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What Are Emergency Funds? (Video)

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Unexpected expenses happen — whether it's a car repair, a medical bill, or a sudden job loss. That's where an emergency fund comes in.

In this video, Grimes & Company's Todd Herman CFP® and Matt Licata break down the importance of emergency funds and our everyday lives, including 1) what an emergency fund is and why it's essential, 2) where to keep your emergency savings, and 3) practical strategies to start building your fund — even on a tight budget.

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VIDEO TRANSCRIPTION:

Todd: My name is Todd Herman and I lead our financial planning group here at Grimes and Company. I'm here with Matt Licata, one of our financial planning associates to talk to you about emergency funds. The other day I was going through a quick study here on JP Morgan's guide to retirement specific to emergency funds. And I was surprised to see that

You know, a third of Americans pretty much have no emergency fund savings at all. So what on God's earth is this emergency fund and why don't a lot of Americans have one?

Matt: Yeah, that's a great question because the Emergency Fund is super simple. It's really for someone to be able to encounter these challenges that they face in life, like their car breaks down, you know, there's a there's a medical bill that arises. It's having that available cash to be able to cover such expenses and not having to tap into any investments or going into any debt.

If you're fortunate enough to not have anything catastrophic or bad happen in your life, kudos to you, that's not like many of us. But even if you are that person, having that money set aside can be really helpful in allowing you to sleep at night, knowing that if something does happen, you have some money prepared to take care of such expenses.

Todd: 65 % of millennials end up dipping into their emergency fund. So clearly the millennial generation is feeling the pinch here, so to speak. And so how do you keep it separate? What type of vehicle should these emergency funds be in so that it's clearly separate from your day-to-day cash flow?

Matt: For me personally, I keep it in a high-yield savings account allows you to earn about 4% and It allows you to kind of cover expenses when you need and not having to tap into to any debt or tax bearing investments.

Todd: What are some of the things that you do and maybe some of your friends, being part of Gen Z, can think about overall?

Matt: Make a little goal for every single week. That's kind what I've been doing, and it's been really helpful. It's thinking about that \$100 per week as opposed to maybe the \$400 at the end of the month. It just maybe feels a little bit better to start chipping away at it that way. And then before you know it, you're reaching that goal, whatever that may be, it's tough to put a number or value on that, that three to six month range, depending on where you are in life and what your situation is.

Todd: I mean, that is a great point. You know, there's no one set rule of thumb. Yes, we threw out three to six months, but it also takes into account, you know, behavioral finance and psychology. You know, if you only want to see your account at, you know, \$100,000 or maybe it's \$50,000 and, you know, regardless of your expense level, if it goes below those numbers, you need to replenish it. I'm not going to tell you that that's a bad idea. Obviously, we don't want to hold unnecessary amounts of cash, but I don't want you to stress out or clients to stress out at night because their cash flow or their cash savings is dwindling.

Thanks again, everyone, for watching this short little clip here. if you want to get in touch with myself, Todd Herman here, Matt Licata we'd love to talk to you about emergency funds and how our advisors here at Grimes can help you.

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