

Emergency fund: What constitutes an emergency?

written by Dave Ramsey |

Dear Dave,

We've all our debts paid off, except for our home, and our fully funded emergency fund of six months of expenses is in place. In talking to people, it seems there are lots of different opinions as to what constitutes an emergency. What guidelines do you suggest when deciding whether to use our emergency fund?

Ingrid

Dear Ingrid,

There are three things to ask yourself when you're tempted to dip into your emergency fund. One, is it unexpected? Things like Christmas, birthdays and even certain bills come around at the same time every year. If you're not already budgeting for these things, it's time to start. Otherwise, you might use your emergency fund for something that's just the result of poor planning.

Number two, is it absolutely necessary? Most of us think we know the difference between needs and wants, but sometimes the line gets a little blurry. If your car goes completely kaput, and you need transportation, use your emergency fund to buy something affordable and reliable you can pay cash for. But don't dip into your emergency fund just to upgrade your good car for one with a million bells and whistles. That's a want, not a need.

And three, is it urgent? Sometimes, you have to act like a grown-up. Every idea that pops into your mind isn't unexpected, necessary or urgent. You can live that way if you want, but the result will be a quickly depleted emergency fund. Then, what are you going to do when a real emergency comes along?

Practice the art of patience. Avoid impulse buys. Urgent things include stuff like a broken air conditioner in the middle of summer, a busted transmission or sudden, unexpected medical expenses. A big sale at Wal-Mart? No. Concert tickets? Definitely not. That great new pair of shoes you just saw in a store window? Give me a break!

Your emergency fund is about long-term security, not instant gratification. Don't use it on a whim. But don't be afraid to use it when you really need to!

—Dave

Dave Ramsey is a bestselling author, personal finance expert and host of The Ramsey Show.