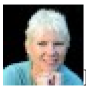
Women Need To Get Serious About Emergency Savings

Kerry Hannon,8/28/2013

Two years ago, I had a string of bad luck. First, I needed an operation to remove a small tumor. Then, my beloved Subaru Outback (with more than 120,000 miles) needed major repairs. And, most sadly, my colicky 13-year-old horse was rushed to surgery. She didn't survive.

The whole series of events packed a wallop — emotionally and to my wallet, to the tune of well over $5,000. Although I had health insurance, the steep deductibles and unreimbursed medical bills for my surgery came as a shock. I didn't have insurance to cover the horse's vet expenses, though. So those costs plus my car maintenance were all out-of-pocket.

Fortunately, I had savings stashed away to cover these unexpected bills. But many people don't — especially women. If you haven't built up a proper emergency savings fund, you'll probably be forced to pay rainy-day expenses by racking up your credit card debt, taking out a home equity loan or, worse yet, tapping into a retirement account. Not good.

The recent Women's Financial Survey from the Credit Union National Association revealed that roughly 59% of women age 45 to 60 don't have an emergency fund that would cover their expenses for even six months. Only a hair more than a third (36%) of women ages 44 to 53 do. And The Gender Gap GPS +0.54% in Financial Literacy survey released last year by Financial Finesse, a Forbes contributor and financial education firm in El Segundo, Calif., revealed that women are much less likely than men to maintain a rainy-day savings account.

Emergency Funds: Women vs. Men

In that study, only 43% of women overall reported having an emergency fund, compared with 63% of men. The gap was even wider between women and men age 55 to 64. Just 58% of women in that age group had an emergency fund, while 82% of men did.

I find this all pretty disturbing. Emergency savings are especially critical in your 50s or 60s, when life can really throw you a curveball, from losing a job to unforeseen home repairs.

Yes, I realize this is a tough time to find money to stash away. So I have two suggestions:

First, figure out how much cash you need to set aside for a rainy day. You've likely heard ad nauseum from personal finance gurus that an emergency fund should cover three to six months of daily living expenses.

But I think that's probably not nearly enough, especially for women in their 50s or 60s. With rising health care costs and the average length of unemployment now lasting about 60 weeks for workers 55 and older, I recommend salting away at least a year's worth of expenses.

"I find women are more comfortable with a large emergency fund," says Peg Downey, a fee-only financial planner and co-founder of Directions for Women, a financial advisory firm based in McLean, Va.

The size of your emergency savings should be relative to your particular situation, says financial planner Mary Malgoire of The Family Firm in Bethesda, Md. If you think your company is about to announce layoffs soon, a hefty emergency fund is more important than if, say, you're a tenured professor.

Next , decide where to keep your emergency cash. The key is that your rainy-day fund is in a safe, accessible place. "Liquidity and little, if any, chance of losing principal should be the most important drivers," says Roger Wohlner, a fee-only planner with Asset Strategy Consultants in Arlington Heights, Ill.

I couldn't agree more.

But Smart Money has noted that some people have been taking extra risks with their emergency savings lately, putting the cash in dividend-paying stocks and high-yield bonds in hopes of getting higher returns.

I prefer knowing that my emergency fund will be there when I need it, even if the money isn't earning much interest.

A money-market bank account. This is where I park my emergency reserves. My money-market account currently yields a measly .84%. But the money is federally guaranteed and I can withdraw it at any time without penalty. (Money-market mutual funds are uninsured and the top paying funds currently yield just .02% on average, according to Crane Data. So I'd avoid them; money-market accounts are safer and earn more.)

A high-yield checking account. You might earn more with this type of federally insured account than with a money-market fund. High-yield checking accounts currently offer between .01% and .85%, according to DepositAccounts.com, a firm that tracks banks and credit unions.

Just be sure to ask the bank about any restrictions before socking away your just-in-case money in a high-yield checking account. Most financial institutions require you to use the account each month, often by making 10 or more debit-card transactions.

A bank certificate of deposit. CDs are federally insured and some have higher yields than money-market accounts and high-yield checking accounts. Ones maturing in up to six months now pay as much as 1%, according to Bankrate.com.

But if you withdraw from a CD before it matures, the bank will typically assess a penalty, Wohlner says. The penalty could be an amount equal to a couple of months of interest, a percentage of the amount cashed out, a flat fee or a combination of those options.

Since you never know when you might need to tap your emergency savings, I suggest staying with CDs that will mature in one year or less.

I Savings Bonds. These inflation-indexed bonds, issued by the U.S. Treasury, are meant to be longer-term investments, so I'd limit them to a small portion of your emergency stockpile.

I Bond interest is exempt from state and local taxes and federal taxes are deferred until you redeem the bonds or when they mature in 30 years.

The downside: I Bonds typically can't be redeemed for 12 months after purchase. And if you redeem within five years, you'll lose your last three months' interest. They're also limited to $10,000 per person per year.

Just Do It

When it comes to emergency savings, my bottom line for women is this: Just do it.

You might be surprised to find that coming up with the spare cash isn't as hard as you think.

For instance, you could arrange to have your bank automatically transfer money each month from your checking account to a money-market account.

Or you might just have a little money sitting around that you could put to work. Last year, I dumped pocket change into a jar on my dresser, then poured all those coins on the floor and rolled them up in wrappers given to me by a bank teller. They totaled an additional $163 — and I stuffed the money right into my emergency savings fund.