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How much money should I keep in a savings account for emergencies?

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Question:

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Answer:

Many financial professionals suggest that you put away three to six months' worth of living expenses for emergencies. If you lose your job, or become disabled and don't have adequate disability insurance, you'll need that money to pay your regular monthly expenses, such as mortgage payments, insurance premiums, groceries, and car payments, until you can find another job. Without such an emergency fund, a period of unemployment could put your assets at risk. Similarly, if your car breaks down or your spouse has a medical emergency, you'll want to have the necessary cash to pay the bills. You don't want to be faced with an immediate need for cash, only to discover that you don't have any.

You may have already set up an emergency fund. Did you put the cash in a five-year certificate of deposit (CD) or other long-term investment? In an emergency, you will need to get at those funds immediately. You can certainly pull your money out of the CD early, but you'll pay a penalty. It's better to keep some funds more liquid, in a traditional savings account, a money market deposit account, or a six-month CD, for example. That way, the cash will be readily available when you need it.

Finally, keep your emergency fund separate from your everyday accounts. You might even want to use a different bank. Unless you are extremely disciplined, you'll be tempted to spend those extra funds if you keep them in your checking account. Remember, if you can put off an expense until next week, it is probably not an emergency.

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Advisory Services Offered Through Select Portfolio Management, Inc.

A Registered Investment Advisor

Securities Offered Through Securities Equity Group

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