

Lesson 4

Study Questions and Action Steps

In this lesson, you've learned the importance of having a special fund set aside to pay for financial emergencies. You've learned to:

1. Set aside the equivalent of 3-6 months' worth of income in an **Emergency Fund**
2. Recognize the difference between "extras" and true emergencies
3. Put your **Emergency Fund** in the right kind of account

Study Questions

Question 4.1

What is the purpose of an **Emergency Fund**?

Question 4.2

Give some examples of things your **Emergency Fund** might have to be used for and some examples of things your **Emergency Fund** should never be used for.

Question 4.3

Roger and Susan never take out a loan to purchase an automobile. Instead, they start setting aside money in advance when they know they'll need to buy a car and they always pay in full with cash. In fact, Roger and Susan never use credit and never purchase any item they have not budgeted for and cannot pay for outright. Explain how this approach to making purchases benefits them.

Question 4.4

Why is it important to invest your **Emergency Fund** money in an account with a good rate of return, no minimum balance restrictions, and no penalties at any time for withdrawing funds?

Your Next Steps

You have been tracking your spending and setting your financial goals. Now it's time to open the accounts you need and actually start investing for your future.

Action Step 4.1

Set Up Your “Pay-Yourself-First” Investment Account

If you have not already done this, make arrangements to open your “Pay-Yourself-First” Investment Account. You can do this by visiting the financial institution where you currently bank, or you can use the Internet to find an established, reputable investment vehicle. Look for an account that will pay a high rate of return without risking the loss of your money. A term deposit or a cash management account will work well.

Another approach—especially if you are new to investing and unclear about the different kinds of accounts—is to talk with a financial advisor who can help you identify suitable investment options. But don't put this off. As you've already learned, even a short delay can make a difference in how much you can save over time.

Once your account is open, set up automatic deposits so you can invest consistently. If your employer can debit your paycheck and send the money directly to your investment account, make arrangements to do it that way. When it comes off the top of your paycheck like that, you never see the money so you're less likely to miss it. Also, when it comes off the top of your paycheck like that, you're not able to get your hands on the money so it's impossible for you to spend it on something else.

If you're self employed or your employer can't make the deposits, you'll have to do it yourself. Many financial institutions allow you to set up automatic payments to your creditors. Use that same system to set up automatic monthly or bi-monthly payments to your investment account. As you have already learned, consistent payments are one key to meeting your financial goals. So, set up your automatic payments so that they happen consistently without you having to remember to make them and in a way that prevents you from being tempted to spend that money elsewhere.

Action Step 4.2

Set Up Your Emergency Fund

Next, set up your **Emergency Fund**. Open a second account that has no minimum balance requirements and no financial penalties for withdrawing your funds. Arrange for automatic deposits into this account as well. Keep adding money to this account until it contains the equivalent of at least three month's worth of take-home pay. Six month's worth of take-home pay is even better.

Remember, this money will be earmarked for emergencies only. Do not dip into it when there's something special you want to buy. Instead, discipline yourself to let it sit there as your insurance against a crippling financial emergency. If you *do* ever have to use the money in this fund, be sure to replenish it as soon as the emergency has been handled.