What Is a Sinking Fund?

A named pile of money, built a little at a time, for a cost you already know is coming.

The plain definition

A **sinking fund** is money you set aside on purpose, a little at a time, for a specific future cost. The cost isn't a surprise — you know it's coming. You just don't want it to land all at once.

Think of the bills that arrive rarely but surely: car repairs and new tires, Christmas, a yearly insurance bill, a license renewal, back-to-school shopping. None of them are emergencies. Every one of them feels like one when it shows up and the money isn't there.

A sinking fund turns "a $600 bill out of nowhere" into "$50 a month, handled." Same money — completely different feeling.

How is it different from an emergency fund?

An emergency fund is for costs you *can't* predict: the job loss, the broken furnace in January. A sinking fund is for costs you *can* predict, at least roughly. Christmas comes every December. Tires wear out. Insurance renews. When a cost is predictable, it doesn't belong in the emergency fund — it deserves its own pile, with its own name and its own finish line.

How to size one: cost ÷ months left

The math is one division:

- **What will it cost?** Your best honest estimate.
- **How many months until it's due?**
- **Divide.** That's your monthly amount.

> Say Christmas usually costs you about **$480**, and it's **8 months** away. $480 ÷ 8 = **$60 a month** — and December arrives already paid for.
>
> Or say a **$900** insurance bill is due in **6 months**. $900 ÷ 6 = **$150 a month**. Still real money — but a planned $150 beats a surprise $900 every time.

And if the full amount doesn't fit your budget right now? Start smaller. Saving $25 a month for 6 months is $150 waiting when the bill comes — a half-built fund still softens the landing, and you can raise the amount when a check runs lighter. A fund you start today, imperfectly, beats a perfect fund you start "someday."

One fund, one job

Give each fund a single job and its own name: *Car Repairs*. *Christmas*. *Insurance*. Money pooled in one unnamed lump gets spent twice in your head — it feels bigger than it is, and it quietly gets promised to three different bills. Separate piles — separate envelopes, a separate account, or separate lines on a tracker — keep every pile honest. When the car fund says $240, it means $240 for the car, and nothing else is leaning on it.

Where the money sits

Where you keep a fund matters less than that it's named and tracked. Some people use cash envelopes. Some use a savings account with a list on paper of what each part of the balance belongs to. The tool doesn't matter; the name does. Money with a name has a job — and money with a job tends to still be there when the job comes due.