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PERSONAL FINANCE

A Maintenance Worker in Tennessee Wants to Build an Emergency Fund. Is It Doable?

A financial adviser has suggestions on how he can create a better financial safety net—and pay off some debt

By Lisa Ward

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Christian Norman's low spending is an asset when it comes to building up his emergency fund. PHOTO: JENNIFER NORMAN

Christian Norman wants to save more money each month to build up an emergency fund.

The 42-year-old, who lives in Kingsport, Tenn., is married and the couple keep their finances mostly separate. He is a building-maintenance worker and earns $52,000 a year, after receiving a raise recently.

Norman has about $4,000 in a savings account at a local credit union and $5,000 in a high-yield savings account with a 4.3% interest rate. In mid-December, he and his wife set up a high-yield savings account with a 4.6% rate. She is contributing $25 weekly and he is contributing $50 biweekly.

Norman owns his home outright, which is valued on Zillow at about $180,000. His only debt is about $1,200 in past medical expenses that he hasn't started to pay down.

Norman spends about $1,000 a month on groceries; $300 on eating out; $125 for entertainment, including subscriptions; $275 on gas; $500 on utilities—including electricity, water, trash and internet. He just rebuilt the engine for his pickup truck and spent about $700 a month the past few months on car parts.

His wife, who is a dog trainer, covers the phone bill, dog-related costs and some meals.

Norman currently doesn't have homeowners or life insurance. But through his employer he has health insurance that costs him $77 a month, and dental, costing $18 a month. His health-insurance plan doesn't cover his wife, but the dental plan does.

He pays about $1,000 a year for auto insurance, which covers one vehicle for his wife and three for him. All of the cars are paid off. Norman says he uses his vehicles for work and likes knowing that if one car breaks down he has a backup.

In early December, Norman withdrew about $15,000 from his IRA to help cover expenses, including medical bills. He recently was diagnosed with a heart condition and is concerned his health insurance might not cover all aspects of his care. He put $5,000 from the IRA in an 11-month certificate of deposit offered through his credit union that offers a monthly 5.37% dividend. His wife has a 401(k) through her job to which she contributes 5% of her income and gets an employer match.

Norman says his goal is to be able to cover "whatever unforeseen emergency is coming up next."

Advice from a pro

Joseph Doerrer, a financial planner at Mezzasalma CPAs in Tinton Falls, N.J., say it is possible for Norman to substantially boost his monthly savings and create a better financial safety net, especially now that he received a raise.

There are some unfortunate consequences from Norman's early IRA withdrawal. Doerrer says he will have to pay income taxes on all of the money he withdrew and should likely set aside money now for his tax bill and for any early-withdrawal penalty he might owe. Typically early withdrawals are hit with a 10% penalty, but amounts used for medical expenses can be excluded from that penalty if they exceed 7.5% of adjusted gross income, Doerrer says.

One of Norman's financial strengths is his low spending. While he is saving about $50 a month on average, Doerrer says, he should be able to set aside $250 to $650 monthly. He suggests Norman start with $250 and try adding a little the following month. He then should try to increase the amount each year.

The immediate goal is for Norman to have three to six months of expenses set aside. He recommends that one month, about $3,000, be kept in his checking account for immediate use as needed. The remainder should go into an online high-yield savings account. Having $10,000 in a high-yield savings account with a 4.5% interest rate would pay $450 annually.

Since Norman's biggest asset is his home, Doerrer says, he should get homeowners insurance. Since Norman has no major debt and no dependent children, he may be able to put off buying life insurance, assuming his wife isn't financially dependent on him, the adviser says.

Doerrer says Norman also should pay off his medical debt before it negatively affects his credit score. He thinks Norman likely has the monthly cash flow to repay the medical debt and cover homeowners insurance, especially if he initially keeps his savings goal closer to $250. For the medical debt, Doerrer suggests a payment plan rather than paying it off immediately.

Once Norman has three to six months of expenses in savings, Doerrer says, his monthly savings should go in a tax-advantaged retirement or brokerage account. His employer doesn't offer a 401(k). But he can start funding his traditional IRA again.

"With some minor tweaks," Doerrer says, Norman "has a very good chance of building up his savings significantly."

Lisa Ward is a writer in Vermont. She can be reached at reports@wsj.com.

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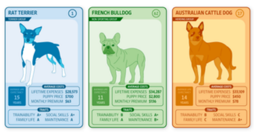

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