



# Preparing for a Financial Emergency

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PARTICIPANT'S GUIDE

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## Is It a Financial Emergency?

	Yes	No
You blow a tire and need to buy a new one.		
You slipped on your deck and you need to go to the ER.		
Your video game console breaks suddenly.		
Your furnace breaks in January.		
Your laptop breaks. You are a freelancer and need your computer to work.		
Your laptop breaks. You do not need your laptop for your job, but you enjoy watching movies on it.		

## The Cost of Common Financial Emergencies

1. What does the average person pay for a health-related emergency?
  - A. \$250
  - B. \$500
  - C. \$1,200
  - D. Trick question: health insurance covers all health-related emergencies
  
2. What is the average cost of an emergency home repair?
  - A. About \$1,000
  - B. About \$750
  - C. About \$500
  - D. About \$120
  
3. After an unexpected job loss, how long does it take the average person to get a new job?
  - A. 1–2 months
  - B. 2–3 months
  - C. 3–6 months
  - D. 6–12 months
  
4. An unexpected car repair has an average cost of approximately \$500. How many people do not have enough savings to cover this cost?
  - A. 1 in 100
  - B. 1 in 10
  - C. 1 in 5
  - D. 1 in 3

## Five Options for Covering the Cost of a Financial Emergency

### 1. High-Interest Borrowing

This includes payday loans, income tax refund loans, and high-interest credit cards. The problem with these options is that they come with high interest rates, which often costs you much more in the long run. And this interest is often compounding, which means you're paying interest on your interest.

### 2. Borrowing from Friends and Family

Another option during a financial emergency is borrowing money from your friends or family. While this may work, it also may put tension on relationships with loved ones. What happens if you can't pay the person back? What if the person you borrowed money from ends up in a financial emergency and needs the money back sooner than expected? Financial emergencies are stressful, and the last thing you need is additional stress put on relationships with loved ones.

### 3. Pawning Items

During a financial emergency, some people choose to pawn items. This could include pawning items at a pawn shop or using an auto title pawn. Selling items at a pawn shop may allow you to get cash quickly, but you often receive less than the true value of the piece, and you may later regret parting with valuable items. An auto title loan may also provide quick cash but could potentially lead to the loss of your car, creating an even worse financial emergency.

### 4. Overdrawing from Accounts

During a financial emergency, you may try to access any or all money you have available. Sometimes this means overdrafting your account, making late payments, or skipping payments. The problem with this approach is that it almost always costs you more in the long run.

Overdraft fees and late payment fees can quickly add up. Furthermore, late or skipped payments may hurt your credit score, which means you'll have a harder time getting credit cards, car loans, or mortgages later. If you do manage to secure these loans, you'll end up with higher interest rates, which means you'll pay more in interest.

### 5. Retirement Savings

The final option we'll look at to help cover the cost of a financial emergency is using your retirement savings. This includes taking out a retirement savings loan or liquidating some or even all of the assets in your retirement savings account. While this money may help you get through a financial emergency, these accounts often have early withdrawal penalties, and using the funds may jeopardize your retirement.

## Ranking Budgeting Techniques

While there are many budgeting techniques, budgeting is very personal. What works for one person may not work for another.

Rank the following techniques in order of how useful you think they would be for you. There is no right or wrong answer. This exercise is about thinking through which budgeting techniques are the best fit for you.

### Options

- Setting Reminders
- Envelope Method
- Budgeting App
- Cut Everyday Expenses
- Automate Savings
- Create Savings Goals and Timelines

### Your Ranking (from most useful to least useful)

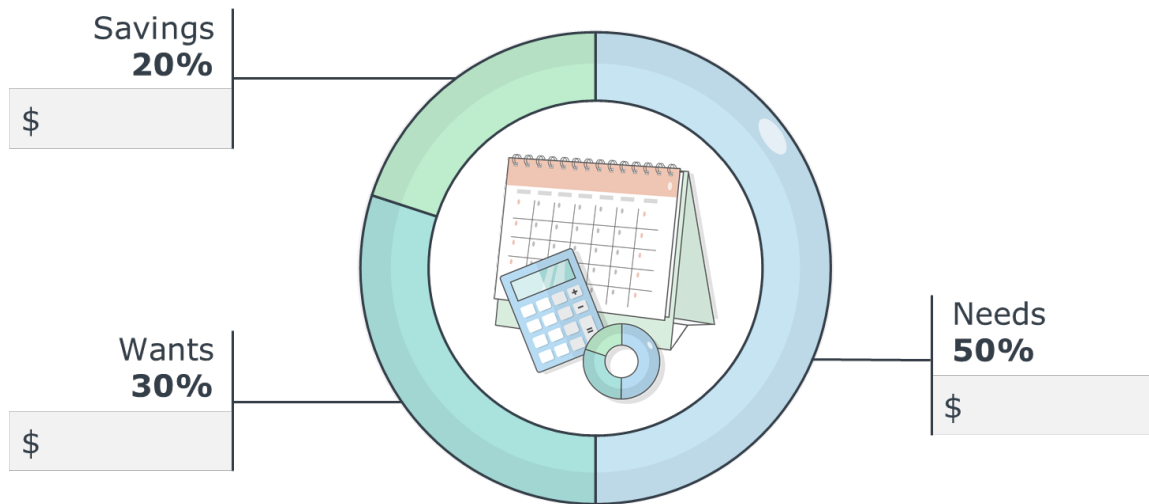
1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

## 50/30/20 Budgeting Rule

According to the 50/30/20 rule, no more than 50% of your after-tax income should go toward your needs (housing, utilities, health insurance, etc.); no more than 30% should go toward your wants (eating out, entertainment, hobbies, etc.); and at least 20% should go toward savings or debt repayment. Again, circumstances vary, but this rule is a useful tool for helping to create reasonable saving expectations.

Use the space below to figure out how much to spend while using the 50/30/20 rule.

Your Monthly Net Income \$ \_\_\_\_\_



## Financial Emergency Plan Worksheet

### Emergencies

What types of emergencies do you anticipate?

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What is the cost range for that potential emergency?	Emergency savings fund amount goal

### Budgeting

How will you successfully meet your monthly savings goal? (Include budgeting method.)

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Monthly savings goal	Time to reach an emergency savings goal

### Emergency Fund

How will you earmark your emergency savings? (Circle one of the following.)

- Traditional Savings Account
  - Establish a new one?
  - Use an existing one?
- Traditional Checking Account
  - Establish a new one?
  - Use an existing one?
- Other (be specific): \_\_\_\_\_

Date by which you plan to have an account opened: \_\_\_\_\_



## Debt Management and Price Shopping

Here are some strategies you can use to help decrease expenses during a financial emergency:

### Debt Management

- Consider transferring credit card debt to another credit card with a 0% interest rate. The best balance-transfer credit card is the one that offers the lowest transfer fees with the longest annual percentage rate (APR) promotion period.
- Consider refinancing mortgages or student loans when interest rates are lower.
- Research your individual debt management options by contacting your lender directly to see if they have any opportunities to help you manage your debt during your financial emergency.

### Price Shopping

#### 1. Transportation

Transportation is a daily expense that can add up quickly, which is why you may want to consider changing transportation options: for example, carpooling to work with coworkers, using public transportation, or biking. If your options for commuting are limited, you could also consider reducing transportation costs by working remotely. Many companies are allowing employees to work remotely more often. Using this option could save you money on gas and transportation expenses, as well as reduce your car insurance premiums.

#### 2. Insurance

Another area you may want to consider price shopping is your existing car insurance and health insurance. Changing car insurance may help save money on premiums, especially if your needs have changed. Changing health care plans could also save money. For example, high-deductible health plans may reduce monthly costs (though you may risk paying a lot more out of pocket if you have a health emergency). If you do decide to change your insurance, make sure the plan is still appropriate and meets your needs.

#### 3. Use Digital Technology to Find the Best Offers

Digital technology can help you search for and find the best offers available, which may save money. Before making an online purchase, conduct a quick search to see if you can find the same item at a better price through a different retailer, search for coupons or discounts on products or services you already use, or install an extension that automatically finds and applies any existing coupons to your online purchase.

#### **4. Reducing Housing Costs**

If you're renting, consider finding more affordable housing options once your lease is up—or, if you have an extra bedroom, consider getting a roommate. If you own a home, consider adding a roommate or downsizing.

## Tips for Freelancers

### Places to Look for Freelancing Jobs

**Traditional job search sites:** Job search sites such as [Indeed.com](https://www.indeed.com), [Simply Hired](https://www.simplyhired.com), [Monster](https://www.monster.com), [LinkedIn Jobs](https://www.linkedin.com/jobs), and [Glassdoor](https://www.glassdoor.com) may also offer freelancing jobs on their websites. You can also set up an auto alert on many of these sites so you will be notified when a freelance job in your field becomes available.

**Freelance job search sites:** Sites such as [Fiverr](https://www.fiverr.com), [Upwork](https://www.upwork.com), and [PeoplePerHour](https://www.peopleperhour.com) are geared specifically to freelancers. These sites are free for freelancers, and some offer tools such as the ability to showcase finished work and free learning courses to develop your skills.

**Creative staffing agencies:** These agencies work with you to find temporary, freelance, and contract jobs.

### Common Fields for Freelance Jobs

- Technology and IT
- Human Resources and Recruiting
- Editing, Proofreading, and Writing
- Administrative

### Develop Your Skills

Consider taking free or low-cost professional development courses online. Some examples of companies that offer online courses include [Coursera](https://www.coursera.com) and [Edx](https://www.edx.org).

## Protecting Yourself During a Financial Emergency

Protecting your finances, physical health, and mental well-being during a time of financial uncertainty is key to making it through in the best shape possible. The following six questions can help you think through various options for protecting yourself during a financial emergency.

1. Do you have a place to store your important documents so they are protected from damage (fire, water, theft, etc.)?
2. Do you have any form of income protection insurance?
3. If you lose your job, how will you get health insurance (COBRA, Medicaid, etc.)?
4. If you are faced with a financial emergency, how will you care for your mental health?
5. What sources of income could you use to build or replenish your emergency fund (extra income, income from side gigs, tax refunds, bonuses, etc.)?
6. Are there any ways you could adjust your budget to make it more flexible?

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