What You Need to Know About Emergency Funds

One lasting effect of the pandemic was to show us clearly how devastating it can be to suddenly lose income and not have savings. And even beyond a true economic crisis like losing your job, lesser financial emergencies also happen: your car breaks, you need to travel unexpectedly, your smartphone takes a bath. Those, too, can really throw you off track.

So, whether you think of it as an emergency fund, a rainy-day account, a financial cushion, or an “uncertainty fund,” you need one. It’s one of the most important things you can do with your money. But exactly how much should you save in an emergency fund, and what do you do with that money? Here’s what you need to know according to Ellevest.

How much to save in your emergency fund

It is typically recommended that you set aside three to six months’ worth of your take-home pay for emergencies. That can feel like a really big number, especially if you’re starting from scratch

— and especially when you've got debt to deal with, too. So, if you're just starting begin small with one month's pay — call it a mini emergency fund. That will give you a bit of a cushion to protect you while you pay off high-interest debt. Then later, when you've dealt with your debt, you can return to your emergency fund and fill out the remaining two to five months' worth.

Three to six months is kind of a range, though, which is why deciding how much is right for you depends on two things: how much uncertainty you might have to face and your personal comfort level.

The more uncertainty you've got in your financial life, the bigger you're going to want your emergency fund to be. For example, if you're a single parent and own a fixer-upper, you're probably going to want to aim for closer to six months of your salary (or more). On the other end of the spectrum, if you've been in a steady, salaried job for a while, share finances with someone (like a spouse), and have no dependents and no mortgage, three months is probably a safe goal for you.

But, despite being in a stable, salaried job, and despite sharing finances with someone in a stable, salaried job, three months doesn't feel like enough security for you. In that case, save more! These are just guidelines, so do what feels best for you.

Once you're clear on your number, here are three things to help you get started saving up.

1. Make a spending plan that works for your real life. That's the best way to make sure you're prioritizing your money goals.
2. Work your way up, and set mini-goals along the way. Maybe your first goal is $1,000, and then one month's expenses.
3. Pay down high-interest-rate debt before you save more than one month's take-home pay. (Waiting too long to pay that debt off can really cost you. Plus, freeing yourself from minimum payments will help you save faster.)

Where to keep your emergency fund

This one's a biggie: Keep your emergency fund in cash — not literally cash under the mattress, but in an account that you can access quickly and easily. It's also recommended that you choose an account that's separate from your everyday accounts, or set up a secondary savings account and name it "emergency fund." That can help you resist the urge to tap into your savings for non-emergencies.

How to decide whether to use your emergency fund

- Definitely an emergency: Anything unexpected that you absolutely must pay for. You lose your job. You have unexpected medical bills. Your water heater breaks. You have to travel to see a sick loved one.
- Definitely not an emergency: Things you want but don't really need, or things that you could save up for. Think last-minute vacation plans or your annual insurance premiums.

Saving up three to six months' take-home pay, in cash, for emergencies only, is one of the easiest steps you can make if you want to take control of your financial future.

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