



## **Tool** Creating an Emergency Fund

**The goal** *Precious treasure and oil are in a wise man's dwelling, but a foolish man devours it.* – Proverbs 21:20

In the Scripture noted above, Proverbs contrasts between a wise man's home and a foolish man's home. The difference between them is one has savings stored up and the other consumes all he has.

In the sections below, we will examine a few practical questions related to saving and using an emergency fund.

**How much should be in my emergency fund?** Most financial experts agree that an ideal emergency fund is about 3-6 months of expenses. With this in mind, it would be helpful to ask: how much would it cost to operate the necessities in my household for one month? You would then take that number and multiply it by 3 or 6. Those numbers may feel shocking and unattainable; if so, choose a smaller initial goal and get started!

## **What should an emergency fund be used for?**

The purpose of an emergency fund is to cover truly unexpected costs and unforeseen situations. This would include:

- Medical insurance deductible for an unexpected illness or injury
- Car/renters/homeowner's insurance deductible
- Unexpected home or car repairs
- Moving an aging parent into your home
- Supplementing a decrease in household income from an unexpected job loss
- Choosing to say "yes" to a significant ministry opportunity

A brief word on using the emergency fund for medical and car expenses—predictable, ongoing medical care needs would be better addressed as part your household budget. Additionally, typical car repair items (oil, tires) should also be included as part of your household budget.

## **Where should I keep my emergency fund?**

Your emergency fund should be in a separate savings (or money market) account that is accessible with no penalties (i.e. I would not recommend using CDs). However, you may want to set aside your

emergency fund at a separate bank that is not connected with your checking account. This can help ensure you do not use it to supplement everyday expenses.

## **What is saving for 3-6 months is not feasible or I'm paying off debt?**

Focus on saving \$1,000-\$5,000 as a “starter emergency fund” to have buffer between you and the unexpected. Many car/home/medical insurance deductibles fall in this range, so it protects well against the most common unexpected expenses.

Many people set aside at least \$1,000 while they are working through non-mortgage debt. This is to have some money set aside while still focusing on paying off debt. Once debt is paid off, you will then be able to add more to your emergency fund.

Be sure to talk with some brothers and sisters in your church family about your need to establish and fund an emergency fund. Ask them to pray. Give them permission to give you practical suggestions and frequent accountability.

## **How do I get started?**

Here are a few questions to guide your thinking toward the gradual funding of an emergency fund:

- What irregular income will I receive this year? Think about bonuses, tax refunds, and gifts. These should go straight to your emergency fund.
- What non-essential expenses can be reduced to save? Consider especially things like eating out, cable, purchasing expensive drinks, and going on pricey vacations. Drastically reduce these expenses until the emergency fund is complete.
- Are there realistic ways to increase my income? It may be possible to take on a roommate, downgrade to a more affordable car, or even find a better paying job.
- Should I make any “drastic” changes? If your non-mortgage debt is large and you have no emergency fund, perhaps you need to move in with a family member or church member temporarily, or sell your car and ride a bike, or get a second job for a short period of time.

## **Where do we find our hope and put our trust in?**

Christ has commissioned us to not to worry about our food and clothing and has promised that if we are his followers, he will take care of our basic needs (see Matthew 6:25-33). We should not let the lack of an emergency fund fill us with incessant anxiety. Our hope is in Christ not in our emergency fund. Nevertheless, without trusting in money, it is our responsibility to steward the resources entrusted to us.

Church, let's not put our hope in a full bank account, but rather trust in the Lord who provides not only our needs but with everything we have to enjoy. Set a goal for an emergency fund, enjoy the remaining resources God provides, and view all you have as God's good gifts.