

# Emergency Savings Fund

Why you should have one and how to get started

Regardless of your debt situation, having an emergency savings fund is critical to your financial wellbeing. Unforeseen expenses can arise in many different forms: medical costs, home/rent expenses, pet emergencies, auto expenses, unexpected travel plans, or unforeseen unemployment. Those who have experienced a large, unpredicted expense can tell you one of two things: how difficult it was to deal with that unforeseen expense, or how happy they were to have an emergency fund.

## What's an Unforeseen Expense?

Many expenses may be irregular, but you can still predict these costs and plan for them. Examples include holidays, birthdays, vacations, updating appliances, or car maintenance. On the other hand, unforeseen expenses are unpredictable and unavoidable. Examples include: living expenses for several months after you lose your job, unexpected medical bills not covered by health insurance, or a plane ticket and accommodations for an unexpected funeral.

## How an Emergency Fund Helps

An emergency fund gives you financial confidence and helps to withstand unforeseen expenses. Without one, you may have to resort to high interest loans (such as title loans or credit cards), take withdrawals from your retirement savings, or rely on family or friends. An emergency fund helps you avoid financial stress during events that are already stressful.

## How Much Should You Set Aside for Your Fund?

Experts often recommend having at least a \$1,000 emergency fund. Another general rule of thumb is three to six months of take-home pay for your household. Consider having enough saved to cover your various insurance deductibles. For example, imagine a tree falling on your driveway, injuring you and damaging your home and vehicle. Do you have enough saved to cover your health insurance deductible/maximum out-of-pocket expense, your homeowner's insurance deductible, and auto insurance deductible, as well as living expenses if you end up out of work for a significant amount of time?

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## Where Should You Keep Your Emergency Fund?

Emergency funds should be separate accounts earmarked for unforeseen expenses as described on the previous page. Emergency funds should not be commingled with checking accounts or other savings accounts (vacation funds, or college savings). Consider opening a separate high-yield savings account with your bank or credit union for your emergency fund.

## How Can You Get Started Building Your Emergency Fund?

Consider applying unexpected money to your savings, like tax returns, bonuses, cash rebates, or government stimulus payments. Another simple way to build your emergency fund is to have a set dollar amount automatically transferred from your checking account to your emergency fund account at regular intervals. Once you have this process set up, you can “set it and forget it” while watching your emergency fund grow. Even small amounts can add up over time, so don’t ignore the power of even small contributions.



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