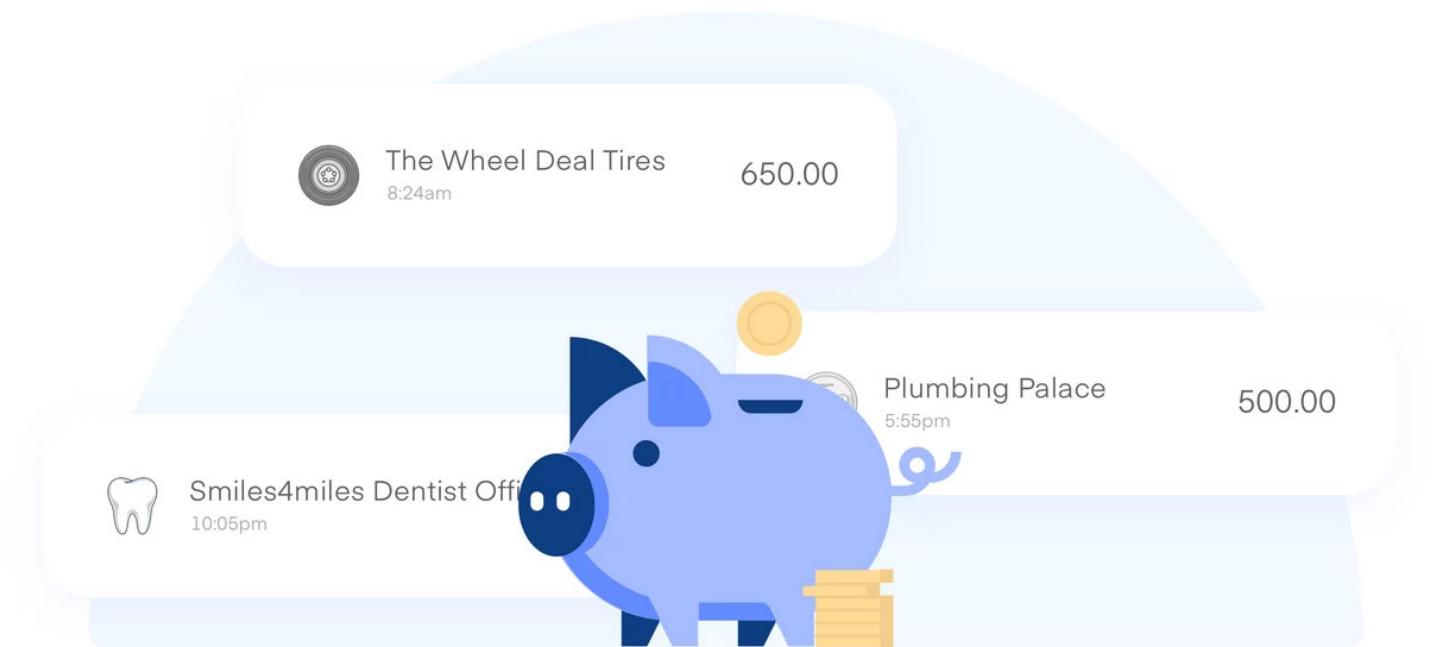


How To Build An Emergency Savings Fund

Blog — Written by Katy Sputo on February 23, 2021



Unexpected expenses can come up at any time. We know it's important to save for emergencies, but it can be difficult and overwhelming knowing where to start. The good news? A little contribution can add up to a lot over time. We're here to help answer your questions and provide you with actionable steps you can take today to start building your emergency savings fund.

1. What is an emergency savings fund?
2. Why is an emergency fund important?
3. How much should I save?
4. Where should I save my emergency fund?
5. What are some ways to start building my emergency fund?

What is an emergency savings fund?

An emergency savings fund is an account that you build that's designed to help you cover unexpected expenses. These expenses can include but are not limited to, medical bills, emergency car or home repairs, job loss, or an unforeseen living expense.

There are many options available to set-up an emergency savings fund, but some opt to open an interest-bearing deposit or savings account at their current bank or an external financial institution. It's important to have a separate account dedicated solely to your emergency funds but is easy to access when you have an emergency.

Why is an emergency fund important?

An emergency fund can help provide some peace of mind and keep you afloat when an unexpected expense arises.

How much should I save?

There are a few different ways you can approach how much money you should save for your emergency savings fund. There is no right or wrong way, so choose the method that you believe will work best for you and your financial situation.

Aim for \$1,000 and then readjust

Many financial advisors, including popular personal financial advisor Dave Ramsey, suggest that you work to save \$1,000. This amount is a large number but is achievable when you break it up over time. If you save \$100 a month, or \$25 a week, you will reach \$1,000 in under a year.

One way to make this easier is to choose a specific day of the week (for example, Friday) and transfer \$25 into your emergency fund account. With Level, you can schedule transfers from your connected external account, directly into your Level account on a regular cadence. When you get into the habit of transferring these funds into your account, you will be amazed at how quickly you can build up your emergency fund. Once you save \$1,000, readjust your goals and aim to save more.

Ultimately, save as much as you can each month, no matter the amount. Even small amounts add up to big savings!

Save 3-6 months of living expenses

Another popular suggestion from financial experts is to save at least three to six months of living expenses (freelancers or gig workers may consider saving even more). To calculate this, write down how much money you would need each month for necessary expenses such as rent, utilities, food, healthcare, and gas and then multiply that by how many months you would like to save for.

For example, if you spend \$2,500 per month on living expenses, then you would need to save anywhere from \$7,500 to \$15,000. These numbers may be a high starting point for many, which is why it is important to set your own goals based on your current financial situation.

Use the 50/30/20 rule

This rule, made popular by Senator Elizabeth Warren, is a way to divide up your after-tax income into three different categories: 50% on essential needs, 30% on wants, and 20% towards savings.

“Essential needs” include rent, utilities, food, and other necessary expenses vital to your everyday life while “wants” can be entertainment such as concerts or theatre performances and vacations. The final 20%, “savings,” include setting money aside for your emergency fund. By striving to allocate at least 20% of your total monthly income towards savings, you will be well on your way to building a stable emergency fund.

Again, no amount is too small when saving for your emergency fund. Start saving at an amount that works for you and adjust when necessary!

Where should I save my emergency fund?

When saving, aim to put your money into an account that offers high interest rates. The higher the APY, the more money you will earn in interest.

According to the FDIC, the average bank only offers 0.04% in Annual Percentage Yield or APY on deposits for interest checking accounts. Level currently offers its members 0.50% APY on deposits¹ which is 12x the national average!²

Ultimately, look for an account that allows you to earn interest on your deposits and makes it easy for you to access your money in an emergency.

What are some ways to start building my emergency fund?

Starting to build an emergency fund may seem like a daunting task, but there are ways to simplify your saving process.

Set a monthly savings goal

Save as much as you are able to and consider utilizing one of the three methods outlined above. Make a goal that is in line with your current situation and try not to get too fixated on numbers at first.

Look for ways to maximize your savings in small ways

Analyze your spending habits and see if there are minor ways to save money for your emergency fund. Get coffee every day? Try making coffee from home and grab a cup at your favorite coffee shop once a week. Are you a foodie? Save ordering in or dining out for special occasions and recreate your favorite dishes at home.

Put money directly into your emergency fund

If you receive direct deposit from your employer, see if you have the option to divide your paycheck into two accounts. Elect to have a portion of your paycheck deposited into your emergency fund account to simplify the savings process.

Save your tax refund

During tax season, try to save a portion or all your tax refund for your emergency savings fund. The IRS allows you to divide your refund, in any proportion you choose, in up to three separate accounts.

Use your skills for a side hustle

Have a skill, talent, or passion that you could use for a side hustle for extra income? Make jewelry? Consider selling your creations online through a platform like Etsy. Have babysitting experience? Offer your services to parents who need a date night. Like driving around town? Make some extra cash delivering food for local restaurants.

There are many ways to make a little extra money to put into your emergency fund. Get creative and see what inspires you.

Writer Bio



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Katy Sputo is the Marketing and Social Media Coordinator at Level. She aims to make all things financial fun and interesting to learn.

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¹ Annual Percentage Yield (APY) is accurate as of April 3, 2021 and subject to change after account opening. Balance must be at least \$0.01 to earn interest.

² Level Bank Account APY is 12x the national rate, which is a simple average of rates paid by U.S. depository institutions on balances < \$100,000 in interest checking accounts. The national rate was calculated and published by the FDIC as of April 3, 2021 at [fdic.gov/regulations/resources/rates](https://www.fdic.gov/regulations/resources/rates).

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