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Emergency funds: Your safety net

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An emergency fund is an easily accessible cash reserve, such as a savings or checking account, to cover unplanned expenses or emergencies. For some folks, just getting by is hard enough, but saving for an emergency fund should be an essential part of your short- and long-term financial future.

Here's why you need an emergency fund and how to start one.

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What is in this guide?

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- How to start an emergency fund
- How much should be in your emergency fund?
- Frequently asked questions (FAQs)

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Why an emergency fund is important

Having an emergency fund means you can weather a financial storm without borrowing money, whether that's taking out a large loan or putting a big purchase on a credit card. Both of those tend to carry interest, which means you'll pay back everything you borrowed and then some.

The less you need to rely on outside funding, the more quickly you can bounce back from a financial emergency. Recovering from a setback can take weeks, months or sometimes years.

You might want to establish an emergency fund to cover:

- Medical bills
- Car repairs
- Home repairs or renovations
- Essentials if you lose your job

How to start an emergency fund

- Think about how much you'll need:** In general, emergency funds should cover roughly three to six months' worth of expenses. That can seem like a lot, especially if you're already struggling to afford the basics. But how much you need is just a goal that can help you stay on track.
- Browse accounts:** You'll want an account you can move money from easily. This could be a [regular savings account](#), a [high-yield savings account](#) or even another [checking account](#). See if your bank offers any discounts or deals when you open a savings account, and compare them with high-yield savings accounts and their requirements.
- Make regular deposits:** Create a line item in your budget to essentially pay yourself by making regular deposits into your emergency savings account. Try to do this at least monthly or every time you get paid. Aim to save a specific amount, and then save more when you can afford to do so. Consider automatic transfers to your savings account to steadily build your balance.
- Check your progress:** After a few months of making regular contributions to your emergency fund, check your progress. Evaluate whether you can add more to your emergency fund. This might come from a bonus at work, or maybe you recently paid off some debt and have a little bit of extra cash each month. Make sure you continue to monitor your account balance and try to celebrate little milestones — those can encourage you to keep going.
- Set some guidelines for use:** Try to stay consistent with what qualifies as an emergency. But remember that your account is there when you need it. If you have an unexpected trip to the emergency room or even the dentist, those funds can cover the cost. If a pipe bursts or your car breaks down, don't be afraid to tap into your emergency fund. This is often a better idea than using a credit card or loan, which can cause a one-time expense to balloon because of interest charges and fees. If you drain your emergency fund, you can always work to rebuild it.

How much should be in your emergency fund?

There is no right or wrong answer about how much to save in an emergency fund because anything is better than nothing. The answer will depend on your wages and spending habits.

Generally, your emergency fund should have three to six months' worth of living expenses. That means enough to cover housing costs, utilities, debts, groceries and other essentials for that time.

Try making small goals to reach on your way to bigger ones. Let's say your long-term goal is to save six months of expenses in your emergency fund. Start by making one deposit and then getting to \$100. Set a goal to hit \$500 and then \$1,000.

This is already a lofty goal and more than a lot of folks have. Reaching small goals can help you stay the course as you build your emergency fund.

Frequently asked questions (FAQs)

- Can I use my emergency fund for nonemergency expenses?**
Your emergency fund is still *your* money, so you can use it how you see fit. But once it's gone, you should replenish the account. Consider creating multiple funds for different goals and needs, such as one emergency account and another for a dream vacation. You can contribute to both, and when you want to take that trip of a lifetime, you won't have to worry about tapping your emergency fund.
- What if I can't save enough for an emergency fund?**
- Are there any alternatives to an emergency fund?**
- Should my emergency fund be in a separate account?**

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