SALISBURY BANK | enriching.

The Salisbury Bank Guide to Creating an Emergency Savings Fund

Whether you're living from paycheck to paycheck or comfortably established, financial advisors have lots of differing ideas on how to protect your finances…and one surprising point of agreement. Most emphasize that the first and most important thing to do (after meeting basic needs, and along with reducing spending) is to ***start an emergency fund.***

A June 2005 survey conducted by Experian reported that 41 percent of us have no emergency savings of any kind. Of those that do have "rainy day" savings, 31 percent report that it would sustain them for 3 months or less.

So let's assume that you want to be better prepared for a financial emergency. How do you go about protecting yourself?

What is an emergency fund?

An emergency (or contingency) fund isn't a few hundred dollars in your sock drawer – it consists of a substantial, accessible sum of money for use only in case of real emergency, such as devastating illness or death in the family, loss of a job, or other emergencies that couldn't be foreseen and require immediate payment. Some examples include:

- Your roof starts to fail, your boiler goes and your basement fills with water – all during the same storm.
- You discover that mold in the walls of your home is causing health problems in your kids, and need to remove it immediately.
- Your company downsizes and your job is eliminated.
- Your spouse's employer decides to eliminate overtime to cut costs.
- A family member becomes ill, requiring ongoing therapy and medication that aren't covered by insurance.
- You become involved in an auto accident, leaving you with both medical expenses and the need to buy a new car.
- You have to move to accept a new job and face moving costs as well as higher housing expenses in your new town.
- A grown child moves in with you, stretching your already tight resources.

People without emergency savings are likely to go into debt to meet these challenges – and it may be a long time before that debt is settled. It may feel like you can't afford to have an emergency fund, but the truth is you can't afford not to have one.

How big should your emergency fund be?

Although there is a general consensus that people need emergency funds, there is no magic number. Most experts advise setting aside three to six months' salary, but estimates range from $1,000 to a year's income.

In fact, this is a personal decision, based on your circumstances. As a rule of thumb, families with recession-proof jobs and plenty of insurance can probably get away with three months' expenses, while those in a volatile industry or with other potential "red flags" may need 9 months' to a year's worth of income. Some of the flags that may increase your risk include:

- Having only one wage earner in the family.
- Both spouses work in the same industry or same company.
- You are carrying a large mortgage on your house or are renting month-to-month.
- You have high-interest debt, variable-rate loans or balloon payments coming up.
- Your vehicles are beginning to need ongoing repairs, and you don't have a vehicle replacement fund (which is also a good idea).
- You are un-insured or under-insured.
- You have special-needs family members.

How do you get started?

It's crucial to put money away consistently, and tap it only for true emergencies. Fortunately, you don't need to come up with the entire fund at once. The important thing is to start somewhere, and soon.

Set aside a place, such as a savings account, where you can put money and not touch it. Then put in whatever you can

continued

manage right now. If you find it difficult to save money, the key is to start small; ***if your immediate goals are manageable you will have a better chance in reaching them.*** At Salisbury Bank, we have people who are saving as little as $1 a day. Others put in $10 or $20 per paycheck via direct deposit. If you start with $10, after a few weeks you won't even notice it's missing, so you can bump it up to $15 or $20. You will begin to get used to that money not being there and can continue to increase the amount.

The key is consistency. Treat your emergency fund as a bill, then pay it every month just as you would a utility bill. (A great way to make this happen is with automatic transfer from your checking account, or allocating part of your direct deposit. Salisbury Bank can set this up for you.) Once you've reached your goal you'll be in the habit of saving.

Ideas for jump-starting your fund

If you want to start out with a substantial sum, be creative in coming up with the money. Some ideas:

- Go through your attic, garage and closets and hold a tag sale or list the items on Craig's List or in your local Pennysaver.
- Agree among your family not to exchange gifts (or to exchange tokens) for one holiday and save the money you would have spent.
- Cash in all that change that's hanging around the house and deposit it in your savings account.
- Maybe you have a coin or football card collection in the closet that you're not sure what to do with – go online and find out what it's worth…then sell it on eBay.
- Spend a few hours sitting down with your cable, internet, telephone and cell phone bills and figure out what features you really need – you might be able to consolidate or even cut services (or eliminate a land line) and save money.
- Comparison shop for insurance, and consider increasing deductibles. Put the savings in your account.

Although it may be tempting to dip into your 401K to get started right away, don't do it! Tapping a retirement account for emergency funds is something you want to avoid unless there are no alternatives.

Where should your emergency fund be housed?

The next issue is where to save your money. Obviously, you don't want it in a volatile place such as the stock market. And it shouldn't all be tied up in a long-term account. On the other hand, making it too accessible can be a temptation (which is why you shouldn't keep it in your checking account.)

When you start your emergency fund, the easiest thing is to set up a savings account especially for that purpose. Salisbury Bank can work with you to make this happen. We can set it up in such a way that you can transfer money automatically from your checking account, or we can set your account up online to allow only transfers into your savings account but withdrawals must be made only in person. This way you are less likely to take money out of the account for other reasons.

Once you have two months of living expenses in a savings account, you may want to move one month's worth to a 30-day CD. (When the CD matures, roll the principal and interest into another 30-day CD). Continue making regular payments to the emergency fund account and eventually, you'll have another month of living expenses that can be used to invest in a 60 or 90-day CD. If you are opting to set aside six months of expenses, continue the process until you can comfortably invest in a six-month CD. Ask one of our branch experts about the right accounts for your needs and goals.

Salisbury Bank can help you get started

Saving money on your own takes a lot of discipline. But like most difficult things, it becomes easier over time. The peace of mind that comes from knowing you have financial resources for emergencies is definitely worth the sacrifices you make now.

We can make it a little easier by setting you up with an appropriate account, and helping with ideas for making it grow. Call or stop by any Salisbury Bank branch office and talk to one of our branch managers or customer service representatives.

Salisbury Bank and Trust Company

5 Bissell Street
Post Office Box 1868

Lakeville, Connecticut
06039-1868

t: 860.435.9801
t: 800.222.9801

www.salisburybank.com