



## Emergency Savings Account – A WISE Investment

Life is full unexpected emergencies and expenses. No matter your age or income, everyone needs an emergency savings fund. According to the Transamerica Center for Retirement Studies, having emergency savings to cover unexpected major financial setbacks could help workers avoid dipping into their retirement savings. However, workers have only \$5,000 (median) in emergency savings, with 29% reporting having less than \$5,000<sup>1</sup>.

Due to the decrease in consumer spending caused by the COVID 19 pandemic, the personal savings rate hit a historic high of 33% in April 2020, according to the U.S. Bureau of Economic Analysis. Now is the time to re-assess your finances and find the funds to set up an emergency savings account. Planning ahead is key to being prepared for the next financial bump I the road.

Lets begin with the basics:

### What is an Emergency Fund?

An emergency fund is cash that is easily accessible *only* in case of an emergency. Unexpected financial events can come in many forms. Here are some of the top emergencies people face:

- Job loss/pay cut
- Medical or dental emergency
- Unexpected home repairs
- Car troubles/repairs

### How much should be in an Emergency Fund?

Most experts believe you should have enough money in your emergency fund to cover at least 3 to 6 months' worth of living expenses. If that sounds overwhelming, the key is just to start with saving whatever you can put aside, no matter how big or small that amount. To set your emergency fund

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<sup>1</sup> Transamerica Center for Retirement Studies, "Retirement Security Amid COVID 19: The Outlook of Three Generations" 20<sup>th</sup> Annual Transamerica Retirement Survey, May 2020

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goal, start by calculating your monthly expenses. Create a budget to see where your money is going each month so that you can find opportunities to cut back and set that money aside for emergencies.

Remember, you do not need to put aside 3 to 6 months' of savings all at once. You can build up your emergency fund with smaller amounts on a regular basis, such as every week or every paycheck. Even starting as small as \$25 a week, you can accumulate \$2,600 at the end of 2 years. Be patient, the important thing is just to start saving and get in the habit of saving regularly.

## **How do I set up an Emergency Fund?**

Consider keeping your emergency fund in a high interest savings account so that you can access it at any time. You can set up a savings account through a bank or credit union with either an automatic deposit from your paycheck or checking account. With automatic deposit, the money will be transferred without your even seeing it so you will be less tempted to spend it. Once you have reached your emergency saving goal, you could put any additional funds into money market account, a certificate of deposit (CD) or into a retirement account. Check out Bankrate.com to find and compare interest rates and fees for saving accounts, mutual funds and Certificate of Deposit.

## **Emergency Fund = Financial Safety Net**

An emergency fund can act as a financial "safety net" during a time of need. An emergency fund can prevent you from using credit cards or high-interest loans, such as payday loans, to help pay for expenses. This prevents a debt cycle that can keep you financially struggling for years and paying far more money.

Having an emergency funds can also help protect retirement accounts from early withdraws or loans that can limit the growth of long-term retirement savings. According to the Transamerica Center for Retirement Studies, 21% of loans taken out of retirement accounts were borrowed to cover a financial emergency<sup>2</sup>.

## **Importance of Saving *While* Paying Down Debt**

If you are working to pay off debt, you may think that should take priority over saving. But there are lots of good reasons to still work towards building up your emergency savings while also trying to pay down your debt. Not having funds set aside for unexpected expenses can leave you more vulnerable to racking up more debt. Emergency savings can provide peace of mind and give you more confidence in your ability to handle a financial set-back.

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<sup>2</sup> Ibid

There is no one-size-fits-all way to save and pay off debt, but if you have some savings already in place, prioritize paying your high-interest credit cards or loans first. If you have no savings, you should re-assess your spending/budget to find out where you can cut expenses and find additional money to save. It may mean making minimum payments on debt for a little while but that is okay as long as it's temporary and you have a timeline in place for when you can get back to tackling your debt.

## Tips to Help “Jump Start” Your Emergency Fund

- **Use Your Tax Refund** to start your emergency fund – Don't spend it!
- **If you receive a cash gift or any unexpected “cash back,”** put it right into your emergency fund.
- **Try a Savings Challenge** – Save all your \$1 and/or \$5 bills. Then go to the bank monthly and deposit them in an emergency savings account.
- **Increase Insurance Deductibles** – Look at your auto and homeowners insurance policies. Many people have deductibles that are too low and could save money annually on premiums by increasing their deductibles. The money saved can be added to an emergency fund.

## Resources

- **WISER** provides resources, tools and information on a variety of topics related to savings, investing and retirement planning. Visit [wiserwomen.org](http://wiserwomen.org).
- AARP Foundation's **MySavingsJar Program** has practical tips and local resources to help you save money. Visit [mysavingsjar.org](http://mysavingsjar.org).
- **America Saves** provides tips, tools and opportunities to engage with a community of savers to actively set and reach your savings goals. Take the America Saves Pledge and they will send you short emails, text reminders, resources, and tools to keep you on track toward your savings goal. Visit [americasaves.org](http://americasaves.org).