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When the Unexpected Happens, Be Ready with an Emergency Fund

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> "Predicting rain doesn't count. Building arks does."
> —Warren Buffet

Life has a way of throwing curveballs. In fact, if one thing is certain, it's that unexpected things will happen. People need emergency medical care, storms damage homes, cars break down, appliances break, and friends and family sometimes need financial support.

When stuff happens, it can get expensive. For example, Kelley Blue Book reports that in 2025 the average cost of a car repair is $838. Or, how about a smaller unexpected expense, say $400? The 2024 Survey of Household Economics and Decisionmaking (SHED) conducted by the Board of Governors of the Federal Reserve System finds that when faced with an unexpected expense of $400, 63 percent of adults said they would cover it using cash, savings, or a credit card that they pay off on the next statement.

The other 37 percent of respondents said they would have paid by borrowing the money or selling something of value. Of this group, 13 percent said they would not be able to pay at all, as shown in Table 1 below. However, these options come with their own set of challenges. Borrowing money can lead to increased debt, which can have long-term financial implications. Selling valuable items, such as a car, may provide a short-term solution but could create other issues, such as difficulty commuting to work. And not paying at all can result in a lower credit score, repossession of assets, or other financial problems.

Table 1: **How Individuals Would Cover a $400 Emergency Expense If They Did Not Have the Cash on Hand**

Approach	Percent
Put it on a credit card and pay it off over time	15
Borrow from a friend or family member	10
Sell something	7
Use money from a bank loan or line of credit	3
Use a payday loan, deposit advance, or overdraft	2
Would not be able to pay for the expense right now	13

SOURCE: "Economic Well-Being of U.S. Households in 2024 (PDF)." Board of Governors of the Federal Reserve System.

Setting up an emergency fund is an important step in preparing for the unexpected. It can help you weather some of life's stormy periods…perhaps that's why they are sometimes called "rainy day" funds.

How an Emergency Fund Helps

An emergency fund is just what it sounds like—an amount of money set aside, usually in an account, to cover unexpected expenses or a loss in income. For example, many people keep their emergency **savings** in a **savings account** at a local bank or **credit union** or in a **money market account**, which might earn you a bit more **interest**.

It's important to keep the money where it will be available when you need it, but not *too* easily available. You might be tempted to use the funds for a fun weekend trip, to buy new shoes, or to sign up for a gym membership, but it's best to keep it for true emergencies only.

How Much Should You Keep in Your Emergency Fund?

Experts often recommend people save 3-6 months of essential **expenses** to protect themselves against a large financial setback. For example, if you lose your job, you might need 3-6 months of living expenses available so you can pay your bills while you're searching for the next job.

Table 2: **Those with Savings to Cover 3 Months of Expenses**

Age	Percent
18-29	36
30-44	50
45-59	54
60+	72

SOURCE: "Economic Well-Being of U.S. Households in 2024." Board of Governors of the Federal Reserve System.

Recent data show that many Americans are not prepared for this type of setback. The 2024 SHED survey found that 55 percent of respondents said they had set aside money for 3 months of expenses in an emergency savings fund, with older people generally more prepared than younger people, as shown in Table 2. For those who did not have sufficient emergency savings, they would have to borrow, sell **assets**, or draw from other savings (like a retirement account). And 30 percent of adults said they could not cover 3 months of expenses by any means.

How to Build an Emergency Account

Three to six months of expenses is a lot of money. It might seem like an intimidating **savings goal**, but breaking it down into smaller steps can make the goal more attainable. To get things started you need to figure out your monthly expenses. The following is a practical method, even if you've never created a budget before:

Step 1: Track what you spend for one month. If you use a debit or credit card to pay most of your expenses, start by downloading your latest bank account statement in a spreadsheet format. Then, add in any spending not captured in that report. Don't forget the little things—coffee, snacks, streaming subscriptions, etc. They add up.

Step 2: Sort the list of expenses into the following two categories:

- Essentials: rent, groceries, gas/transportation, phone service, medicine, and insurance
- Non-essentials: streaming subscriptions, eating out, and trendy clothes/accessories

Step 3: Add up each category and review. Your emergency account should be based on your spending on the essentials, but you should also notice how much you spend on the non-essentials, as a financial checkup.

Step 4: Multiply your "essentials" by 3 (number of months) to set your target for your emergency fund. For example, if your monthly "essentials" spending is $2,400 per month, you would calculate the following:

Emergency fund goal = $2,400 x 3 = $7,200

If saving this amount seems really intimidating, start small. For example, you might decide to achieve your goal of saving $7,200 over two years by saving $300 per month over the next 24 months. And to break it down further, if you receive two paychecks per month, you might set up your bank account to automatically transfer $150 from your checking to your emergency savings account each payday. Putting the process on "autopilot" and breaking the large goal ($7,200) into small parts ($150) will likely make your goal easier to accomplish.

When to Use Your Emergency Fund

Once you have the money set aside, you'll probably find yourself tempted to dip into it to buy things that aren't really "emergency" items. In that case, it's important to practice self-discipline—decide for yourself that you need to keep this money for an emergency.

The following are some practical strategies to help you avoid dipping into your emergency fund:

- Label the account "emergency fund" in your bookkeeping to remind yourself of the purpose.
- Set a waiting-period rule. When you sense a need to withdraw funds, commit to postponing 24 hours; that is, "sleep on it" to reconsider whether it is truly an emergency.
- Define what an "emergency" is ahead of time and make a short list of events that qualify. For example, be sure to include medical bills, storm damage, job loss, and car repairs, but do not include "it was on sale."

Conclusion

Dealing with an unexpected expense can be very stressful. But having an emergency account provides peace of mind…it just might mean hitting that curveball out of the park!

Glossary

Asset: A resource with economic value that an individual, corporation, or country owns with the expectation that it will provide future benefits.

Credit union: A nonprofit financial institution that is owned by its members.

Expenses: Money spent on goods and services.

Interest: Money paid to customers for keeping their money at the bank. Interest is also money customers pay to banks for loans received from the bank.

Money market account: A type of savings account that typically offers a higher interest rate than a regular savings account and may include limited check-writing or debit access. These accounts are insured by the FDIC and are best used for saving, not everyday spending.

Savings: The accumulation of money set aside for future spending.

Savings account: An account with a bank or credit union in which people can deposit their money for future use and earn interest.

Savings goal: A good or service that you want to buy in the future.

References

"Economic Well-Being of U.S. Households in 2024 (PDF)." Board of Governors of the Federal Reserve System, May 2025.

Hardesty, Chris. "Here's How Much the Average Car Repair Now Costs." *Kelley Blue Book*, March 13, 2025.

Name____ **Period**________

Reading Q&A

When the Unexpected Happens, Be Ready with an Emergency Fund

After reading the article, complete the following:

1. Why is it important to have an emergency fund?
   a. To earn high interest on savings
   b. To pay for vacations and luxury items
   c. To cover unexpected expenses without stress
   d. To help you borrow more money from the bank

2. According to the 2024 SHED survey, what percentage of adults would cover a $400 expense with cash, savings, or a credit card paid off right away?
   a. 37%
   b. 50%
   c. 63%
   d. 80%

3. What is a potential problem with borrowing money to pay for an emergency expense?
   a. It can lead to long-term debt.
   b. It gives you more spending power.
   c. It increases your income.
   d. It might raise your credit score.

4. What amount of money do financial experts usually recommend people keep in an emergency fund?
   a. $1,000
   b. 1 month of living expenses
   c. 3-6 months of essential expenses
   d. 12 months of income

5. Which of the following is an example of a *non-essential* expense?
   a. Rent
   b. Groceries
   c. Gas
   d. Streaming subscriptions

6. If your essential monthly expenses are $1,600, how much should you save to cover 3 months of expenses?
   a. $1,600
   b. $3,200
   c. $4,800
   d. $6,000

7. What age group is most likely to have emergency savings for 3 months of expenses?
   a. 18-29
   b. 30-44
   c. 45-59
   d. 60+

8. What's a good first step in building an emergency fund if the full amount seems too big?
   a. Wait until you have extra money
   b. Borrow the full amount
   c. Break it into smaller monthly savings goals
   d. Spend less on fun items for one week