer/Garbage		
	Internet/Cable/Satellite		
	Cell Phone/Landline		
Food	Groceries/Household Items		
	At Work/School		
Insurances	Health/Dental/Vision/ Life/Disability		
Medical Care	Doctor/Chiropractor		
	Optometrist/Lenses		
	Dentist/Orthodontist		
	Prescriptions		
Transportation	Vehicle Payment #1		
	Vehicle Payment #2		
	Auto Insurance		
	Registration		
	Gasoline/Oil		
	Maintenance/Repairs		
	Public Transportation/Tolls/Parking		
Childcare	Daycare		
	Child Support/Alimony		
Miscellaneous	Credit Card/Personal Loan Payments		
	Banking Fees		
	Union Dues		
Income Taxes	Federal/State Tax Repayment		
	Estimated Tax Payments (Self-Employed)		
Savings	Emergency		
	Goals		
MONTHLY TOTAL ESSENTIAL EXPENSES:			

4. Discretionary Expenses – Use receipts/statements and Table 2 to list average monthly spending.

Category	Expenses	Average Per Month	Goal Per Month
Personal	Beauty/Barber		
	Clothing/Jewelry		
	Laundry		
	Cosmetics/Manicure		
Entertainment	Movies/Concerts/Theater		
	Books/Magazines		
	Music Subscriptions/CDs		
	Dining Out		
	Sports/Hobbies		
	Vacation/Travel		
	Video Subscriptions/DVDs		
Miscellaneous	Tuition/Lessons		
	Pet Care		
	Postage		
	Holiday/Birthday/Gifts		
	Cigarettes/Alcohol		
	Charity/Religious Contributions		
	Other		
	Other		
MONTHLY TOTAL DISCRETIONARY EXPENSES:			

5. Income – List average monthly income, separating all sources.

Source	Yours	Spouse/Partner
Primary Employer		
Part-Time/Second Job		
Retirement/Pension		
Child Support/Alimony		
Social Security		
Food Stamps		
Unemployment/ Insurance		
Support From Family/Friends		
Rental Income		
Other		
TOTAL MONTHLY INCOME:		

6. Sustainability Check – Use the totals from the previous tables to check your budget's sustainability.

_____	-	_____	-	_____	=	_____
Total Monthly Income - Table 5		Total Essential Expenses - Table 3		Total Discretionary Expenses - Table 4		Surplus or Deficit

TIPS AND TRICKS:

- Be honest and conservative when planning
- Round income down and round expenses up
- Adjust goals as needed to find the right balance
- If left with a deficit, reduce discretionary spending before reducing goals
- If left with a surplus, consider accelerating your goals by saving more
- Refinance old and inefficient loans to save money - Talk with a Truliant specialist to discover your options!

[Click here to schedule your Personal Financial Checkup today for helpful guidance and more tips!](#)

Or contact us directly via email:
TruliantAtWorkTeam@Truliantfcu.org

truliantfcu.org/tawmembership

