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BudgeFree for Life!

September 2008 Newsletter

Volume 1, Issue 5

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September 2008: Your Emergency Fund

Six months cash is an essential safety need. Not only does it bring short-term security in times of uncertainty, it's also a hedge that allows you to lower costs associated with other safety needs.

GivingGrinch.com interview: I had the pleasure of being interviewed by moneyreallymatters.com.

Read the interview and visit the blog: <http://www.moneyreallymatters.com/>

Experts tout the need to have a fund to cover living expenses in case of emergency, but how much is enough? In this newsletter we're going to answer three points:

1. Why six months cash is ideal
2. How to determine the amount you need
3. Some tactics you can use to trim three costly safety needs without negatively impacting your lifestyle

Why Six Months

This logic is based on the average duration of unemployment. Presently the average length of unemployment is 18 weeks – just over four months. This period can vary based on factors including where you live, your qualifications and willingness to relocate. Having six months cash gives you the flexibility and security necessary to make sound decisions during times of distress without having to tap other sources of credit, savings or assets.

How to Calculate your Six Months

Having enough in your emergency fund to ensuring you continue to live a balanced life is crucial. The checklist below will allow you to calculate your major physiological, safety and social expenditures. If you need a refresher on how the hierarchy works, click here: <http://www.givinggrinch.com/>.

Physiological Expenses:

- Mortgage/Rent
- Food
- Utilities: Electricity, Gas, Water
- Prescription Medicine

Safety:

- Health Insurance: Medical (COBRA?), Dental (optional), Eye (optional)



- Other Insurance: Auto, Home, Life
- Utilities: Phone, Cell Phone, TV, Internet, Home Alarm, etc.
- Transportation: Gas, Public
- Taxes: Property, School, etc.
- Education/Daycare/Childcare
- Debt Obligations: Auto, Credit

Social:

- Personal/Entertainment Fund
- Personal Care/Grooming

Need suggestions for how you can fulfill these and other categories for less? You can download our Master List of Budget Advice from either our website (www.GivingGrinch.com) or Blog (www.GivingGrinch.blogspot.com).

Buoy your emergency fund with this simple tactic

Finding the money to build an emergency fund is not easy. The tactic I'm going to discuss will help immensely. Once you have a couple months cash stashed away, you have enough to cover most short-term uncertainties such as family emergencies, auto accidents or other unanticipated events. This will provide enough security to pursue a strategy that will save a lot of money in another safety area – insurance.

Many people choose the minimum deductibles for their home, auto or health insurance. That doesn't mean you should. **An emergency fund provides a cushion to manage minor mishaps. With this buffer you can avoid high premiums by focusing your coverage on major catastrophes.**

Home Insurance

- According to the Insurance Information Institute (III), raising your deductible from \$500 to \$1000 can cut your premiums by 25%
- Combine your auto and homeowner's policy under the same company can reduce your premiums an additional 5-10%
- Review your policy; make sure the information used to estimate the reconstruction of your home is accurate.
- Call your provider and ask for a list of all the discounts they offer. Some discounts you may not be aware of: home security, new home, auto/home, non smoker and claim free.
- Shop around

Auto Insurance

- According to the III, raising your deductible from \$200 to \$500 can cut 15-30% off your premium. Increasing your deductible to \$1000 can bring up to a 40% savings
- Have an older car? Do the math on the premium you're paying for collision (damage) and comprehensive (theft) coverage. Insurance companies will only pay the vehicle's current resale value. To find out what your car is worth visit Kelly Blue Book at www.kbb.com. Compare the value with the amount you are paying annually for collision and comprehensive coverage. Consider cancelling this coverage if it's costing you more than the insurer

will pay or if you have enough cash on hand to cover the difference if your car is totaled

- Call your provider and ask for a list of all the discounts they offer. Some discounts you may not be aware of: low-mileage, longtime customer, defensive driver, anti-theft device, multiple car, passive restraints, ETF and home-auto discount
- Do you really need tow and rental car coverage?
- Shop around

Health Insurance

While it's important to be able to visit a doctor when necessary this is not the primary reason for having health insurance. The main purpose of health insurance is to make certain that you're covered against the high cost of hospital visits and specialty care. If you and the individuals on your plan are healthy, make infrequent doctor visits and rarely require prescription drugs consider the following:

- Co-Pay: Raise this amount if doctor visits and prescription medication needs are few and far between
- Deductible: Same as with home and auto, raising your deductible reduces your premium
- Health savings accounts (HSAs) or similar programs allow participants to set pre-tax dollars for medical related expenses.

Where should you put your emergency fund?

Keep this money safe and liquid, but not accessible for daily use. Saving accounts pay very little interest. Money markets offer a better return. You can also put a portion of your emergency fund in a CD where your principal is preserved even if you have to withdraw funds before maturity. Bankrate.com makes it easy to shop around for the best rate: <http://www.bankrate.com>.

The Bottom Line

Having an emergency cash fund to cover life's unexpected – and often untimely – events will not only bring you peace of mind; it will also open other avenues towards building a balanced life.

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