

David Bach The Automatic Millionaire



Make Your Emergency Savings Automatic

by *David Bach*

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Some people worry about change, others prepare for it.

As an Automatic Millionaire, you should prepare. That way, when you hit a financial snag, you don't have to borrow against your future -- that is, ransack your retirement account or max out your credit cards -- to deal with the problem.

This week, I want to reemphasize how important it is to build a rainy day fund in order to be prepared. This is an emergency account designed to help you through those unforeseeable tough times.

Preparing for a Rainy Day

I always ask a simple question of my clients, students, and friends when helping them prepare for a financial rainy day. I call it the "Sleep Well at Night" test. You can take it right now to determine if you're ready for the kind of changes the real world can (and will) throw at you.

Ask yourself these questions: How much do my monthly expenses currently total? How much have I saved in a [money market](#) or [checking account](#)? How many months' worth of expenses can I cover?

So how did you do? If you want to know how you measure up, the average American has less than one months' worth of expenses set aside. With so little in savings for an emergency, it's no wonder personal bankruptcies have reached record highs in recent years.

There is a way to protect yourself from the financial uncertainties of life. How? By giving yourself a "cushion" of money for emergencies. I'm going to tell you how to build this [emergency fund](#) automatically.

1. Make your rainy day fund automatic.

You won't save for an emergency if you don't make the process automatic. Whether you set aside money into a [savings account](#), money market, or government bonds, you need to make sure that every time you get paid, some of your paycheck goes into the emergency account. As little as \$25 every two weeks will make a difference.

2. Get your emergency money out of your checking account.

Emergency funds attached to a checking account or an ATM card leave you open to using the money for things that aren't emergencies, like clothes or sports equipment. A real emergency is something that threatens your survival, not just your desire to be comfortable.

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3. Put it in the right place.

Not earning interest on your emergency money is almost as bad as keeping it under your mattress, but don't let the banks get rich off your savings, either.

Most people put their rainy day funds in savings or checking accounts. Why is this a bad deal? Because many savings and checking accounts pay little if any interest. In fact, these accounts can cost you money -- what with monthly fees, ATM fees, and so on.

Put your emergency savings into a [money market account](#) instead. It's a high-yielding savings account that pays reasonable interest. Right now, you can find money markets that pay over 3 percent interest, so it's the perfect time to get your money out of stagnate savings or checking accounts and into one that pays off.

4. Decide how big a cushion you need.

In order to be a real Automatic Millionaire, you need a cash cushion of at least three months' worth of expenses. Take what you estimate you spend each month, multiply it by three, and you've calculated your goal for emergency savings. Should you try to save more? No question.

Get the Most for Your Money

Interest rates are high enough to make your [emergency fund](#) pay off. Here are three ways to get a good deal:

Look online.

Currently, two of the highest-yielding savings accounts are online at [ING Direct](#) (4.35 percent) and [EmigrantDirect](#) (5.15 percent). Both of these savings accounts are FDIC-insured and have no fees, service charges, or required minimums.

Better still, you can have money automatically transferred from your [checking account](#) into these online savings accounts, so you avoid the temptation to otherwise spend it. These accounts take less than 15 minutes to open. Their interest rates are high because there's fierce competition for your assets, so see what other bargains you can find online.

Go to your bank.

Ask about competing offers at your home branch. National banks are competing with their online counterparts, so they may offer you a deal with a more competitive interest rate.

Invest automatically with government savings bond

This is a simple way to automate your rainy day fund. The government's [TreasuryDirect](#) provides an incredibly easy way to invest as little as \$50 a month (or \$25 if purchased electronically) automatically in two types of [U.S. savings bonds](#): [I-Bonds](#) and [EE Bonds](#), otherwise known as [Inflation Bonds](#) and Patriot Bonds. Through October, I Bonds pay 2.41 percent and EE Bonds pay 3.70 percent.

Start Saving Now

When you automate your rainy day fund, two things happen: You protect yourself so that you can handle anything that comes your way, and you'll pass the "Sleep Well at Night" test because you won't be living from paycheck to paycheck.

Remember, no amount is too small to get started -- even \$25 every payday will make a difference. So what are you waiting for? Go ahead, get started today!

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