

# How to Protect Your Emergency Money From Yourself

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Retirement Rehab



To have comprehensive financial planning, you have to have a disaster fund. Some call it “emergency money,” but the concept is the same: It’s a pile of cash that you don’t touch. It can sustain you through job loss, major medical expenses, or financial collapse.

But when you actually have a disaster fund, it can be difficult to leave it alone. There’s always some financial issue you can easily solve by withdrawing a little. Then a little more.

That’s why you need to be serious about protecting your emergency money from yourself.

**Isolate Your Disaster Fund**

Keeping your emergency money at the same bank as your checking account is just asking for trouble. Transfers are just a click away.

That’s why I recommend setting up a new, isolated bank account as part of your comprehensive financial planning.

**Here are some factors to consider:**

## **Your level of paranoia**

Some people are more worried about isolating their disaster funds than others. For some, opening a separate account in their name is good enough. Others may consider going for a brand new bank or credit union and assuming a new identity. Security and flexibility will be your prime concern.

## **At home or offshore?**

You can look for a new bank you've never had an account with before in the US, or find options offshore. Just make sure you choose a stable, preferred jurisdiction.

If you do take your emergency money overseas, there are FATCA reporting requirements you must comply with (if your account balances exceed \$10,000). A lot of banks abroad don't like sending mandatory account reports to the US government, so they might not issue an account to an American anyway.

## **Debtor friendly states**

If you still have debt or your spouse does, consider setting up an LLC in a debtor-friendly state, such as FL, NV, TX, or WY. Then you can open up a bank account in one of these states to protect your emergency money. Preferably, have your spouse own the LLC to avoid the risk of lawsuit or judgement.

## **Interest rates**

Your disaster fund can help you earn more money in the process if you find a bank with the right interest rate. So take your time to shop around and compare your options.

Government controlled banks in Abu Dhabi or Dubai have high interest rates (think 2.5% in USD). Many SE Asian countries and Panama also offer great rates. You can also consider setting up a time deposit account, which are available in the Philippines. This is a high interest rate account, but only if the funds stay untouched for a predetermined period of time.

## **What about ATM fees?**

If you do open an account overseas, you'll have to face expensive ATM fees and exchange rates if you want to withdraw money. One option to get around this is by opening a Schwab brokerage account. These don't have any ATM fees.

If you're thinking you'll move abroad in the future, then consider setting up a household bank account in your destination country.

## **How will you access the funds if disaster strikes?**

You might think it's best to make it difficult to access money from your offshore account, but I don't agree. If disaster strikes, you'll want to be able to easily send wire transfers to yourself. Test out your options beforehand.

## **Set Some Ground Rules**

Now matter what steps you take to protect your emergency money from yourself, there are still hundreds of reasons you might want to access it. That's why one aspect of your comprehensive financial planning should be to set ground rules for when it's appropriate to access these funds.

Obviously, covering your monthly expenses isn't a good enough reason. Outline for yourself specific scenarios

where you should use the funds, such as:

Long-term unemployment

A life-saving medical procedure

**Here are some scenarios where you shouldn't rely on your disaster fund:**

- Down payment on a home
- Starting a new business
- A trans-continental move

One of the biggest challenges people face to achieve comprehensive financial planning is self-control. There are lots of ways to convince yourself to spend your emergency money (e.g. investing in a business venture with the prospect of a high return on investment).

But if you want to truly be protected and stay that way, set a high standard. Move your disaster funds to a top shelf account and avoid making excuses to access it.

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