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# **Emergency Funds in Singapore: How** Much Do You Really Need?

Health & Well-being

#### by Lauren Dado

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If there's one piece of personal finance advice every Singaporean should follow, it's having a robust emergency fund. This is a pool of cash you are meant to keep in a savings account in case of job loss, illness, or other financial emergencies. We never know what the future has in store, especially with today's uncertain economy. It's critical to have some cash at hand and to be prepared for whatever life throws our way.

Building your emergency fund is also the first foundation for a healthy financial life and sometimes, you have to be comfortable with putting your finanical needs first so you can be capable of providing for your loved ones in times of need. Before you buy insurance policies, start a savings plan, or take up a mortgage, you need that safety net of cash in the bank. In case of a financial emergency, your cash savings can settle your monthly payments, and help you avoid penalties or lapses in your coverage so you can continue your daily activities without taking a pause.

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# What is an emergency fund for?



An emergency fund is your cash savings for "rainy days". It's not meant for investing or big-ticket expenses. This is readily available cash that will make life easier in case you lose your income or need to handle an emergency. Besides giving you the resources to manage the situation, this cash safety net also protects you from taking out loans or using your credit card to pay for the sudden expense.

Here are some situations where an emergency fund can be quite useful:

### Loss of income

Most people build an emergency fund to cover any loss of income, which includes getting retrenched, taking a paycut, or becoming too injured to work. With retrenchments, it may take several months before you find a new job, especially if you need to reskill in the process.

An emergency fund helps you keep up with your bills and other out-of-pocket expenses until your income stabilizes.

### Replacing electronics and appliances

Our work-from-home arrangements make laptops and smartphones more essential than ever. Should they break down or get stolen, an emergency fund allows you to replace them ASAP without making a dent in your budget.

The same goes for home appliances, which have been working round the clock since the start of the

pandemic. When your air conditioner, washing machine, or refrigerator breaks down, your emergency cash can cover out-of-pocket repairs or a total replacement.

### Health emergencies and accidents

It's critical to have cash for accidents and health emergencies, even if you have the right insurance plans in place. There may be instances where you need to pay cash up front before making an insurance claim, or perhaps where you need to urgently cover the costs for a close loved one, whose insurance information you may not have on hand.

Health emergencies can also be life-altering and inflate your cost of living. For instance, you may need a helper for several months, or do physical therapy. Having an emergency fund ready helps you pay for these additional costs, and gives you one less thing to worry about during your recovery.

# How much do you need in an emergency fund?



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Conventional advice says your emergency fund should make up 3 - 6 months of your salary. Where you fall on this spectrum depends on your circumstances.

If you are a single-income household or have many dependents, aim to save at least 6 months of your salary. If you are a dual income household, or a first jobber living with your parents, you can start with 3 months of your salary.

Meanwhile, freelancers and anyone with variable income should aim for more than 6 months' worth of income. It will be more challenging to project how much your monthly income will look like in an emergency scenario. Having more cash at hand will keep you stable in case projects get delayed longer than anticipated.

# How to build your emergency fund?

Building your emergency fund should be your number one financial priority, especially while you're healthy and earning a full-time income. Even if you're working part time or suffering from health issues, you should still aim to save part of your income for a rainy day.

The only exception to this rule is if you are paying off high-interest debts. Prioritize them first so you don't keep losing your income to interest.

Here's how to get your emergency fund started:

### Look at your budget

As a general rule of thumb, you should aim to save around 20% of your monthly income (after CPF) for emergencies. Create a budget around this amount so you can be consistent about your monthly savings. The more you save, the quicker you can reach your target amount.

In reality though, saving 20% of your income might be an unrealistic target, especially if you are juggling multiple financial responsibilities. Another way to get started is to take a hard look at your household expenses and discretionary income. See how much you can trim down from these to come up with a monthly savings goal that's right for your unique situation. Start by making a conscious effort to buy only necessary items and avoid everyday spending on conveniences, such as online purchases or food delivery services.

### Create other sources of income

Saving money can only get you so far, especially when there are other expenses competing for your income. A great way to boost your emergency savings is to create a **side hustle**. There is a wide variety of opportunities available, from monetizing your hobby to sharing your knowledge through tutoring or masterclasses.

It doesn't hurt to have more and having a second or third source of income keeps you better prepared to deal with emergencies when they arise.

### Keep your emergency cash in a separate savings account

An emergency fund is not meant for investing or growing your wealth. If you keep it in stocks or mutual funds, its value may drop by the time you need it. Withdrawing funds from investments also takes several working days, which might be too long for situations where payments must be made ASAP. Your emergency savings must be in cash, and you should be able to access it in a pinch.

At the same time, emergency funds should not be too accessible, so you don't get tempted to spend it on frivolous big-ticket purchases.

The best approach is to keep it in a separate savings account that's earmarked strictly for emergencies, so you don't risk spending it on non-emergency items.

### **Re-visit your emergency fund every 6 months**

Lifestyles, incomes, and needs change over time, and your emergency fund needs to keep up with these changes. Take a look at your emergency fund in 6 months to see if it's still enough to cover your needs. Then top up your fund if needed.

You might also want to revisit it when you get a raise, bonus, or some other windfall. Since this cash isn't normally part of your budget, it won't be too painful to top up your emergency fund with part of your windfall.



# How to use your emergency funds wisely

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Now that you have built your emergency fund, when would be an appropriate time to use it? A new pair of shoes or a Nintendo Switch doesn't cut it, no matter how desperately you want them.

Before dipping into your emergency fund, you need to set some rules and define what counts as an emergency.

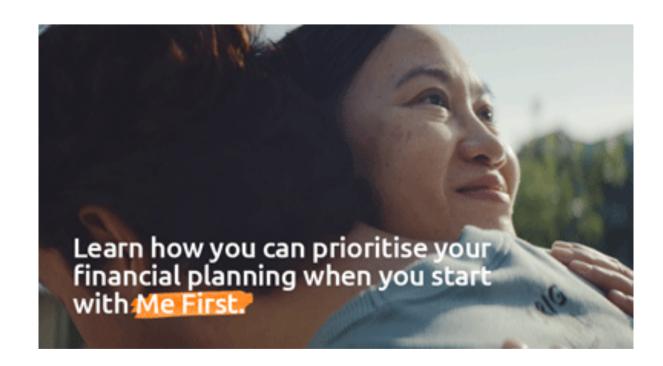
Here are some questions that can help you decide how to use your emergency cash wisely:

- What are the consequences of missing a payment? If missing a payment means getting in legal trouble, delaying a medical treatment, or taking a loan with interest, you should cover the shortfall with your emergency fund.
- Is it an urgent, unexpected situation? Nobody can truly foresee unfortunate events like accidents or a job loss. The best you can do is be prepared for them. When they happen, you need to make quick financial decisions and prepare for the gaps in income.
- Can you live with a lower emergency fund until you replenish it? You don't want to use most of it today, only to need more tomorrow.

# Start building your emergency fund today by putting your needs first

Having a robust emergency fund makes you ready to deal with whatever life throws your way. Don't delay getting it started, especially while you're young, healthy, and earning a regular income.

Once your emergency fund reaches the size where it should be, you have more wiggle room to start saving and investing for mid- to long-term goals. Until then, prioritize creating that safety net of cash so you can have a finanically independent future.



#### Important Notes:

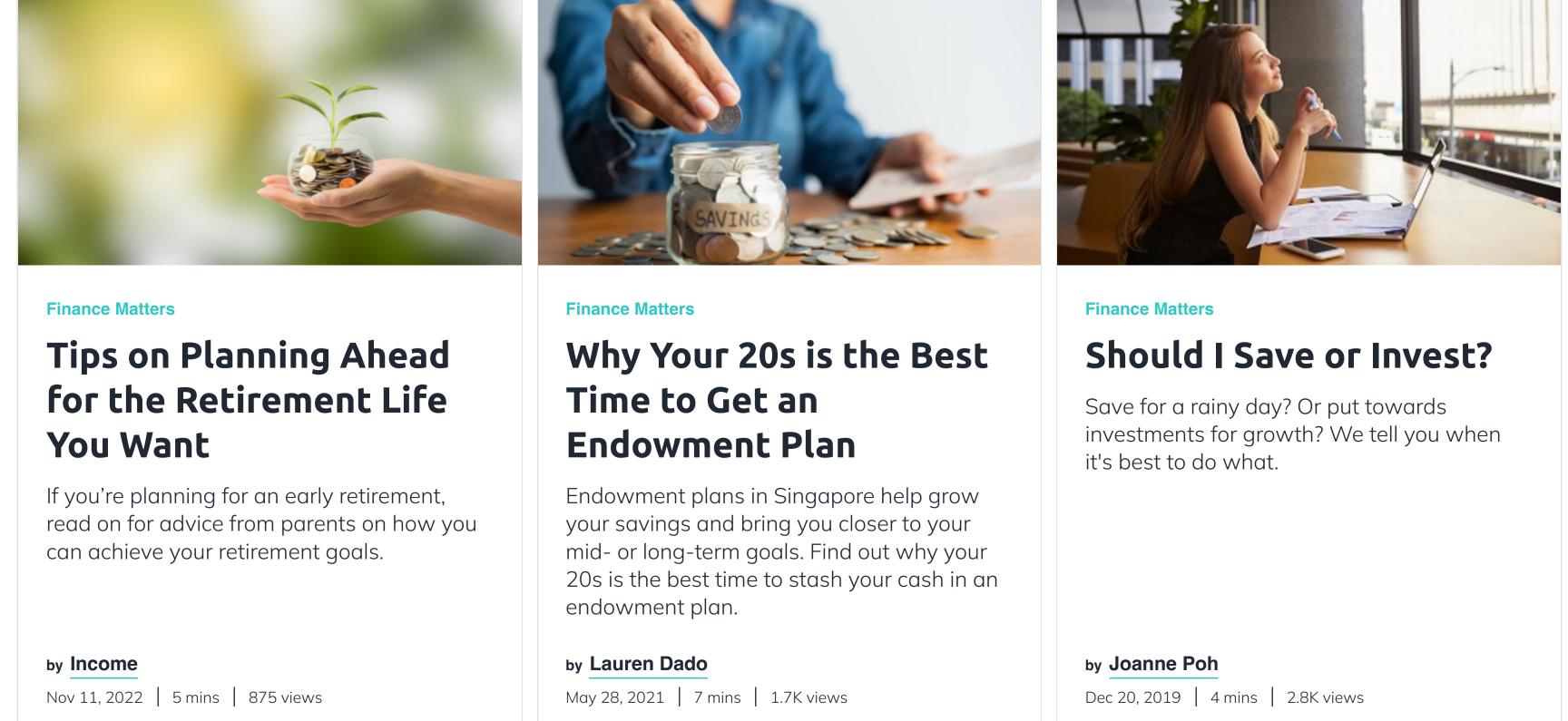
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