How to Create the Worse Scenario Budget?

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*The article is contributed by **Dr. Malini Saba, Founder & Chairman, Anannke Foundation.***

Dr. Saba is a self-made Businesswoman with an extensive business background in international, multi-cultural environments and broad experience with highly engineered systems, which require a deep understanding of critical business drivers in multiple markets. Following her accomplishments in the corporate world, the Founder & Former Chairman Saba Group is now focusing on her philanthropic activities and issues close to her heart under the aegis of the Anannke Foundation.

Emergency strikes silently and we must be prepared. Whether it is a medical emergency, a major home repair, loss of job or any other unfortunate event, fate always favours the prepared - which is why it is important to have an emergency fund.

An emergency fund is a plan where you must save around 3-6 months (can be more) worth your salary in a separate account. For instance, if you earn Rs. 50, 000 every month, then your emergency funding should be minimum Rs. 1.5 lakh.

Note: An emergency fund should always be liquid in order for easy accessibility.

Here's how you can create your worst scenario budget.

Determine Your Monthly Spendings

Determining your monthly spendings is the first step to know when and how much money you can start putting away for an emergency fund.

Factor in the non-negotiable & necessary expenses like rent, groceries, utilities, EMIs, and recreation (you have to factor in some fun) to name a few. Consider it a spring cleaning for all those subscription services that you are still paying for but no longer required.

The remaining amount should ideally be transferred to a SEPARATE savings account. Retaining the money in the same checking account will lead to unscrupulous spending.

Study the Best Investment Opportunities for Your Emergency Fund

You now know the amount you can take out to build your emergency fund. While the money is there, it is just as important to have avenues to invest the said money for a greater ROI. Since most of the emergency fund should be liquid, going for a savings account with highest interest rates, with scope for bigger returns is vital.

Having said that, you can also try investing a portion of that emergency fund in a high-yielding stock or mutual funds. There are many platforms that not only give the access to invest but offer guidance that is best suited for your money and your long-term plans.

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Make Your Savings Automatic

Giving standing instructions to your bank is a great way to ensure that you save on an auto-pilot mode and not based on situations or emotions. Need to deposit money in your SIP? Give your bank the instructions to direct that portion of money towards your mutual fund provider.

You can also ask your bank to make a recurring transfer of a certain amount every month to your emergency fund account. This way, your money is automatically getting deposited into your savings without confronting the temptation to spend it.

You are more likely to save the money that you don't see in the first place!

Save Through Work

This is an extension of making your savings automatic.

In this case, while this money may not go straight to your emergency fund bank account, it can be another pillar for the building. The best way to save money is to divert it.

In India, we have a Provident Fund, which offers an attractive rate of interest all year round. While your employer deducts a certain amount for PF every month, you can place a special request to increase the deducted amount.

This way, that money is automatically saved into your PF account and since you never got to see it, chances are that you won't miss it either. Ask your employer for more clarity and options if required.

Track Your Emergency Fund

This is an important leg of the journey. Emergency fund is for serious life events - both good and bad. Taking some out of it for cravings and temptations defeats the purpose of an emergency fund.

You can track your expenses on several digital platforms that help you limit your spending and focus more on saving. Create one for your emergency fund - titled DO NOT SPEND or something on those lines to remind you that this saving is for emergencies only.

Even if you do end up taking some money out of it, keep a track of the same and try to replace that amount with double the capital.

What Should You Do With Your Emergency Fund?

Many experts believe that even with emergency funds, it is important to diversify to make the most out of this sizable amount.

Since the focus is to stay liquid, you can retain 70% of the fund in a bank account while 30% of it can be invested in liquid mutual funds.

The key is to ensure accessibility. This way you are allowing your money to make money and add substantially more to your emergency fund.

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Conclusion

Making financial decisions can be overwhelming, especially when you are saving for emergencies.

Take one step at a time, chart out the terms of your emergency funds (long term or short term), and ask for help, whether from your social circle or a certified financial advisor.