If there is one thing that anyone should learn to do, is start saving for an emergency fund.

Crises, no matter in what form or magnitude, will send you scurrying for money to meet your obligations.

If you think the chances of a crisis happening to you as remote as a tsunami happening in Malaysia, then think about company downsizing, road accidents or illness and permanent injuries, which can happen to anyone anytime.

So, what better way is there to prepare a fund to tide you over in times of need?

Apart from having ready cash, an emergency fund also prevents the use of credit cards that may charge interest as high as 18 percent per annum and push you into the debt trap.

To this, the Association of Chartered Certified Accountants (ACCA) lists several points to ponder as outlined in its guidebook on Personal Finance.

HOW MUCH IS ENOUGH FOR THE EMERGENCY FUND?

According to financial experts, the fund should be enough for three to six months of basic living expenses. So, it should be able to cover your rent or mortgage, pay the utility bills, buy food and pay the car installments for at least three months.

For couples with children, it is advisable to have a fund that lasts for six months. The reason is simply to meet the unexpected or unplanned costs, which may arise.

Other factors that you should consider before deciding how much to save for the emergency fund are:

- the insurance coverage;

- the possibility of securing a new job in the event of company downsizing;

- and the inflation factor.

If there is no insurance to cover the monthly salary in the event one ends up permanently disabled, then having more than the minimum amount in the emergency fund is a good idea.

And if it is difficult to find another job due to limited qualification and experience, then you may need to have a larger fund to rely on.

Finally, inflation factor must be taken into consideration. For instance, after 15 years, at a rate of three percent, your RM18,000 is only valued at RM11,400.

HOW TO START SAVING FOR AN EMERGENCY FUND?

But how to save for an emergency fund. Let's say your monthly take-home salary is RM3,000, the guide book on personal finance advises that you should pay yourself first by saving 10 percent of the amount or RM300 every month.

So, if you want to build an emergency fund that is worth six months of your salary (RM18,000), then you will need about 60 months or five years to meet the objective. However, the amount that saved depends on how concerned your are about the current and future financial prospects.

WHERE TO KEEP THE FUND?

While saving the money in the bank is the most sought after option, lets consider a few factors before deciding which account that one should keep the money.

Here are the factors:

Liquidity

Liquidity refers to how fast one can convert an asset into cash. And for the reason that it is an emergency fund, one has to make sure that the money can easily be reached when needed.

Thus, investing the fund in a residential property is not a good move as it is not a liquid asset and may take months or years to sell.

Low risk

Buying shares with the emergency fund is also not a good idea even though they are often more liquid than the real estate.

This is due to the fact that stocks are generally risky in nature and can cause losses if forced to sell at a time when the market price is less than favourable.

Easily available

The money must be somewhere within your reach but at the same time you must have enough discipline not to use the money whenever temptation arises.

If you are the type who have problems in managing cash at hand, then it's best to deposit the money into a bank.

Unlike keeping it in your own safe, cash in the bank is not easily withdrawn. Better still, do not carry your ATM cards in your wallet.

Apart from savings and current accounts, you also have the option to save money in fixed deposit (FD) accounts. However, certain charges are imposed if the money is withdrawn before maturity. Find out the charges and fees involved beforehand.

The ASB or Amanah Saham Bumiputra is another good avenue to save money. Besides savings, ASB is of low risk and gives excellent returns. It helps your emergency fund to make more money.

Interest Rate

Keeping money with the financial institutions earns interest. Banks have different rates for each category of deposits -- savings, current and fixed deposits. Of the three, savings offer the lowest and FD the highest.

It is best to keep your funds in an account that offers the highest interest rate.

Most importantly, to cultivate the saving habit, it is best to opt for automatic deductions from monthly salary and choose a bank that can arrange the service for free.

In conclusion, an emergency fund is important in helping you to carry on during times of crises. There is no better time to start that fund than right now. It is all for your sake and the sake of your loved ones.

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