

Starting an Emergency Fund

Objective

To start an emergency fund to help you feel empowered about your finances.

What to Know

Do you have enough cash set aside to cover three to six months of living expenses? Having extra money available for emergencies is an essential component of your overall financial wellbeing. Yet many households barely make it week-to-week or rely on credit cards to get through. If your household struggles to pay expenses, you might wonder how you are supposed to start an emergency fund!

Having cash on hand for emergencies offers you peace of mind and less stress. A recent survey found 1 in 4 Americans have no emergency fund. If your car breaks down, an appliance goes out, your pet needs a pricey vet visit, or a sick relative needs your help—you might not know how you will make ends meet when faced with a large, unexpected expense. Having an emergency fund helps you feel empowered and decreases the likelihood that a major expense will negatively affect you.

Perhaps you want to start an emergency fund, but you lack the discipline to stay out of debt and save money each time you get paid. Even if you have good intentions, you might feel overwhelmed or discouraged.

The amount you need in your emergency fund depends on your family size, profession, lifestyle, and additional resources you have. Most experts agree you should have enough money in your emergency fund to cover at least three to six months of living expenses. If that seems impossible, you might want to set a goal of \$500 or \$1,000. Once you save your first \$1,000, you might feel so good you will set another savings goal. Then, once you meet that goal, you can set another one.

Note: If you owe consumer debt, pay off smaller amounts first, as quickly as possible. If it is a large amount, save \$1,000 in your emergency fund, and then begin paying more than the minimum amount toward the debt.

Even if you are starting from zero, regularly saving even small amounts of money will eventually allow you to have a substantial emergency fund. Here are nine tips to help you build your emergency fund.

1. Set small savings goals. Instead of focusing on saving three months' worth of expenses, try for one month. Or even two weeks. Make your first goal seem possible. Then when you reach your first goal, you will likely feel motivated to keep going. Set your second goal a bit higher. Eventually saving money will become a habit.

2. Start with small, consistent contributions. Set your first contribution level at a relatively small amount to avoid stressing your cash flow. If the initial amount is too large, it might be too easy for you to abandon your savings routine. Find something in your life you can live without,

or with less—and trim back a bit. Choose the amount—whether it is \$5.00 or \$100—and commit to saving that amount each week or per paycheck.

3. Automate your savings. Set up a separate emergency fund account and have your contribution amount automatically deposited. Use a savings or other type of account that you cannot easily access. Avoid constantly checking the account balance. Forget about it and let it grow.

4. Avoid opening new credit cards or increasing monthly spending. Once saving money becomes a habit, do not allow excess spending to creep in! If you still have extra money at the end of the month, perhaps your savings deposit amount is too low. If you run short each month and rely on credit cards to pay expenses, your savings deposit amount might be too high. Be realistic but try to reach your savings goal as quickly as possible.

5. Avoid devoting too much of your savings to the emergency fund. An emergency fund is cash you can quickly access—in an emergency. So, you are most likely storing it in a savings account that earns very little interest. Stop contributing to that account once you have reached your ultimate savings goal. Start depositing money into an account where it will start earning money on its own, like a retirement account.

6. Avoid buying things you do not need. Instead of money controlling you, control your spending. Having peace of mind beats any item you can buy.

7. Get expert advice. If you require accountability or expert advice, consult a financial expert or coach. Sometimes all you need is someone to offer you knowledge and encouragement.

8. Choose where to keep your emergency fund. Because emergencies can occur at any time, your money should be available and easy to access when you need it. Consider low-risk options like a savings or money market account. Be sure to keep it separate from your other accounts. If you mix your emergency savings with other money, it becomes easy to spend it on something that is not a true emergency. Instead, put away additional savings for non-emergency purchases.

9. Be firm about when you will spend your emergency fund. While emergency savings can help you cover basic expenses if you lose your job, an emergency fund can also help you pay for unexpected events so you do not skip paying bills, take out a loan, or max out a credit card—all of which can negatively impact your financial wellbeing. If you do tap into your emergency fund, replenish it as soon as possible so it is fully funded for the next emergency.

Once you consistently contribute to your emergency fund, you will find it becomes a habit. This worksheet will help you start an emergency fund to help you feel more empowered about your finances.

What to Do

First, answer the following questions.

What would having an emergency fund do for you? Explain.

What is one thing you can cut out or live without? _____

Can you contribute the money you would normally spend on this item or expense to your emergency fund? Why or why not?

How much would you initially like to save? _____

Ultimately, what would you like to accomplish?

Where will you store your emergency fund? _____

What are some obstacles to starting an emergency fund? Be specific.

What can you do to overcome those obstacles?

If you asked for help, did you find it helpful to receive feedback, support, or accountability? Why or why not?

How much can you commit to save each week (or each paycheck)? _____

Use the following chart for the next two months. Each week, record the amount of money you contribute to your emergency fund. Write down any obstacles you encountered. Note whether you withdrew and spent money from your emergency fund.

Week of	Amount Saved	Obstacles?	Did you spend money from your emergency fund? Y / N

At the end of two months, what is the balance of your emergency fund? _____

Did you automate your savings? Why or why not?

Reflections on This Exercise

How helpful was this exercise? _____

(1 = not very helpful, 5 = moderately helpful, 10 = extremely helpful)

What did you learn from this exercise that you did not know before?
