

How strong is your safety net?

An emergency fund can be your first line of **defense against the unexpected**

What is an emergency fund?

An emergency fund is money set aside to cover unexpected expenses, such as a major car repair, medical bills or a job loss. Having an emergency fund is important so that you don't have to pay for unexpected costs with expensive borrowed money, such as credit card debt, that can take years to repay at a high interest rate. With an emergency fund, you can feel more confident that a sudden expense won't harm your financial stability.

Life can be unpredictable.

Emergencies tend to come out of the blue. If you don't have the money on hand to cover unexpected costs, even a common emergency can create financial distress.



\$4,290

Cost of replacing a furnace¹



\$5,861

Average family health insurance deductible²



23 weeks

Average length of unemployment after a job loss³

Start saving today.

If you don't currently have an emergency fund, consider getting started right away. Though it may seem daunting at first, you can build up to your goal by:



Funding it with a tax refund or bonus



Adding a small amount every pay period



Prioritizing your emergency savings over other financial goals

How much do you need?

As a starting point, figure out what you would need to cover three to six months of living expenses for a single-income family or six to nine months for a two-income family.

Next, consider adjusting that amount based on your specific situation, including such details as:



Income stability



Size of family



Other available financial resources

When to use it.

Not all needs are true emergencies. Before tapping your emergency savings to pay for a bill, ask yourself these questions:

- Is it unexpected?
- Is it necessary?
- Is it urgent?

If you answer "yes" to each question, then your situation is a true emergency.

When not to use it.

Don't use your emergency savings to pay for expenses such as:



Vacation



Home furnishings



A new car



A wedding gift

For goals such as these, consider setting up a separate savings plan once your emergency account is fully funded.

¹ "How Much Does It Cost To Install A Furnace?" HomeAdvisor. www.homeadvisor.com/cost/heating-and-cooling/install-a-furnace/

² "How Much Does Obamacare Cost in 2018?" eHealth. resources.ehealthinsurance.com/affordable-care-act/much-obamacare-cost-2018

³ "Average duration of unemployment in the United States from 1990 to 2018 (in weeks)," Statista. www.statista.com/statistics/217837/average-duration-of-unemployment-in-the-us/

Emergency fund tips



Open your emergency fund with a bank other than the one you use for checking so that it's harder to tap for quick cash.



Hold your emergency savings in a stable account that can be accessed easily, when needed, without taxes or penalties.



Your emergency fund should be completely separate from other savings to help you avoid spending it on nonemergencies.



Set up direct deposit to your emergency account so that you make funding it a priority.



Replace any money you've withdrawn from your emergency fund as soon as you can.



Once you hit your targeted balance, direct new savings to your retirement fund or other financial goals.



Put your emergency fund out of mind so that you're not tempted to use it unless you truly need to.

Key takeaways

- An emergency fund is an account dedicated to covering unexpected urgent expenses.
- Even common emergencies, such as a medical bill or pressing home repairs, can cost thousands of dollars. An emergency fund can help you avoid borrowing money in these situations.
- If you don't already have an emergency fund, consider starting one right away and funding it before other nonessential financial goals.
- A good rule of thumb is to save between three and nine months of living expenses, depending on your personal situation.
- Keeping your emergency savings in a dedicated account, funding it with direct deposit and avoiding tapping it for nonemergencies can help it grow.

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