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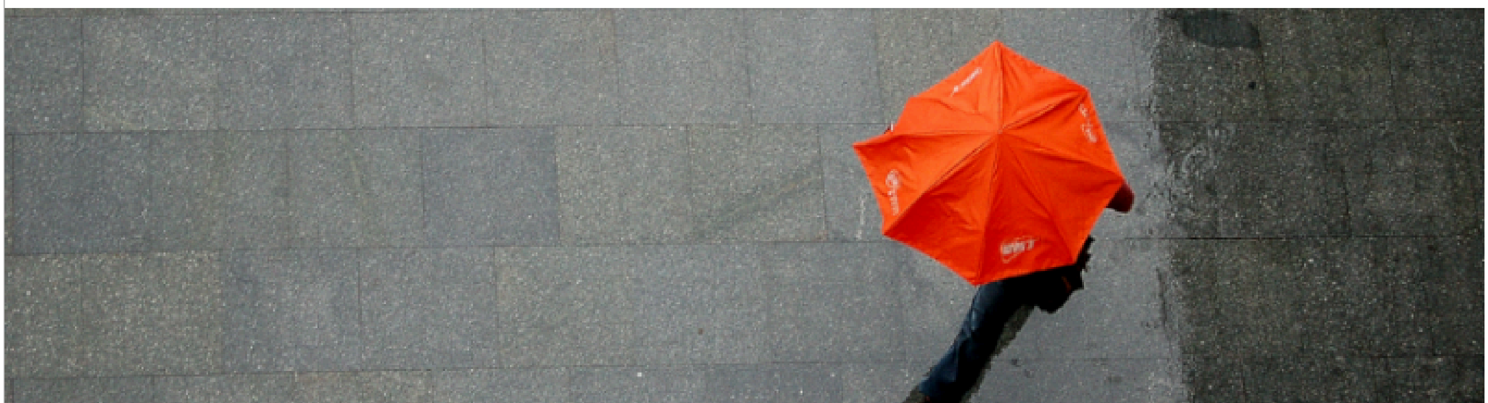
How much to save for emergencies

Learn how big your emergency savings should be and where to consider keeping it.

Fidelity Viewpoints



Key takeaways

> Start by saving $1,000, then aim to save 3 to 6 months' worth of essential expenses by funding your emergency savings, as you would for a bill.
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> Try to save in an account that pays some interest but preserves liquidity.
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> As a last resort, credit cards could be used to cover an emergency, ideally with a low interest rate.
>
> Be sure to have adequate health and disability insurance coverage.

There's a lot that can upset your plans, so it makes sense to prepare for the unexpected. An emergency savings is cash you keep in reserve for a serious unexpected predicament like a job loss or a catastrophe that isn't covered by insurance. Building up your emergency savings can help you protect yourself and your loved ones—and earning some return on your savings can help protect your future purchasing power.

Here are answers to 5 common questions about emergency savings, including how big it should be and where you could consider keeping it.

Feedback

1. How much savings should be for an emergency?

Fidelity suggests to start by saving $1,000 worth of essential expenses to protect yourself from the financial fallout of a potential job loss or the loss of other income.

If you're single, you might be comfortable with 3 months of savings. However, if you have a spouse, kids, a mortgage, or if you worry about job stability, you might feel better with 6 months of savings or more

If you end up unemployed, there may be resources available to help ease the impact. Unemployment insurance benefits are available in all states and the District of Columbia, Puerto Rico, and the US Virgin Islands. However, not all employees are eligible—your employer has to pay unemployment taxes. Nonprofit organizations, like churches and schools, are exempt from paying unemployment taxes.

Benefits vary by state. For example, some states provide additional benefits if you have children or other dependents. Check your state's unemployment insurance office to find out how to file for benefits and the documentation required.

Requirements to qualify for unemployment benefits include:

- You must be physically able to work—not disabled or collecting disability benefits.

- You must be actively looking for a job.
- You must have left your prior job involuntarily, without cause, and in good standing.
- If you've received unemployment benefits within the 6 months prior to filing, your benefits may be reduced.

2. Where should I keep my emergency savings?

Generally, keeping your emergency savings accessible and liquid can be a good idea—in addition to avoiding risky investments that could lose money. To avoid using your emergency savings, it can also make sense to separate it from your spending money and other types of savings.

For example, a savings account can be a convenient and accessible option. Money market accounts can be too, and are typically offered by banks and credit unions. The average annual percentage yield (APY) for money markets is 0.64%.[1] Compared to a savings account, a money market account may have a higher minimum balance and withdrawals may be limited. For instance, you may be allowed unlimited ATM withdrawals, but checks and debit card purchases could be limited.

Consider the following alternatives:

Money market funds[2] tend to be a lower-risk place to store your cash, and generally offer better rates than your typical savings account. Unlike savings accounts, money market funds are not FDIC-insured.

Treasury and government money market funds[3] are designed to maintain a stable net asset value (NAV) of $1.00 and they do not place restrictions on investors' ability to access their money in the funds.

Certificates of deposit (CDs) may offer better rates than money market funds—but there is a catch. Many penalize you for taking money out before the CD matures. Short-term CDs may also be a solution for a portion of your emergency savings, but beware of tying up all your money.

When you need to access your emergency savings, consider withdrawing from more liquid accounts first—if you've divided your emergency savings between highly liquid accounts and those that are less easy to access. An example of a liquid account would be a savings account—your savings are easily accessed at no cost on the same day. Cash held in a money market fund may not be available on demand—you would likely need to sell the fund and wait until the next business day for access to your cash.

Avoiding losses due to taxes, penalties, or market volatility is key.

Try to avoid withdrawing from retirement accounts like your 401(k) or IRA if you're not yet of retirement age. You may have to pay taxes and a 10% penalty for the early withdrawal.

3. What about borrowing to cover an emergency?

In some cases, borrowing to pay for an emergency may be necessary if you don't have other financial reserves. For example, a home equity loan or line of credit could be an option, as well as credit cards. It's extremely important to consider the potential consequences of borrowing against your home. There may be financial, legal, tax, and estate implications. If you default on the loan, you could even lose your home.

4 caveats:

1. If you've lost income, borrowing money, particularly at a high interest rate, can be risky. Debt can quickly snowball if you're not able to pay it off at the end of the month.
2. If you already have a lot of debt, relying on credit cards or loans in an emergency can add to your financial burden
3. Credit may not be as available in a global economic downturn. Lenders may reel in lines of credit in difficult economic times so it may not always be a failsafe.
4. If you need to borrow, make sure to keep interest rates as low as possible.

4. How can I save more for an emergency savings?

There are a couple of ways—even on a tight budget.

Think of your emergency savings as a bill. There can be a lot to balance with rent or mortgage payments, coupled with living expenses and other bills. However, if you turn saving for an emergency into a monthly priority, you'll get in the habit of contributing to it regularly.

Trim spending. If there are any areas of your budget where you could cut back, it may be worth giving it a try—at least temporarily. Directing some of those savings to for an emergency could help bolster your emergency savings quickly.

5. Can insurance help protect me in an emergency?

Besides having cash you can access in an emergency, insurance is another way to be prepared. In circumstances where insurance would provide coverage, the more insurance coverage you have, the less will need to withdraw from your emergency savings.

Look into disability insurance. Whether you have it through work or on your own, you'll want to know that you have enough in the event something happens.

Don't forget about health insurance. If you lose your job, you may also lose your employer-provided health insurance. Even if you are eligible for continuation of coverage through COBRA, your premiums are likely to significantly increase—annual premiums can be up substantially more expensive through COBRA than the employee cost of the same coverage while employed. Factor in some additional money to cover the cost of health care, just in case.

The bottom line

Everyone needs an emergency savings—no matter how old or your income level. The recent pandemic is the latest reminder. There are myriad other circumstances that could require having cash on hand, for example, a leaky roof, unexpected child care expenses, or family members needing help.

Planning ahead is key. If you're diligent about saving for emergencies in liquid accounts, utilizing insurance, and using low-interest credit cards as a last resort, you'll be more prepared and that knowledge can bring peace of mind.

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

1. The national average money market account annual percentage yield (APY) is 0.64% as of September 16, 2024, according to the Federal Deposit Insurance Corporation (FDIC).

2.**You could lose money by investing in a money market fund. An investment in a money market fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Before investing, always read a money market fund's prospectus for policies specific to that fund.**

3. You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fidelity Investments and its affiliates, the fund's sponsor, is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress. Fidelity's government and U.S. Treasury money market funds will not impose a fee upon the sale of your shares.

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