How Much Should You Have In An Emergency Fund?

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How do *you* handle unexpected financial crises? An emergency fund is a separate savings account, independent of a long-term savings plan, used to cover expenses in case of emergency. The funds are meant to act as a safety net in the event there's a dire situation you haven't budgeted for that requires a large sum of money. For example, unexpected medical bills, a major car repair or the sudden loss of a job may call for a dip into an emergency fund. While emergencies can't be avoided, you can try to be financially prepared at the very least.

How much should I save?

Depending on how difficult it is to replace your income quickly, you should have around three to six months of income and/or living expenses saved in an emergency fund. Evaluate the level of difficulty required to get a new job or replace your current income to estimate how many months' expenses to save.

Easy: Three months

Average: Six months

Difficult: Nine months

Very Difficult: 12 months

While the number you've estimated may seem like a daunting amount to save, setting a realistic monthly savings goal will help build up your total in no time.

TIP: Instead of using a CD or IRA that incur early-withdrawal penalties, use an account that is easy to access for an emergency fund. The point of having an account like this is to allow immediate access to liquid assets in order to cover your emergency expenses.

Single-income vs. dual-income

For those in a dual-income family, around a three-month emergency fund should suffice as a solid foundation, barring any high-risk circumstances your family may be experiencing. If one of you loses a job, the other can still provide financial support until the income is recouped. However, those who are single-income, self-employed or receive straight commission should default to at least a six-month fund to lessen instability in uncertain times. While these are just guidelines, it's important you and your family determine an amount that makes you all feel comfortable in the event of an emergency.

Impact of life circumstances

Another factor to consider when setting aside money for an emergency fund is where you and your family are in your lives. Some circumstances put you at higher risk for unexpected expenses. For instance, your health status, age, and family size are all factors to consider when building an emergency fund. Individuals who are elderly, first-time parents, have large families, work in a volatile industry, support aging parents, or are susceptible to health issues may need to consider a more robust savings plan for unexpected expenses, closer to at least eight months of income.

Don’t go at it alone

Building an emergency fund takes time and patience, but is an important strategy in your financial journey. If you’re looking for more information on building your savings for those unexpected moments, call us at 866.762.8392 or visit your local bank branch today.