

BUILDING AN EMERGENCY FUND

These days, it's more important than ever to put away an extra stash of cash...

You lose your job. Your car breaks down. Your air conditioner blows its last breath of air—right in the middle of a summer heat wave. You may even have a new baby on the way.

While many people think they're immune to a financial crisis, the type of situation described above could happen to just about anyone. That's why it's crucial—particularly in today's economy—to set up an emergency fund.

Here are some easy steps you can take to ensure that your finances will flow smoothly even when life gets a little bumpy:

1. Calculate your monthly expenses so you know how much you need to save. Many people have only a vague idea what their monthly expenses really add up to, but it's important to be aware of exactly how much you spend each month. This will help you plan for emergencies and will also help you evaluate areas where you can cut back on spending.

2. Determine your risk level. The rule often touted by experts is to build up an emergency fund that will enable you to pay three to six months' worth of expenses. But if your family depends on a single income, or if the economy is in particularly rough shape, you may need to save even more.

3. Now that you know how much cash you need to set aside for your emergency fund, start saving! If you haven't already set up a monthly budget, you may find it necessary to do so. This way, you'll know how much you're capable of putting aside each month and you'll also know immediately if you are on the verge of spending past your limits. If you're worried you may spend too much money on other monthly expenses and won't have enough left over for an emergency fund, try putting away your emergency cash as soon as you receive your paycheck.

While saving cash can be difficult, you'll be glad you made the effort to set up an emergency fund if you ever find yourself facing costly, unexpected disruptions in your life. So, start saving now. Your future may depend on it.

