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How Much Money Should I Have For Emergencies?

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A weekly question/answer column

How Much Money Should I Have For Emergencies?

Liz Gorham answers:*

The average savings for U.S. households was 6.8 percent from 1975 to 1991. In 1995 it was a mere 4.1 percent of disposable income. Insufficient funds set aside for emergencies can have devastating effects. As a general rule, financial planners and educators agree that a person should save three to six times his or her monthly expenses for emergencies. Consider these tips:

- Determine how much you spend per month. Examine billing statements and check registers and keep track of all purchases and bills for at least a month. Estimate the dollar amount for occasional expenses (i.e., 6-month insurance payments, birthdays or vacations), total these amounts and divide by 10 or 11. This allows for 1 or 2 months of not saving. Add this amount to your average monthly expenses, then multiply that number by three to get the minimum savings amount and by six for the maximum amount.
- Analyze your current savings. Pay yourself first rather than waiting to see how much is left over at the end of the month. Consider having funds direct deposited to a savings account. Shop around for interest rates on loans, since they can vary substantially.
- Examine where you keep your savings. Having more than one account at different institutions can discourage withdrawals for other than emergency purchases. Certificates of deposit earn a higher rate of interest than a savings account; however, you could lose interest earned and have to pay a fee if you are forced to make an early withdrawal. Consider having CDs with different maturity dates throughout the year.

To assist Utahns with their finances, USU Extension is launching a new program called MONEY 2000. This program encourages individuals and families to save and/or reduce debt by \$2000 by the year 2000. For a \$10 registration fee, participants receive a quarterly newsletter, savings and debt analysis and help in setting realistic goals. The fee also includes optional quarterly lectures or a home study course, access to a professional financial counselor, and opportunities to win prizes. Contact your County Extension agent for more details on MONEY 2000, beginning in Utah on October 1, 1997.

* Liz Gorham is Utah State University Extension Family Resource Management Specialist