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Speaker 1

Welcome, I'm Andrew Baron, and this is Well… It Depends! The podcast where I address financial decisions that can't be answered with a simple yes or no. In this episode, I asked a question, Do I need an emergency savings account? But before we begin a short disclaimer, this is being recorded on December 5th, 2023. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice.

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Speaker 1

It's important to consult with a professional before making any financial decisions, as the strategies discussed may not be suitable for you specifically.

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Speaker 1

Getting into it. Do I need an emergency savings account? Well… It Depends! It can be easy to feel secure if you have a regular paycheck. And the thought might have crossed your mind whether you really need an emergency savings account.

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Speaker 1

Let's explore what that means. First, let's define an emergency savings account. It's typically regarded as 3 to 6 months of spending held in cash, so that is readily available to cover any unexpected costs or emergencies.

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Speaker 1

If you have a stable job. You might be wondering, why bother? And here's where things get interesting.

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Speaker 1

Factor one is job security. No job is 100% secure and an economic downturn, company restructuring or perhaps even your own health can lead to a change in employment status. An emergency savings account can act as a safety net under these circumstances. Factor two is unexpected expenses. Besides job loss, you may also incur surprise medical expenses, auto repair or home maintenance costs that exceed your regular budget.

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Speaker 1

Now, let's look at the other side. If you have significant investments, you may feel that having an emergency savings account is redundant and reduces your growth potential. And you're not entirely wrong. Cash doesn't appreciate as fast other investment options. But remember that drawing from your investment accounts can have negative tax implications. Or you may suffer a loss if the market has a downturn.

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Speaker 1

But what if you can rely on family wealth? This is commonly seen in younger individuals. And while it might sound like a solid backup plan, relying solely on family wealth has its drawbacks. It can lead to financial dependency. And in times of crisis, you might find that those assets aren't as readily available as you thought they were.

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Speaker 1

Also, consider the psychological aspect. Building up your own financial reserves can foster a sense of financial independence and responsibility and prevent you from living beyond your means.

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Speaker 1

To recap. An emergency savings account is a dedicated pool of cash that is set aside to handle life's unexpected events, such as job loss or surprise expenses.

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Speaker 1

While it may be tempting to rely on outside investments or family wealth. Remember that in an emergency, sometimes what you really need is cash. So to answer the question, do I need an emergency savings account? Well… It Depends!

Speaker 1: Andrew Baron, CFP®, EA