

Preparing for the Unexpected with an Emergency Fund

We've all experienced unexpected financial emergencies such as a fender bender, an unexpected medical bill, a broken appliance, a loss of income, or a damaged cell phone. Large or small, these unplanned expenses often feel like they hit at the worst times. Regardless if you have experienced an unexpected financial emergency or not, it is better to plan for this rather than have regrets after the fact! Setting up a dedicated savings or emergency fund is one essential way to protect yourself, and it's one of the first steps you can take to start saving. If you put money aside even a small amount for these unplanned expenses, you will be able to recover faster and get back on track towards reaching your larger savings goals!

According to a research study done in 2024, the majority of Americans say a \$1,000 emergency expense would be too great of a hit to their savings and that they could not afford it.

Could you afford this expense?



What is an emergency fund? Why do I need one?

An emergency fund is a cash reserve that's specifically set aside for unplanned expenses or financial emergencies. Some common examples include car repairs, home repairs, medical bills, or a loss of income. In general, emergency savings can be used for large or small unplanned bills or payments that are not part of your routine monthly expenses and spending.

Without savings, an emergency expense could set you back, and if it turns into debt, it can potentially have a lasting impact. Research suggests that individuals who struggle to recover from a financial emergency have less savings to help protect against a future emergency. They may rely on credit cards or loans, which can lead to debt that's generally harder to pay off. They may also pull from other savings, like retirement funds, to cover these costs.

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How much do I need in my emergency fund?

The amount you need to have in an emergency savings fund depends on your situation. Everyone is different and spends money differently. Try and think about the most common kind of unexpected expenses you've had in the past and how much they cost. This will help you set a goal for how much you want to have set aside. It is recommended that you have somewhere between three and six months of living expenses. This doesn't mean three to six months of your salary, but how much it would cost you to get by for that length of time.



How do I build my fund? Where should I keep it?

There are different strategies to get your savings started. These strategies cover a range of situations, including if you have a limited ability to save or if your pay tends to fluctuate. It may be that you could use all of these strategies, but if you have a limited ability to save, managing your cash flow or putting away a portion of your tax refund are the easiest ways to get started.

Where you put your emergency fund depends on your situation. You want to make sure this fund is safe, accessible, and in a place where you're not tempted to spend it on non-emergencies. A few options include:

- Bank or credit union account. This is generally considered one of the safest places to put your money. It might make sense to have a dedicated account where you can keep and maintain an emergency fund.
- Prepaid card. A prepaid card is a card that you can load money onto. It's not connected with a bank or credit union, and you can only spend the amount that's on your card.
- Cash. Another option is keeping money on hand for emergencies, either in your home or with a trusted family member/friend. Keep in mind that cash can be stolen, lost, or destroyed.

Strategy 1 to Building an Emergency Fund - Create a Savings Habit

Building a savings of any size is easier when you're able to consistently put money away. It's one of the fastest ways to see it grow. If you're not in a regular practice of saving, there are a few key principles to creating and sticking to a savings habit:

- **Set a goal.** Having a specific goal for your savings can help you stay motivated. Establishing your emergency fund may be that achievable goal that helps you stay on track, especially when you're initially getting started. Use our savings planning tool to calculate how long it'll take you to reach your goal, based on how much and how often you're able to put money away.
- **Create a system for making consistent contributions.** There are several different ways to save, and as you'll read below, setting up automatic recurring transfers is often one of the easiest. It may also be that you put a specific amount of cash aside each day, week, or payday period. Aim to make it a specific amount, and if you can occasionally afford to do more, you'll watch your savings grow even faster.
- **Regularly monitor your progress.** Find a way to regularly check your savings. Whether it's an automatic notification of your account balance or writing down a running total of your contributions, finding a way to watch your progress can offer gratification and encouragement to keep going.
- **Celebrate your successes.** If you're sticking with your savings habit, don't miss the opportunity to recognize what you've accomplished. Find a few ways that you can treat yourself, and if you've reached your goal, set your next one.

These tips will especially be helpful for someone who has a consistent income. If you know you have a regular paycheck or money consistently coming in, you can create a habit to put some of that money towards an emergency fund!



Strategy 2 to Building an Emergency Fund - Manage Your Cashflow

Your cash flow is essentially the timing of when your money is coming in or your income and going out (your expenses and spending). If the timing is off, you can find yourself running short at the end of the week or month, but if you're actively tracking it, you'll start to see opportunities to adjust your spending and savings. For example, you may be able to work with your creditors (like your landlord, utility companies, or credit card companies) to adjust the due dates for your bills, or you can use the weeks when you have more money available to move a little extra into savings. Managing your cashflow can be a helpful tip for anyone! This is an important first step in managing money, regardless of whether you're living paycheck to paycheck or have a tendency to spend more than your budget allows.



Strategy 3 to Building an Emergency Fund - Take Advantage of One-time Opportunities

There may also be certain times during the year when you get an influx of money. For many Americans, a tax refund can be one of the largest checks they receive all year. There may be other times of the year, like a holiday or birthday, that you receive a cash gift. While it's tempting to spend it, saving all OR a portion of that money could help you quickly set up your emergency fund! This tip can be helpful for anyone, but especially help those who have an irregular income. If you receive a large check from a tax refund or for some other reason, it's always good to consider putting all or a portion of it away into savings.

Strategy 4 to Building an Emergency Fund - Make Your Savings Automatic

Saving automatically is one of the easiest ways to make your savings consistent so you start to see it build over time. One common way to do this is to set up recurring transfers through your bank or credit union so money is moved automatically from your checking account to your savings account. You get to decide how much and how often, but once you have it set up, you'll be making consistent contributions to your savings. It's a good idea to be mindful of your balances, however, so you don't incur overdraft fees if there's not enough money in your checking account at the time of the automatic transaction. To help you stay mindful, consider setting up automatic notifications or calendar reminders to check your balance! This tip can be helpful for anyone, but especially those with a consistent income. Again, you can determine how much and how often to have money transferred between accounts, but you want to make sure you have money coming in. If your situation changes or your income changes, you can always adjust it.



Make it happen - Set a SMART financial goal for yourself!

Start by defining a specific amount you want to save (e.g., \$1,000), making it measurable by tracking monthly contributions, ensuring it's achievable based on your income, keeping it relevant to your emergency needs, and setting a time-bound deadline (e.g., six months). For example, "I will save \$1,000 for an emergency fund within six months by setting aside \$170 from my paycheck each month. To stay on track, I'll create a separate savings account and automate monthly transfers. This goal is achievable with my current budget and will help me cover unexpected expenses."