Emergency Fund 101

Take this crash course on how you could be saving for the unexpected.

By Megan Nye

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It happens to everyone: Life hands you an unpleasant surprise, and you're left holding the bill. A layoff, a broken bone, a busted furnace—at some point, you're forced to pony up cash outside of your regular budget to keep financially afloat.

But do you have that cash on hand? A 2019 Bankrate survey[1] found that only 40 percent of Americans are prepared to cover an unexpected cost of $1,000. And some financial surprises can cost significantly more.

So what can you do to prepare for the unexpected? You need an emergency fund. Here, two financial experts outline how emergency funds work and give answers to common questions about savings.

What is an emergency fund?

Your emergency fund is not an account you should be tapping for predictable costs, says Kathleen Dufner, assistant vice president of Business Development at Thrivent Federal Credit Union. "For example, you can budget for your home insurance deductible, car insurance deductible and standard medical expenses." And you can even plan ahead for a new roof or next summer's vacation.

But you may find yourself needing some extra cash when you're suddenly laid off or your spouse needs a medical procedure. That's where an emergency fund comes in: When the unexpected occurs, an emergency fund helps carry you through the crisis.

Why not use credit?

Both Dufner and Todd Rengo, a Thrivent Financial professional in Duluth, Minnesota, caution that savings—rather than credit—is key to riding out a financial emergency. Dufner offers a job loss scenario to show how tapping credit lines may resolve a financial crisis at the moment, but it can create long-term consequences.

"If you lose your job and rely on a credit line to pay bills, you'll have to start making payments on that line in a month or less," she says. "And typically you're going to be charged a significant interest rate. So now this emergency that was going to set you back one to two months while you find a job is going to be with you for much longer because you also have to pay the interest that's accumulating."

Where do I put my emergency fund money?

When choosing a home for your emergency fund, remember Rengo's three rules. "You want the money to be liquid, accessible and not subject to market risk," he says. A savings account is a great option for stashing your emergency cash. Dufner notes that you'll want a bank account that's insured by the FDIC or a credit union account that's insured by NCUSIF.

And both experts recommend keeping your emergency fund separate from your other savings. Open an account that's reserved exclusively for your emergency cash. Then don't touch it until you need it.

How much should I save?

Both Dufner and Rengo recommend putting aside the equivalent of three to six months' worth of your living expenses. In figuring out that number, remember that when you're thrown into crisis mode, the expenses you incur likely will be less than what you normally spend because you'll cut back on expenses that aren't necessary.

To compute your emergency fund goal, Rengo suggests splitting your monthly costs into three categories: needs, wants and wishes. Then total the costs for what you consider to be must-haves—things like mortgage or rent, groceries, gas and electricity. Multiply that

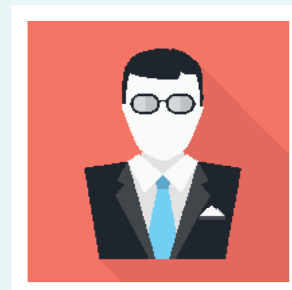
Open an Emergency Account

Prepare for the unexpected with an Emergency Share Savings Account at Thrivent Federal Credit Union. Learn more at **Thriventcu.com/emergency**.

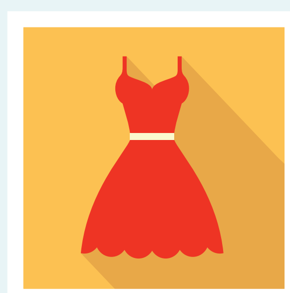
How to Grow Your Emergency Fund Faster

Want to reach your savings goal sooner? Try these expert-approved tips for accelerating your journey.

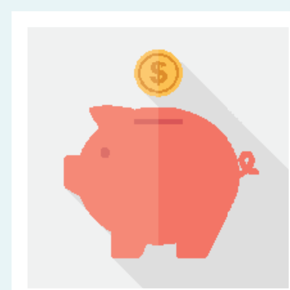
Swap out luxuries for lower-cost alternatives. Be your own barista with an inexpensive home coffee machine. Or skip the spa in favor of some homemade beauty treatments.



Boost your earnings. Even if it's just temporary, challenge yourself to increase your income and accelerate your savings. Take an extra shift at work or start a side gig to generate cash.



Sell your stuff for cash. Look around your house for items you're not using or that cost you money, recommends Dufner. Selling those products will clear out the clutter and pad your emergency fund.



Use your windfalls. Save some (or all) of your bonuses, commissions, tax refunds and credit card cash back.

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total by the number of months you want to cover in your emergency fund.

For many people, that final number may be in the tens of thousands.

Consider working with a trusted financial professional to help you nail down your savings target. And be sure to reevaluate that figure at least once a year. Your financial needs change over time. So a new home, a new baby or a career move could have a big impact on how much money your emergency fund should hold.

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How can I save enough to fill my emergency fund?

"For most people just starting an emergency fund," says Dufner, "it can seem like an overwhelming amount of money to save." But the experts agree: The No. 1 way to fuel it is to build your savings directly into your budget. "Treat it like a bill," says Dufner, adding that you should commit to saving a specific sum every month.

But keep that amount reasonable, warns Rengo, who's seen people give up entirely after setting unrealistic goals. "The key is to set up a payment schedule that is sustainable."

Decide upfront what portion of each paycheck you'll allocate to savings. As a rule of thumb, Dufner recommends saving 15 percent of your income toward all your savings goals combined. Those might include a down payment on a house, gifts for the holidays, new brakes for the car and more. Prioritize your list of goals, and identify how much of that 15 percent you'll funnel toward your emergency fund.

Now make it automatic. Set up recurring bank transfers to move the cash to your emergency fund each month. With continuous funding and the power of compound interest, your balance will steadily grow.

"Bumps in the road happen," says Rengo, "and people who are going to be financially successful in life have planned for that uncertainty." So start saving now. When surprises pop up, you'll be glad you took the time to build your own emergency fund. ■

Megan Nye is a freelance personal finance writer in New Jersey.

Thrivent Workshops Can Help

Thrivent offers workshops that you or others can lead to help you set goals and find ways to save:

- **Finding Ways to Save:** Tips and tactics on ways to increase income, reduce expenses and recognize spending leaks.
- **Setting SMART Goals:** Tips for creating goals that are specific, measurable, achievable, results-based and timed.

Learn more about the workshops at **MoreThanMoneyMatters.com.** Or contact your Thrivent Financial professional to discuss your specific situation.

[1] Survey: Most Americans wouldn't cover a $1K emergency (Bankrate)