Why We Need An Emergency Fund

Description



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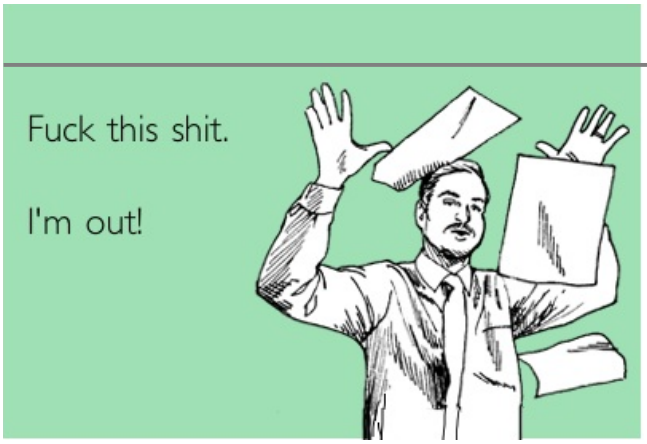
As a young 20-something, many of us often think weâ??re invincible. Emergencies? Disasters? Nah, wonâ??t happen to us. Even I am guilty of this. But today I feel the need to inform people the crucial importance of having an emergency fund, *even if you donâ??t think youâ??ll encounter any â??emergenciesâ?• anytime soon in the next few years.*

Why you should have an emergency fund starting NOW

1. You might lose your job / or want to quit!

Simply speaking, youâ??ll never know what might happen next. For our age range, the most likely possibility would be losing our job. Or even resigning from our job (which was what I did) and having to tide through a period with no employment.

I worked for a pretty screwed up company (you can read about them here). They recently had a mass firing exercise where many of my then-colleagues lost their jobs almost overnight, including my good friend from university whom I had recommended into the company when I got the offer back then. Some of them have yet to land another job yet. Without an emergency stash of cash, how do you tide over this?



Or what about if you decided you wanted to quit? For me, I am so incredibly thankful that I was able to spot the warning signs and left the company at my peakâ?¦before things started going down. As I already had 4 months of emergency savings at that point, I felt secure enough to quit and go a few months without a job if I was really unlucky. Fortunately, I was offered another job before I quit, so I didnâ??t have to tap into my emergency stash at all.

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2. Sudden hospitalization / Your pet / family member needs surgery

Iâ??m not sure about you guys, but my parents are fairly old and pretty soon Iâ??ll have to face the very bleak reality of worsening health and hospital visits. In fact, my dad has already been hospitalized at least 3 times in the last few years, and he has plenty of chronic long-term conditions including high-blood pressure and diabetes. Unfortunately, he did not buy into as much insurance as he should have, [redacted] rry that I

Name of Life Insured : [redacted]
Event Date : 17/03/2011
Reimbursement Period : 17/03/2011 To 15/04/2011

Benefits	Days	Limit($) S$	Per	Incurred($)	Payable($)
Intensive Care	29	No Sub-Limit		20,075.38	20,075.38
Miscellaneous Hospital Service	29	No Sub-Limit		50,036.55	50,036.55
Hospital Consultation	29	No Sub-Limit		21,058.40	21,058.40
Specialist Consultations	29	No Sub-Limit		1,022.92	1,022.92
Examination & Laboratory Tests	29	No Sub-Limit		11,472.48	11,472.48
Surgery	29	No Sub-Limit		14,319.40	14,319.40
TOTAL				$117,985.13	$117,985.13
Less Deductible					$3,000.00
Less Co-Insurance					$11,498.51
NET AMOUNT PAYABLE					$103,486.62

Breakdown of Claim Settlement :
(1) PARKWAY HOSPITALS SINGAPORE PTE LTD $103,486.62
-Payment will be made directly to the hospital

My friend

was hospitalized suddenly 2 years ago for bacterial meningitis, a brain infection that can lead to brain damage and even death. She survived the ordeal (thank goodness), but her hospital bills added up to $10,000 and as a college student, she barely had any emergency savings to speak of. Her boyfriend

had to step in to help, by organizing a fundraiser to get the money. You can read their sweet story here. That was truly a wake-up call for me, and I was reminded of the importance of hospital insurance as well as emergency funds.

If you and your parents are pretty healthy, perhaps your pet might be a more likely possibility. If your pet were to suddenly fall sick / require medical attention, it could cost anywhere from $150 â?? $20,000 to bring them to the vet and get the right treatment. Without an emergency fund, where will that money come from? Or do you just sit back and watch your beloved pet wither and eventually die, all because you didnâ??t have the money to save it?

3. Girls: You get pregnant / Guys: Shotgun wedding



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I have a few girlfriends who were suddenly forced into adulthood when they got pregnant unexpectedly. Most of them kept the baby, and while some remain unmarried, 3/4 of them went ahead with a shotgun wedding (amidst much gossip, of course).

Not everyone is as lucky as local blogger Tammy Tay, who got pregnant unexpectedly last year and decided to keep her baby. She said her boyfriend was â??stable enoughâ?• to support her and the baby. Lucky her!

Even if you were to abort the baby, you have to fork out anywhere from $650 â?? $2000 for the surgery. If you had an emergency fund, this could help. But what if you donâ??t?

How I got started on my emergency fund

My first â??emergency fundâ?• saw me saving aggressively from age 19 to 21, because I wanted to go on overseas exchange but my parents had no money to pay for it. (Thus it doesnâ??t really count as an â??emergencyâ?• since I foresaw it coming, but you get my drift).

But the real reason is in my background.



When the Asian Financial Crisis hit in 1997, my mother was retrenched from her company (a huge, prominent MNC with significant presence in Singapore). Thankfully, my father was spared, but suddenly living on just one personâ??s income was insufficient for our family of four. I watched as my mom called up friends and relatives to borrow money, but most were in similar states and could not help much. In the end, she had no choice but to borrow on credit from the banks in order to continue funding our familyâ??s living expenses.

Those were tough times. I was only a kid then, but I remember the stressed look that seemed to be permanently fixed on my momâ??s face throughout the day. It is difficult to lose your job, but even harder when you have kids to feed, a car to maintain and a house mortgage to pay off.

We ditched the car in the end (probably one of the best things they ever did). But it still wasnâ??t enough. Fortunately, when the crisis blew over in late 1998 / 1999, my mom was able to secure another job, and slowly she paid off all her debts.

I will never forget that period. And it made me realize from a very young age the importance of saving, so that when such unexpected events strike (and they often strike suddenly, without warning), you at least have a stash of cash to tide over the recovery period.

How much is enough?



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Most experts recommend 6 â?? 8 months of living expenses for your emergency savings as the maximum, but in reality, everyoneâ??s definition of â??emergencyâ?• can differ. Thus, it generally is up to you to assess your own life and think about the sorts of sticky situation you could potentially end up in and what this might mean on your finances.

For me, Iâ??ve capped my emergency savings at 6 months. Thatâ??s because I only foresee a few major emergencies in my life at this stage â?? my parents falling ill or me losing my job â?? which I hope will not happen anytime soon. Due to this, I believe 6 months is more than enough time for me to get a new job if I ever lose one.

Save too much and you could be missing out on the chance to earn more interest on your money elsewhere, like in investments.

How much is too much?

Thereâ??s no fixed figure, so Iâ??ll give my own personal opinion here. For me, I will never save more than 1 yearâ??s worth of living expenses, because I rather put that money to work for me in my investments. If youâ??re not really into investing though, then feel free to accumulate as much as you want!

Where should I keep my emergency fund?



In a biscuit tin can. I kid.

You need to find a place where you can withdraw your cash at any time (emergencies, remember?). I personally find the best choice would be a fixed deposit account, as it offers slightly higher interest rates than a savings account. You need a minimum of $1,000 to start though. Furthermore, Singaporeâ??s Deposit Insurance Scheme helps *â??protect depositors in the event a DI Scheme member fails by compensating insured deposits up to a maximum of S$50,000â?•*. You can therefore rest easy that your money will not disappear or get cheated away from you.

Youâ??re only 20-something. Why start talking about emergency funds and retirement so early?

I like the idea that I can quit my job anytime I want to, without worries. Iâ??m still building my part-time income on weekends, but at the moment, it is sufficient to cover my living expenses (yes you read that right, Iâ??m now saving 100% of my take-home pay from my corporate job compared to 50%++ last year!). My emergency fund is also sufficient to ensure that I can take a holiday anytime without financial worries either.



It does seem like a bit too early to start talking about retirement since Iâ??ve only graduated from university not too long ago. But I choose to spend less and save more with the end goal of achieving financial independence so that I never have to worry about not having enough money again (after experiencing this growing up). Retirement planning may seem a bit too early to many of my peers especially when itâ??s so far away, but the sooner I start, the easier it will be for me. Iâ??ve started on my investing journey and am actively writing my notes here in this blog as I go along, you can read my other posts on investing if you are interested to start saving and grow your money early for your retirement like Iâ??m doing.

What about you? Do you think an emergency fund is important? How much do you think is â??enoughâ?•? Iâ??d love to hear from you!

With love,
Budget Babe

Category

1. Bank Accounts
2. Savings