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No Emergency Fund? Here's How to Start One—Fast

A job loss. A divorce. A dead transmission. Five ways to be ready.

Suzanne Woolley

WealthWatch

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Photograph: Getty Images

Who wants to save for an abstract, unhappy future experience that most people hope will never happen?

You do.

Sixty percent of households said they had experienced a financial shock in the past 12 months when the Pew Charitable Trusts asked in late 2014. Few were prepared, leaving them in even worse shape for the next shock. Some people just don't earn enough to save, but even the 10 percent of households earning more than \$100,000 a year have no cash earmarked as savings, according to a Pew report released today.

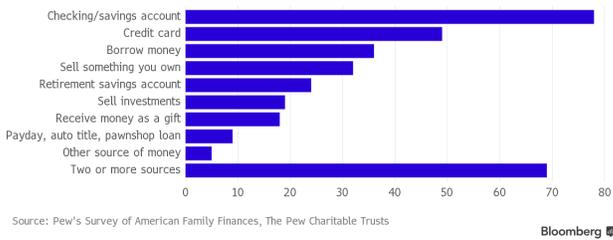
We get it. There are bills to pay, vacations to save for, loans to pay off, down payments to amass. And cash earns almost no interest today.

But you don't have to get caught flatfooted in a shock. Below are five ways to avoid some of the potentially

harmful financial moves revealed in the report. When Pew looked at where people plan to turn when they need to raise a big chunk of money fast, it turned out most plan to tap checking or savings accounts. That might not cover the cost, and indeed nearly 70 percent said they'd use "multiple resources." Forty-nine percent would turn to credit; 36 percent said they'd borrow from someone.

Where Households Will Raise Money to Meet a Financial Shock

The median cost of a household's most expensive shock: \$2,000. Given a month to raise that much, here's where people would turn. Forty-one percent don't have \$2,000 in liquid savings.



All forms of borrowing come with downsides. Credit card finance charges will add to the debt over time and make paying it off difficult. Borrowing from friends or family can get messy fast, depending on the relationship. Retirement savings should be sacrosanct, though taking a loan from a 401(k)—not cashing it out—is an option. One defensive move homeowners can make is to open a home equity line of credit. The interest rate is likely to be lower than that of a credit card.

Here are suggestions from financial planners for kickstarting an emergency fund and keeping it safe from all the fun things you could do with the money.

Look it in the face, now

The list of possible emergencies is long—dead water heater, major car repair, big medical bills, lost job. "I tell clients that an emergency fund is like your own insurance policy for your cash flow," said Scott Frank, of Stone Steps Financial in Encinitas, Calif. "The funds are available so that you aren't disrupted when life happens—and it will."

Cash can also act as a buffer between you and the financial markets. "If you have six to nine months of cash in an emergency fund, you don't need to be as worried when the markets go down," Frank said.

Isolate the money

This could mean opening an online savings account at a bank different from where you keep your main checking and savings accounts. Then you can't transfer the money as easily from an emergency fund into

checking.

Make that money untouchable. Don't get an ATM card or debit card.

Make it automatic

If possible, sign up for automatic paycheck deposit at work and funnel a set amount per month into the fund. If you're worried about the hit to your cash flow, start small and see if you miss the money. If you don't miss it, increase the amount a little and see how that feels.

If you really want your saving to be on total autopilot, there are online services that can help at [digit](#), or at [Betterment](#), if you want to use a robo-adviser. Based on the pattern of money going in and out of your checking account, the services [spirit away chunks of money](#) that they judge you won't miss.

Or create your own system

For those who don't like the idea of automatic deductions, one option is the "dollar per week of the year" approach. In week 1, you save \$1; in week 13, you save \$13, and so on. Amy Jo Lauber of Lauber Financial Planning, in West Seneca, N.Y., did this but in reverse, saving \$52 the first week. (The sum winds up being about \$1,400.)

Another way to get started is to challenge yourself to save \$500 or \$1,000 as quickly as you can, said Mark Beaver of Keeler & Nadler Financial Planning, in Dublin, Ohio. Once you've met that goal, set another short-term goal that can be met relatively quickly. Meeting a series of incremental goals can give you a sense of accomplishment and cheer you on to the next level, said Beaver. Even better: Take a windfall such as a tax refund or bonus to fund a reserve account immediately .

Use a Roth IRA as an emergency fund

It's smart for young people to contribute the maximum \$5,500 to a Roth IRA, said Rose Swanger, a planner in Knoxville, Tenn. That's because the Roth serves a dual purpose. You can save for retirement but also use it without penalty in case of emergency.

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Sales at retailers' brick-and-mortar locations suffered during the weekend after Thanksgiving as more shoppers skipped the malls and bought online.

About \$1.73 billion was spent online on Thanksgiving Day, a 25 percent increase from last year, according to Adobe Systems Inc. On Black Friday, about \$822 million was spent by 11 a.m., 15 percent more than in 2014, the company said. Brick-and-mortar sales fell from last year to \$12.1 billion during the two days, according to retail analytics company ShopperTrak, which didn't provide specific figures for 2014.

Retail observers say many of those online purchases are coming at the expense of trips to physical stores, costing merchants more in shipping and depriving them of the impulse sales they often make to shoppers wandering their aisles. Smaller-than-expected crowds turned out at shopping centers in North Carolina, where Jeff Simpson, a director at Deloitte Consulting LLP's retail practice, was monitoring the action on Black Friday.

"Across the board, much less traffic than was anticipated," Simpson said, without giving specific figures.

"Much, much slower."

Traffic Forecast

About 135.8 million Americans are expected to shop in stores or online over the four-day weekend, according

to the National Retail Federation, the largest U.S. retail trade group. While the forecast represents a 1.6 percent increase from last year, the NRF's projection has been overly optimistic in the past. Last year, its pre-Thanksgiving estimate was 4.8 percent higher than the actual turnout it found in its post-weekend shopping survey.

Simeon Siegel, an analyst at Nomura, said he saw decent crowds at the Westfield Garden State Plaza mall in Paramus, New Jersey, but still expected many of the shoppers to already have made purchases online.

“This day is going to be a disappointing day,” Siegel said. “If you have the right products you can win, but it's a tougher environment.”

U.S. online sales for Black Friday rose 21.5 percent from a year ago, with smartphones accounting for 44.7 percent of all online traffic, IBM Commerce said in an e-mailed statement on Saturday. Smartphone shoppers spent an average of \$121.06 per order, up 4.3 percent from a year ago.

Online Shift

With the continued shift to spending online in mind, retailers like Wal-Mart Stores Inc. and Target Corp. are putting more of their deals on their websites, or offering them over a longer period of time. Target has countered the increasing popularity of Amazon.com Inc. by providing free shipping and returns on holiday orders, while Wal-Mart plans to offer more than four times as many discounts as last year on the Monday following the Thanksgiving weekend, often dubbed “Cyber Monday.”

Amazon's Black Friday sales rose 20.8 percent from a year ago, the e-commerce tracker ChannelAdvisor said in a [blog post](#) on Saturday, slightly outpacing the 20.3 percent increase in overall comps for the day.

“Thanksgiving definitely was the fastest growing day of the Cyber Five thus far and indicates that consumers moved up their online shopping (and buying) this year,” ChannelAdvisor said.

But the weekend after Thanksgiving is still one of the busiest for U.S. retailers, who use the period to highlight their offerings. Target and Wal-Mart say they were expecting record turnouts.

“This is the big event,” said Cindy Hudson, Target's senior vice president of store operations. “We have a large team dedicated all year to helping pull off Black Friday.”

Command Center

As stores opened across the country starting Thanksgiving evening, a command center at Target's Minneapolis

headquarters received live video feeds from all of its 1,800 locations. There were also four regional command centers monitoring specific activity in their markets.

Inside the command center, workers glued to computer monitors and wall-mounted screens could view the lines outside stores to make sure they were orderly, that shoppers seemed happy and that customers were streaming into the stores at the right pace -- not too fast, not too slow. Inside the stores, live feeds at checkout lines monitored for interruptions.

Target said Friday in a statement that it had a “strong turnout” on Thanksgiving, without providing specifics. Gaming consoles, televisions and movies were among the top-selling items. The company also said it sold an Apple Inc. iPad every second throughout the day, on average.

Still, Deloitte’s Simpson saw less of a sense of urgency among consumers seeking deals. He scoped out pre-Black Friday opening crowds at three major retailers that he wouldn’t identify, and said the lines had six to eight people, far less than in previous years.

“It’s early,” he said, “but it doesn’t look great.”

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