

When To Use Your Emergency Fund - Transcript

Tom Mullooly: In episode 135, we cover some reasons to tap into that emergency fund, there's only a few. Stick around.

Welcome to the Mullooly Asset Management Show. I'm your host Tom Mullooly, and this is episode number 135. Thanks for tuning in.

We saw a question answered online on Morning Star and thought it was a good topic to cover. They talked about a couple of reasons why you would want to tap into an emergency fund. The emergency fund is not your savings pool of money, we want to be clear on that. It's also not your 401k. Your emergency fund is also not shares of stock. Your emergency fund also isn't the credit available on your credit card either. That's really important, and that's where a lot of people kind of run off the rails.

Your emergency fund should be a separate account, always separate. It should be hard to access, it should have like no debit card, it should have no online access. It shouldn't be sitting in a bank that's around the corner from your house, meaning, don't have that stash very accessible. It's going to be too easy and too tempting to tap into. Make it an account that you can get to, but it's going to take some kind of effort. We heard a story of someone who lives in North Jersey, they actually opened an account at a bank in Manhattan. The bank had no branches in New Jersey, so when he needed his money, he actually had to get in his car, drive to Manhattan, and get into the bank. That's a big deal, if the money's there but it's not very easily accessible.

So, what's it for? It's for a real emergency. Let me give you some examples. You have a water tank that is no longer working, you need hot water. You have some appliance that breaks down suddenly. Now, we all know that there are appliances around the house, you know that some of these things last for 20 years, you should be prepared for that. But if something breaks suddenly, you need to have access to some money to replace it quickly. You have a problem with your car, you need an immediate car repair because it doesn't go, so you need to get it fixed. You have to, another one, you have to take your pet to the vet. That could be a pretty costly visit. Or, this is one that comes up a lot, you have a funeral that you have to pay for or that you have to get to, you have to buy a plane ticket at the last minute, that's not cheap. You're going to spend maybe \$1,000 or \$2,000 just buying tickets on an airplane to get to a funeral. These are situations where a lot of folks will throw that bill on a credit card, and that is where the trouble starts.

So, how much should an emergency fund be? Remember, this isn't your savings account, so it's totally separate from that. In an emergency fund, you should have \$2,000, \$2,500. If you can stash more than that, great. But it has to be, like we said, hard to get to, hard to access, and for a real emergency, not a hair emergency or something like that. It's important to have this money because this is where good financial plans, as I said earlier, run off the rails. Something suddenly unplanned happens, a funeral where you've got to get from East Coast to West Coast, you need a round trip ticket, you have something that breaks down, your car, some big appliance at home, and it's totally out of the blue, this can't be coming from a credit card or from a savings account, a planned savings account. It needs to be that emergency stash.

That's going to wrap episode number 135. Thanks for watching, see you next time.