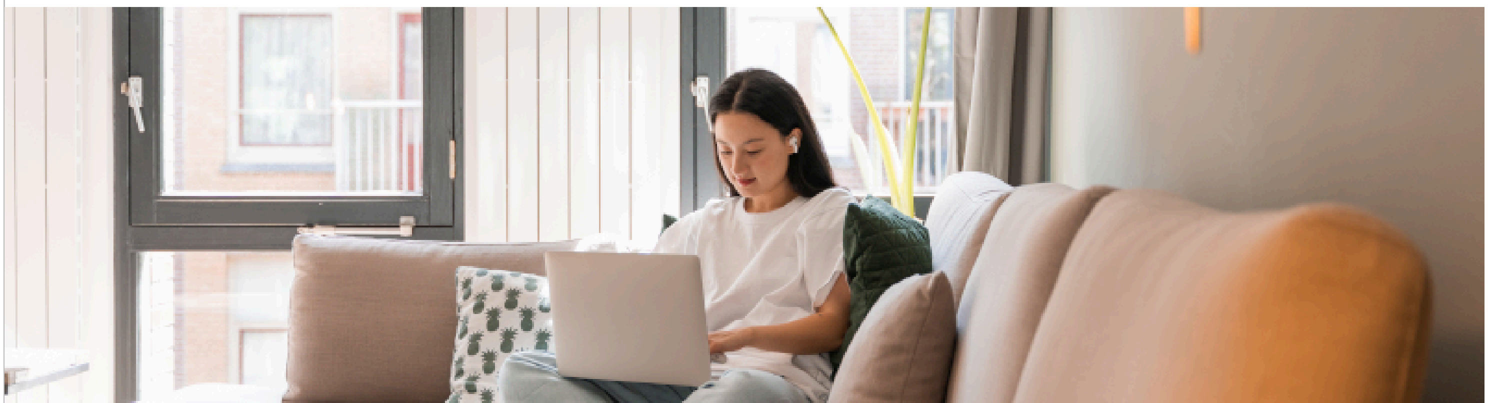
April 05, 2024 | 5 min

Save Share Print

Guide to emergency savings

Here's what you need to know about emergency savings.

Fidelity Smart Money



Key takeaways

> Having a stash of savings to draw on can help you handle unexpected expenses.
>
> Start by setting aside $1,000.
>
> Then aim to save 3 to 6 months' worth of essential monthly expenses in your emergency savings account.

Anyone who can't predict the future needs emergency savings, which many people often keep in an account they nickname their "emergency fund." Whether you're a savings pro or just getting started, here's what you need to know about emergency savings and emergency funds.

What is an emergency fund?

An emergency fund is a common name for emergency savings, or the money you set aside in case of an emergency. What counts as an emergency might vary depending on who you ask, but some common examples are a surprise medical bill or repair and a sudden layoff—plus other unanticipated events that come with a price tag.

What isn't an emergency expense? Out-of-the-ordinary, but predictable costs, such as a non-urgent medical procedure or holiday gifts. You should plan for those irregular expenses in a separate savings account and reserve your emergency cash for the true surprises.

You can keep your emergency savings in many different types of accounts. What's important is that it's kept relatively "liquid" (meaning in cash or assets that can be easily converted to cash), so you can access your money without losing much, if any, value should you need it in a hurry.

Feedback

Fidelity smart money

Feed your brain. Fund your future.

Subscribe now

Why having an emergency fund is important

Emergencies are predictably unpredictable, often striking when we're the least prepared for them personally and financially. In fact, more than 35% of Americans would not be able to pay for an unexpected $400 expense, according to the Federal Reserve.[1]

Without savings on hand, many said they'd have to swipe a credit card to cover the bill. Not paying that charge in full when the bill is due means they could end up owing upwards of 22%[2] more than their original emergency expense—based on average credit card interest rates—putting them even further behind financially. In other words, the stress of not being able to pay your bills can snowball right along with the interest.

That's the problem with emergency costs. They have ways of quickly compounding, especially when you don't have a financial safety net. Even when you do have some protection (think: unemployment benefits or health, home, or car insurance), you may have to pay a deductible or wait weeks or months to see a reimbursement check. So having a stash of emergency cash is just as crucial for those who are otherwise financially prepared.

How much emergency fund should I have?

Figuring out the exact amount of emergency savings you should have can be tricky, especially when you have no real way of knowing how much a hypothetical expense might set you back. To give you a benchmark to work toward, Fidelity general guidelines suggest you start by setting aside $1,000 and then working toward saving 3 to 6 months' worth of essential basic living expenses. This is generally enough cushion to cover a deductible or hold you over until you can find a new job if you unexpectedly lose yours.

You may choose to save more than 3 to 6 months' worth of expenses if you:

- Have family or dependents that rely on you financially
- Have certain circumstances that may come with higher-than-normal costs, like older homes or not-always-reliable cars
- Are in an industry where layoffs or inconsistent income are common
- Foresee or are in the midst of a large economic downturn that might make periods of unemployment run longer
- Are retired or have a fixed income

What expenses should you consider for your emergency fund?

Add up your typical essential expenses each month and multiply that sum by the number of months you'd like to cover. As you calculate your average monthly costs, focus on must-have expenses like:

- Rent or mortgage payments and utilities
- Basic groceries
- Health care
- Insurance premiums
- Child care and/or tuition
- Transportation
- Minimum debt payments (e.g., student loans, car loans)

Notice that doesn't include nice-to-haves, such as gym memberships, vacations, restaurant meals, and entertainment—basically anything you can (temporarily) cut out to make your budget as lean as possible.

How to start saving for an emergency fund

Life is already full of financial demands, so it might seem hard to prioritize setting aside money for the unexpected when you're barely able to deal with the expected. But building up at least $1,000 of emergency savings as soon as possible should be your top priority. Here's how to get started.

- **Pick the right account for your emergency fund.** Remember that in an emergency, you'll likely need to access your money quickly, so it's important to put your cash in an account that won't charge you a penalty or a lot of taxes upon withdrawal. Learn more about your options in our companion guide to prepping for emergencies.
- **Think of your emergency fund as a monthly bill.** That makes it into something you have to pay and not skimp out on when you'd rather grab dinner and a movie.

- **Make automatic contributions.** Set up a deposit directly from your paycheck or consider regular automatic transfers from your checking account into your emergency savings account. The less effort it requires, the more likely you are to do it.
- **Save your windfalls, big and small.** Because you aren't used to having them in your budget, unexpected influxes of cash—like from a bonus, tax refund, or credit card rewards—are prime candidates for plumping up your emergency savings.
- **Use your raises to up your savings rate.** By funneling at least a portion of your new pay into your emergency account, you can get yourself on firmer financial footing and fend off lifestyle creep, which is the tendency to indulge more as your income goes up.
- **Cut your expenses.** As you're poring over your bills to calculate your average monthly spending, you may realize you're overpaying for certain expenses or not taking advantage of certain subscriptions you signed up for (then forgot about). If you cancel or opt out of auto-renewals, funnel the savings into your emergency fund.
- **Remember that every penny counts.** Whether you've already cut your expenses to the bone or just want another easy way to bulk up your emergency savings, consider a "round-up" savings option or app. Then, every time you swipe your credit or debit card, the spare change you would have gotten back goes directly into your emergency savings account.
- **Replenish as needed.** If you ever withdraw money, make it a priority to build your stash back up.

Build your emergency savings

Prepare for the unexpected in a dedicated account with competitive rates.

Learn more

More to explore

Try the 52-week challenge
Start with $1 and we'll automatically increase your contribution by $1 each week.

How much to save for an emergency
Learn how big your emergency savings should be and where to...
Article 7 min Save

Subscribe to *Fidelity Smart Money*℠
What the news means for your money, plus tips to help you spend, save, and invest.

All fields are required.

First name Last name

Email address

Subscribe

Saving and budgeting

1. Board of Governors of the Federal Reserve System, "Economic well-being of U.S. households in 2022." May 2023

2. Board of Governors of the Federal Reserve System, "Consumer credit." July 2023

Investing involves risk, including risk of loss.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Fidelity does not provide legal or tax advice, and the information provided is general in nature and should not be considered legal or tax advice. Consult an attorney, tax professional, or other advisor regarding your specific legal or tax situation.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

1042993.4.0

Careers News Releases About Fidelity International

Copyright 1998-2025 FMR LLC. All Rights Reserved.

Terms of Use Privacy Security Site Map Accessibility Contact Us

Share Your Screen Disclosures

Manage My Targeting/Advertising Cookies

This is for persons in the US only.

Stay Connected

Locate an Investor Center by ZIP Code

Search