

It's time to get your savings in shape—and having an emergency fund in place is a solid step toward a fit financial future.

Fitting an emergency fund into your budget can be confusing, though. How much should you save, exactly? What kinds of situations should it be used for? How is it different from your regular savings categories? See the full rundown below.

6 STEPS TO BUILDING AN EMERGENCY FUND

STEP 1

START ONE

WHO? Everyone!

WHY? Life is unpredictable, and all it takes is one obstacle to derail your financial routine. An emergency fund minimizes the stress and damage caused by surprise expenses.

REALLY? Yes, really! Not having an emergency fund can turn your initial emergency situation into a cycle of debt that's difficult to break out of.

STEP 2

KEEP IT CLOSE

HANDY Your emergency fund needs to be accessible, so when it's needed, you can get to it fast.

SEPARATE Keep it in a separate savings account so you won't be tempted to spend it. An interest-bearing savings account is the perfect place for your emergency fund. To allow your emergency fund to grow over time, look for a savings account with a decent interest rate, no monthly fee and no minimum balance.

STEP 3

GET TO KNOW YOUR UNKNOWNNS



UNKNOWN UNKNOWNNS

Unknown unknown expenses are the expenses that are truly unpredictable. You don't know when they will happen, what they will be or how much you'll need.



Unknown unknowns are the motivation for creating an emergency fund.

EXAMPLES

- Sudden unemployment
- Health emergencies
- Accidents
- Bereavement travel



KNOWN UNKNOWNNS

Known unknowns are expenses that are somewhat predictable. You don't know exactly when they will happen, but you know that it's only a matter of time.



Known unknowns should be budgeted for separately, outside of your emergency fund.

EXAMPLES

- Major car repairs
- Pet care
- Home repair
- Replacing a major appliance

STEP 4

DEFINE EMERGENCY

SITUATIONS The term "emergency fund" brings to mind very drastic situations—car crashes, illnesses, job loss—but emergencies come in many different forms. Any situation that threatens your cash flow is appropriate for your emergency fund to step in and handle.

SUCH AS Being out of work for an extended period of time, needing to take care of a loved one, waiting for an insurance reimbursement.

STEP 5

CALCULATE YOUR GOAL

Most financial experts suggest that you have at least six months' worth of expenses in your emergency fund. Track all of your expenses for a month or two to figure out how much money you will need to get by, and then use this chart to help you zero in on the ideal size for your emergency fund.

Monthly Expenses	Emergency Fund Size
\$ 500	\$ 3,000
\$ 1,000	\$ 6,000
\$ 1,500	\$ 9,000
\$ 2,000	\$ 12,000
\$ 2,500	\$ 15,000
\$ 3,000	\$ 18,000
\$ 3,500	\$ 21,000
\$ 4,000	\$ 24,000
\$ 4,500	\$ 27,000

STEP 6

STICK WITH IT



SMALL STEPS

Six months of expenses is an intimidating target. Set incremental benchmarks—\$500, then \$1,000 and so on.



PATIENCE

A healthy emergency fund takes time to build. Be patient, keep reaching for that goal and only touch it if there's a true emergency.

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Sources: Get Rich Slowly, Investopia